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September 6, 2024

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

Attention: Leigha Worth, Executive Director

Dear Leigha Worth:

Re: FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (collectively FortisBC)

Application for Approval of a Rate Setting Framework for 2025 through 2027 (Application)

Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, Together Against Poverty Society, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO)

On April 8, 2024, FortisBC filed the Application referenced above. In accordance with the regulatory timetable established in BCUC Order G-165-24 for the review of the Application, FortisBC respectfully submits the attached response to BCOAPO IR No. 1.

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

If further information is required, please contact the undersigned.

Sincerely,

on behalf of FORTISBC

Original signed:

Sarah Walsh

Attachments

cc (email only): Commission Secretary
Registered Interveners

A. Rate Setting Framework Policy Evaluation

1.0. Reference: Exhibit B-1, Part B

Topic: Policy and Business Environment when the current rate-setting framework was first established

Preamble:

In Part B of the FortisBC Application, it describes the policy and business environment in 2024 and looking forward. However, FortisBC has not provided an evaluation of the policy environment that existed when the rate setting framework (RSF) was first established for the 2014-2019 test years. (**Application, Part B**)

Request:

1.1 Please provide a discussion of the policy and business environment that existed prior to the establishment of the current RSF for 2014-2019 and that FortisBC used to support the establishment of the RSF 2014-2019.

Response:

The premise of this question appears to be based on the incorrect assertion that the rate-setting framework was first established for the 2014-2019 test years. FEI and FBC applied for, and were approved, a multi-year rate-setting framework for 2014-2019 (i.e., the 2014-2019 PBR Plans). The policy and business environment, among other factors, were discussed as part of that application and proceeding. A focus of both PBR Plans was on productivity, as explained in the Companies' respective applications.

FEI and FBC then applied for a <u>new</u> multi-year rate-setting framework for the years' 2020 to 2024 (i.e., the Current MRP). While some of the elements were the same or similar as the 2014-2019 PBR Plans, many of the elements were modified and new elements were added, in part due to changes in the policy and business environments faced by the Companies. FortisBC described the evolving operating environment and evaluated the 2014-2019 PBR Plans in Sections B1 and B2 of the 2020-2024 MRP Application. As part of the 2020-2024 MRP Application, FEI and FBC rebased formula O&M, rebased capital, and, moved from formula Sustainment and Other capital (and formula Growth capital for FBC) to a forecast approach for those items. Some of the changes approved for the Current MRP to respond to the evolving operating environment were: (1) a new category of flow-through items referred to as "Clean Growth Initiatives"; and (2) the Clean Growth Innovation Fund (CGIF) for FEI.

FEI and FBC are now applying for approval of a three-year Rate Framework. The proposed Rate Framework contains many of the same elements as the Current MRP, and FortisBC explained in detail in the response to BCUC Panel Supplemental IR 4 why this is appropriate. However, the proposed Rate Framework is neither an extension of the Current MRP nor an extension of the 2014-2019 PBR Plans. In both the 2020-2024 MRP Application and this Rate Framework Application, FortisBC is proposing a rebasing of its formula O&M and formula/forecast regular capital expenditures. Additionally, FortisBC has filed new studies supporting its proposals regarding the X-Factor, depreciation, corporate services, and capitalized overhead, among other items.

1.2 Please describe the policy drivers of the establishment of the current RSF for 2014-2019. For example, were the policy drivers primarily structural changes in the industry or were the drivers more operational in terms of incentivizing utility productivity and encouraging regulatory efficiency.

Response:

Please refer to the response to BCOAPO IR1 1.1.

1.3 Would FortisBC describe the policy and business environment when the current RSF was first established for the 2014-2019 period as one of a reasonably mature and steady-state industry.

Response:

Please refer to the response to BCOAPO IR1 1.1.

2.0 Reference: Exhibit B-1, Part B, Sections 1.1 & 1.2, pages B-1 to B-2

Topic: Changes in Policy and Business Environment since current RSF was first established.

Preamble:

In Part B of the Application, FortisBC describes the influences on the proposed RSF associated with the energy transition to include:

- uncertainty inherent in the energy transition;
- a pivotal shift in the global energy sector;
- a complex and multi-faceted process;
- a substantial overhaul of existing infrastructure and market dynamics; and
- FortisBC recognizes the energy transition is a departure from business as usual.

(Exhibit B-1, Part B, Sections 1.1 & 1.2, pp. B-1 - B-2)

Request:

2.1 Please elaborate on FortisBC's assertion that the energy transition represents a departure from 'business as usual'.

Response:

The list provided in the preamble to this IR is not included in the referenced pages of the Application and appears to be BCOAPO's own selected list of phrases taken from Part B of the Application. FortisBC does not agree or confirm that this selected list of phrases accurately reflects the contents of Part B of the Application and, in particular, that this list accurately reflects the impact of the energy transition on the proposed Rate Framework.

As FortisBC noted in the response to BCUC Panel Supplemental IR 1, the energy transition will unfold over decades, whereas the proposed Rate Framework covers a three-year term (2025-2027). While FortisBC agrees that there is uncertainty due to the energy transition over these upcoming three years, the phrases "pivotal shift in the global energy sector", "complex and multifaceted process" and "substantial overhaul of existing infrastructure and market dynamics" are taken from a more fulsome description of the energy transition that is expected to occur over a long period of time. These phrases do not suggest that the energy transition will unfold in the upcoming three years such that the Rate Framework will be unable to work as intended.

Regarding departing from "business as usual", FortisBC explained in detail the intent of this statement in the response to BCUC Panel Supplemental IR 3, including the following:

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:

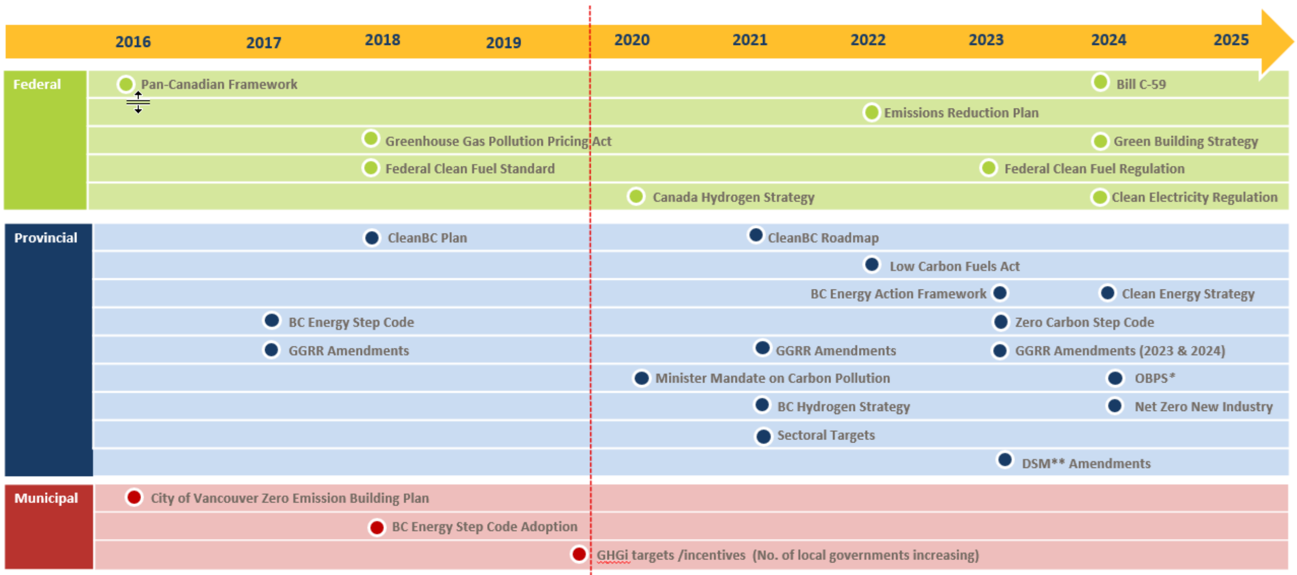
> In light of the energy transition, FortisBC recognizes the need to continue evolving its approach and depart from business as usual over time. This transition, while essential, brings with it significant changes and challenges that require thoughtful and proactive responses. FortisBC has been actively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

2.2 Please provide a discussion that compares and contrasts the policy and business environment between: i) the current RSF pre-2014-2019; and ii) the proposed RSF for 2025-2027.

<u>Response:</u>

As explained in the response to BCOAPO IR1 1.1, BCOAPO's assertion that the "current RSF" was first established in 2014 is incorrect. However, to be responsive, FortisBC provides the following Figure 1 which depicts the chronology of major policies adopted by the federal, provincial and municipal governments related to the energy transition from around the commencement of the 2014-2019 PBR Plans to the present. There have been a significant number of policies that have been introduced in recent years, and the extent of the impacts of these policies are not yet known and will continue to evolve during and beyond the proposed three-year Rate Framework term.

Figure 1: Major Policies Adopted by All Levels of Government since 2020



*Output Based Pricing System
** Demand Side Management

In addition to the impacts due to the policy changes shown in Figure 1 above on FortisBC's business environment, which include the need for increased investment in emissions reductions and development of low carbon fuels, both Companies' business environments have been impacted during the Current MRP term by the COVID-19 pandemic and the subsequent significant inflationary and supply chain impacts, as well as the ongoing impacts caused by extreme weather events.

FortisBC has explained in detail how the Rate Framework will be able to respond to changes and uncertainty created by the energy transition and other external factors in Section B3 of the Application and in the responses to the BCUC Panel Supplemental IRs.

Specifically, in Part B of the Application, FortisBC has:

- Described the energy transition and related policies and how they impact FEI and FBC (B1);
- Evaluated the Current MRP, reviewed the rate frameworks in other jurisdictions, and described stakeholder feedback (B2); and
- Described the implications of the energy transition for the Rate Framework and the key features of the proposed Rate Framework that address the energy transition (B3).

Some key conclusions coming out of Part B of the Application include:

- The energy transition and related policies are having a significant impact on FortisBC's operating environment.

- The Current MRP has performed well in a rapidly evolving external environment, including the impacts of the energy transition.
- While Canadian regulators have increasingly recognized the need to account for the energy transition, there has been no significant changes to the structure of rate plans for gas and electric utilities.
- FortisBC has considered the impacts of the energy transition in the development the Rate Framework and, to manage these impacts, has proposed a framework that includes:
  - 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;
  - Sufficient funding to address emerging requirements and challenges;
  - Flexibility to adapt to the energy transition to manage its costs and impacts; and
  - 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.

FortisBC has developed this analysis in further detail in its responses to the BCUC Panel Supplemental IRs. FortisBC highlights a few points made in these responses below.

FortisBC has already incorporated mechanisms into its current rate framework (the Current MRP) to address the energy transition, such as flow-through treatment for Clean Growth Initiatives and the CGIF. Further, the Current MRP includes numerous features that allow the Companies to adapt to change, including exogenous factors, off ramps, and the Annual Review process. Moreover, the Current MRP has already demonstrated its ability to reflect impacts of the energy transition, such as increased DSM, loss of revenue, and higher cost of capital, and respond to significant challenges such as the COVID-19 pandemic. This helps explain why relatively few changes are needed to design a rate framework that is flexible and responsive to the energy transition impacts over the upcoming three years.

FortisBC has also explained in detail how the proposed Rate Framework will be able to reflect and incorporate the costs and pressures of the energy transition, including increased costs facing FEI and FBC, decreased load/revenue facing FEI, and extraordinary/unforeseen events affecting both FEI and FBC. The Rate Framework also provides the mechanisms for incorporating into the annual revenue requirement the costs or revenues resulting from other proceedings that consider the impacts of the energy transition, such as proceedings related to DSM Plans, CPCNs, RNG acquisitions, annual contracting plans, rate design, and long-term resource plans.

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.

Finally, 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 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."[1] Similar to BC Hydro, FortisBC is facing many challenges and uncertainties due to the energy transition, and adopting a substantially different regulatory regime 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.

2.3 In making the proposed changes to the RSF, please explain how FortisBC considered the differences in the policy and business environment as described in BCOAPO IR 2.2. If FortisBC did not consider these differences, please explain why.

Response:

Please refer to the response to BCOAPO IR1 2.2.

2.4 Please explain FortisBC's views on whether the comparison and contrast of the policy and business environment pre-2014 and current would support the continuation of the RSF with largely the same parameters as implemented in 2014-2019, as proposed by FortisBC in the current Application.

Response:

Please refer to the response to BCOAPO IR1 2.2.

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

B. Ex-Post Evaluation of the Current Rate Setting Framework

3.0 Reference: Exhibit B-1, Appendix B2-1, pages 1-7; Appendix B2-2

Topic: Last Rebasing through Cost-of-Service Rate-Setting

Preamble:

FortisBC provides the history of establishing rates through Performance- based regulation (PBR) going back to the 1990's. **(Exhibit B-1, Appendix B2-1, pp. 1-6)**

FortisBC indicates that the last traditional Cost of Service rate-setting for FEI and FBC was associated with their respective 2012-2013 Revenue Requirements Applications (RRAs). **(Appendix B2-1, p. 7)**

In Appendix B2-2, FortisBC provides a Canadian jurisdictional comparison of PBR and Multi-Year Rate Plan (MRP) rate-setting mechanisms. **(Exhibit B-1, Appendix B2-2)**

Request:

3.1 Please provide: i) a timeline between 1995 and current that identifies the years that FortisBC (for both FEI and FBC) set rates on a traditional Cost of Service basis and those years where rates were established on a PBR/MRP basis; and ii) a discussion of the rationale for reverting back to a traditional Cost-of- Service rate-setting methodology for FortisBC (i.e. separately for FEI and FBC).

Response:

Please refer to Table 1 below for FEI's timeline from 1995 to 2024. As shown in Table 1, FEI has been under various designs of PBR/MRP rate-setting frameworks for 24 years[2] out of the 29-year period, while under the traditional cost-of-service rate-setting methodology for only five of those years (i.e., 2003, 2010-2011, and 2012-2013)[3]. The durations of each PBR/MRP period ranged from four to six years over the 29-year period, with extensions in 2001 and again in 2008 and 2009 with no rebasing or cost-of-service application. FEI only reverted from PBR/MRP back to a traditional cost-of-service rate-setting approach on two occasions (i.e., 2003 and 2010). In both cases, specific circumstances led to the decision to revert back to traditional cost-of-service rate-setting approaches for rebasing purposes: (1) the acquisition of Centra Gas BC and Centra Gas Whistler Inc. prior to 2003; and (2) the adoption of International Financial Reporting Standards (IFRS) (ultimately changed to adopt US GAAP), as well as the anticipated amalgamation and common rates application for FEI, FortisBC Energy (Vancouver Island) Inc. (FEVI), FortisBC

2 Including 2002 since the rates for 2002 were set the same as 2001 which was under PBR for FEI.

3 For clarity, the 2010-2011 and 2012-2013 revenue requirements could both be considered multi-year rate plans, but with all components set based on cost-of-service (i.e., no components were set based on a formula or indexed-approach).

Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. - Fort Nelson (FEFN) between 2010 and 2013.

Table 1: Timeline of FEI's Rate-Setting Frameworks from 1995 to 2024

Year	Rate-Setting Framework	Note	Revert (or continue) to COS?	Rationale
1994-1995, refined in 1996-1997 (total of 4 years)	Formula-based approach for O&M	Adopted in FEI's 1994-1995 negotiated settlement and refined in 1996-1997 settlement.	No	No rebasing or reverting to traditional cost-of-service for 1996 O&M.
1998-2000, extended to 2001 (total of 4 years)	PBR	Formula-based approach for O&M and capital; approved under negotiated settlement.	No	1998 Base O&M was set by settlement pursuant to Order G-85-97, not based on traditional cost-of-service. There is also no rebasing or reverting to traditional cost-of-service for extension in 2001.
2002	No revenue requirement was set	By Order G-123-01, FEI was approved to withdraw its 2002 Revenue Requirements Application and held rates unchanged for 2002. The reasons for withdrawal were primarily due to the acquisition of Centra Gas BC Inc. and Centra Gas Whistler Inc. by FEI and the resulting implications of the acquisition to FEI.	No	Not applicable as no revenue requirement was set.
2003	Traditional Cost-of-Service	Includes a negotiated settlement process (NSP) for a future multi-year PBR commencing in 2004.	Yes (Revert)	FEI was directed to file the 2003 revenue requirement based on traditional cost-of-service to account for the many changes to FEI's operations, particularly due to the acquisition of Centra Gas BC Inc. and Centra Gas Whistler Inc.
2004-2007, extended to 2009 (total of 6 years)	PBR	Formula-based approach for O&M and capital; approved under negotiated settlement.	No	No rebasing or traditional cost-of-service for the extension in 2008 and 2009.

Year	Rate-Setting Framework	Note	Revert (or continue) to COS?	Rationale
2010-2011	Multi-year Rate Application with All Components Based on Traditional Cost-of-Service	Approved by Order G-141-09 with a Negotiated Settlement Agreement (NSA).	Yes (Revert)	FEI had elected to file a two-year revenue requirement under traditional cost-of-service because: • The change to IFRS was anticipated to cover a two-year period, thus the 2010-2011 RRA would allow the implementation of IFRS; • FEI was anticipating the completion of the amalgamation of FEI, FEVI, FEW, and FEFN over the two-year period before the end of 2011; and • The two-year period would be consistent with the implementation of the Customer Care Enhancement Project at that time.
2012-2013	Multi-year Rate Application with All Components Based on Traditional Cost-of-Service	FEI filed the 2012-2013 RRA as it anticipated filing for approval of the amalgamation and a common rate application between FEI, FEVI, FEW, and FEFN within the two-year period.	Yes (Cont'd)	FEI continued with traditional cost-of-service due to the anticipated amalgamation and common rate applications.
2014-2019 (6 years)	PBR	Formula-based approach for O&M and capital.	No	Not applicable.
2020-2024 (5 years)	MRP	Formula-based approach for O&M and Growth capital, and forecast approach for Sustainment and Other capital.	No	Although there is no traditional cost-of-service year between the 2014-2019 PBR Plan and the Current MRP, FEI's rate base was rebased for 2020, and the 2020 Base O&M is reflective of FEI's cost-of-service at that time; thus, the process undertaken in the MRP Application was akin to having a rebasing year using a cost-of-service application. This approach was accepted by the BCUC in the MRP Decision and Order G-165-20. Please also refer to the response to BCUC IR1 1.1.

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Please refer to Table 2 below for FBC's timeline from 1995 to 2024. As shown in Table 2 below, FBC was under PBR/MRP rate-setting frameworks for 24 years out of the 29-year period, while under a traditional cost-of-service rate-setting approach for only five of those years (i.e., 1995, 2005, 2006, and 2012-2013[4]). Over the 29-year period, FBC was granted numerous extensions to its PBR/MRP without rebasing or reverting to a traditional cost-of-service rate setting method. In fact, FBC only reverted from PBR/MRP back to a traditional cost-of-service rate-setting methodology on two occasions (i.e., 2005 and 2012). In both cases, specific circumstances led to the decision to revert back to a traditional cost-of-service rate-setting approach for rebasing purposes: (1) the acquisition of Aquila Networks Canada (BC) Ltd. prior to 2005; and (2) the adoption of IFRS (ultimately changed to adopt US GAAP) between 2012 and 2013.

Table 2: Timeline of FBC's Rate-Setting Frameworks from 1995 to 2024

Year	Rate-Setting Framework	Note	Revert (or continue) to COS?	Rationale
1995	Traditional Cost-of-Service	Not applicable.	No	Not applicable.
1996-2004, Extended for 1996-1998, 1999, 2000-2002, 2003, 2004 (total of 9 years)	PBR	Formula-based approach for O&M and capital; approved under negotiated settlement.	No	There was no rebasing or reverting to cost-of-service in each approved extension. Certain mechanisms included as part of the original PBR plan were modified in subsequent extensions, including the introduction of a power purchase variance mechanism and market incentive mechanism, as well as the exclusion of capitalized overhead from the sharing mechanism.
2005	Traditional Cost-of-Service	As part of Order G-52-05 approving FBC's 2005 RRA, the BCUC directed FBC to include a comprehensive review of PBR prior to the 2006 RRA and to propose a proposal for implementing a PBR mechanism.	Yes (Revert)	As contemplated in 2004, FBC applied for approval of acquiring a reviewable interest in Aquila Networks Canada (BC) Ltd. which was subsequently approved by Order G-39-04. In response to a BCUC request during the acquisition proceeding, FBC committed to file a general rate application (based on traditional cost-of-service) that would "re-establish the Utility on a stand-alone basis".

[4] For clarity, the 2012-2013 revenue requirements could be considered a multi-year rate plan, but with all components set based on cost-of-service (i.e., no components were set based on a formula or indexed-approach).

Year	Rate-Setting Framework	Note	Revert (or continue) to COS?	Rationale
2006	Traditional Cost-of-Service	As directed by Order G-52-05 approving the 2005 RRA, the 2006 RRA included a PBR proposal for 2007 to 2009.	Yes (Cont'd)	FBC continued with traditional cost-of-service due to its proposal for PBR commencing in 2007.
2007-2009, extended to 2011 (total of 5 years)	PBR	Formula-based approach for O&M and capital; approved under negotiated settlement.	No	No rebasing or traditional cost-of-service for the extension in 2010.
2012-2013	Multi-year Rate Application with All Components Based on Traditional Cost-of-Service	In the 2011 RRA, FBC committed to file the 2012 RRA based on traditional cost-of-service rate setting methodology.	Yes (Revert)	As explained in the 2012-2013 RRA, one of the primary reasons for filing a cost-of-service application instead of extending the PBR Plan beyond 2011 was the potential implementation of IFRS. However, US GAAP was ultimately adopted once it become apparent that IFRS would not allow the recognition of rate regulated assets and liabilities for external financial reporting.
2014-2019 (6 years)	PBR	Formula-based approach for O&M and capital.	No	Not applicable.
2020-2024 (5 years)	MRP	Formula-based approach for O&M and forecast approach for regular capital.	No	Although there is no traditional cost-of-service year between the 2014-2019 PBR Plan and the Current MRP, FBC's rate base was rebased for 2020 and the 2020 Base O&M is reflective of FBC's cost-of-service at that time; thus, the process undertaken in the MRP Application was akin to having a rebasing year using a cost-of-service application. This approach was accepted by the BCUC in the MRP Decision and Order G-166-20. Please also refer to the response to BCUC IR1 1.1.

3.2 Further to BCUC IR 1.1, please confirm that: i) the last rebase of FEI and FBC's Revenue Requirement through Cost-of-Service Rate-Setting occurred in 2013; and ii) for the 2025 Test Year, the last rebase through Cost-of-Service was 12 years ago.

Response:

Not confirmed. FEI's and FBC's 2020 revenue requirements and rates under the Current MRP included the resetting of each Company's rate base and the review and rebasing of formula O&M. Similarly, the proposed Rate Framework for 2025 to 2027 includes the resetting of FEI's and FBC's rate bases and the rebasing of formula O&M for 2025. This was explained in Section C7 of the Application and also reflected in Tables C7-1 and C7-2 which provide the indicative 2025 rates for FEI and FBC, respectively. Please also refer to the response to BCUC IR1 1.1.

3.3 Please provide FortisBC's evaluation of the implications for ratepayers considering that the last rebasing of FEI and FBC's Revenue Requirement occurred over a decade ago. As part of the evaluation of the implications, please discuss: i) the potential for the lack of visibility to ratepayers into FEI's and FBC's overall Revenue Requirement, O&M expenses and Capital Expenditures given the RSF is fragmented into numerous forecasts and formulas for Cost-of-Service line items; ii) the potential for more limited accountability to ratepayers of FEI and FBC's cost increases and plans for the energy transition.

Response:

The premise of the question is incorrect. Please refer to the response to BCOAPO IR1 3.2 which explains that FEI's and FBC's revenue requirement and rates for 2020 included resetting the rate base and Base O&M as part of the 2020-2024 MRP Application. Similarly, the current Application includes resetting the rate base and Base O&M for both utilities as indicated in Section C7 of the Application. This approach is transparent, accountable, and was accepted by the BCUC for the Current MRP. In this proceeding, the BCUC and Interveners have a full opportunity to review the items being sought for approval in this Application, and will have the opportunity to review the items being sought for approval in the Annual Reviews for the term of the Rate Framework. This is described further in the response to BCSEA IR1 1.3.

Further, FortisBC disagrees with the premise of item (ii) of this question. The proposed Rate Framework does not create the potential for more limited accountability to customers of the Companies' cost increases and plans for the energy transition. FortisBC will continue to seek approval of rate increases through the Annual Review process, and FortisBC's activities and spending related to the energy transition can be reviewed through the Annual Review process. Further, as FortisBC has explained in the Application and in greater detail in the responses to BCUC Panel Supplemental IRs (for example, refer to the response to BCUC Panel Supplemental IR 4), many of FortisBC's energy transition-related applications and responses require separate regulatory applications and approvals, which would be the case regardless of whether FortisBC was operating under a cost-of-service rate-setting regime or a multi-year framework.

3.4 With respect to the jurisdictional comparison provided in Appendix B2-2, please provide the frequency of rebasing Revenue Requirement of PBR or MRP rate-setting methodologies through Cost-of-Service filings in other Canadian jurisdictions.

Response:

FortisBC notes that utilities in Ontario can choose an Incentive Rate-setting Plan approach that is suited to their specific circumstances, which may or may not include setting going-in rates based on a traditional cost-of-service application in the first year of the rate-setting term. Further, the Alberta Utilities Commission (AUC) has taken a similar approach as FortisBC, which determined that utilities should be able to adopt the rebasing approach that fits their needs and shall not prescribe a specific methodology for developing the 2023 revenue requirement forecasts (first year of their PBR starting from 2023). As such, FortisBC is not aware of any set frequency for rebasing in other Canadian jurisdictions. Please also refer to the response to BCUC IR1 1.1.

4.0 Reference: Exhibit B-1 Part B, Tables B2-8 & B2-9, pages B-29 to B-30

Topic: Claimed Formula O&M Savings

Preamble:

FortisBC provides a calculation of claimed formula O&M savings to customers from 2020-2024 of $28.0 million for FEI and $11.8 million for FBC. **(Exhibit B- 1 Part B, Tables B2-8 & B2-9, pp. B-29 - B-30)**

Request:

4.1 With respect to Tables B2-8 and B2-9, please provide a detailed explanation of the derivation of each column of the calculation as well as a detailed description of what each column is attempting to represent.

<u>Response:</u>

Tables B2-8 and B2-9, as presented on pages B-29 and B-30 of the Application, show the actual/projected savings (i.e., the difference between actual O&M each year and the amount included in rates, as well as the reduction built into O&M through the X-Factor) under formula O&M for FEI and FBC, respectively. The tables show the total savings passed on to customers annually during the Current MRP (column f) and provide a breakdown of these total savings between: (1) the savings embedded within the formula through the productivity improvement factor (PIF), or X Factor, which are fully passed on to customers (i.e., column e); and (2) the savings achieved over and above the embedded PIF, which are shared 50/50 with customers through the earnings sharing mechanism (i.e., column c).

The detailed descriptions and explanations for each of the columns in Tables B2-8 and B2-9 are provided below. A copy of Table B2-8 is included below for ease of reference. The column descriptions provided below the table are equally applicable for the FBC O&M Table B2-9.

Table B2-8: FEI Actual Formula O&M and Savings ($ millions)

Year	Actual (a)	Formula with 0.5% PIF (b)	Savings above the Formula (c=b-a)	Formula without 0.5% PIF (d)	Savings related to 0.5% PIF (e = d-b)	Total Savings to customer w/ Sharing (f = 0.5*c + e)
2020	$ 259.5	$ 261.8	$ 2.3	$ 263.1	$ 1.3	$ 2.4
2021	268.3	272.5	4.2	274.9	2.5	4.6
2022	281.7	285.2	3.5	289.1	3.9	5.6
2023	295.0	299.3	4.3	304.3	5.0	7.2
2024P	309.6	312.6	3.0	319.3	6.8	8.3
Total			**$ 17.3**		**$ 19.4**	**$ 28.0**

(a) The column labelled as "Actual (a)" contains the Actual FEI formula O&M expenditures from 2020 to 2023 and Projected for 2024 under the Current MRP.

(b) The column labelled as "Formula with 0.5% PIF (b)" contains the Approved formula O&M for each year of the Current MRP. The amounts in each year are the O&M spending envelope allowed under the formula, which includes annual escalation through the inflation factor (I-Factor) less the referenced 0.5% PIF (X-Factor). Please refer to page C-62 of the Application for the O&M formula.

(c) The column labelled as "Savings above the Formula (c)" is the difference between the Actual formula O&M expenditures under column (a) and the Approved formula O&M under column (b). The O&M savings above the formula during the Current MRP are subject to the earnings sharing mechanism.

(d) The column labelled as "Formula without 0.5% PIF" is the formula O&M calculated without the 0.5% PIF (X-Factor). It shows what the formula O&M would have been if the X-Factor (PIF) of 0.5% was not included in the calculation.

(e) The column labelled as "0.5% PIF (e = d – b)" subtracts column (b) from column (d). This column shows the amount of the reduction in the Approved formula O&M spending envelope related to the 0.5% PIF. For example, in 2020, the Approved formula O&M funding was $261.8 million including the 0.5% PIF but would have been $263.1 million if the 0.5% PIF was not included in the calculation. The difference of $1.3 million represents the savings related to the 0.5% PIF in 2020 that are entirely for the benefit of customers.

(f) The column labelled as "Total Savings to customer w/Sharing (f = 0.5*c + e") shows the total savings under the formula O&M. It includes the savings achieved above the formula, i.e., column (c) which is shared equally between customers and the Company, and the savings related to the 0.5% PIF portion, i.e., column (e), which is 100 percent for the benefit of customers.

5.0 Reference: Exhibit B-1 Appendix C2-1, Appendix C2-2 & Part B, Figure B2-1, page B-19; Figure B2-2, page B-23

Topic: Growth in Actual Total O&M Expenses 2019-2023 compared to inflation

Preamble:

FortisBC provides actual O&M expenses for FEI and FBC from 2019-2023. **(Exhibit B-1, Appendix C2-1 & Appendix C2-2)**

FortisBC provides cumulative rate increase and CPI/AWE information for FEI and FBC for the period 2020-2024. **(Figure B2-1, p. B-19 & Figure B2-2, p. B- 23)**

Request:

5.1 For FEI, please confirm that: i) actual O&M expenses have increased from $249.7 million in 2019 to $292.5 million in 2023, an increase of $42.8 million or 17.1% over the four-year period; and ii) the 17.1% increase equates to an average growth rate of 4.0% per year over the four-year period.

<u>Response:</u>

While the actual O&M stated in the question and in BCOAPO IR1 5.3 for FEI and FBC, respectively, is correct for each year, there are a number of reasons why comparing these O&M results with inflation is not an accurate assessment of FEI's and FBC's year-over-year O&M growth over the Current MRP term.

First, the four-year period being used in the question to determine the average O&M growth rate does not reflect the term of the Current MRP. The accurate range of years for a proper evaluation of O&M during the Current MRP should be from 2020 to 2024, not from 2019 to 2023. Notably, the increase in O&M from 2019 to 2020 included the rebasing of FEI's and FBC's O&M, which contained approved adjustments to include exogenous factors, updated corporate and shared service allocations, and reclasses to and from flow-through O&M, among other adjustments. Therefore, the increase in O&M from 2019 to 2020 does not reflect the year-over-year performance of FEI's and FBC's O&M during the Current MRP.

Second, the O&M expenses referenced in the preamble are from Appendix C2-1 (FEI) and Appendix C2-2 (FBC) of the Application and include both formula O&M and flow-through O&M. As explained in the response to BCOAPO IR1 6.1 in the FEI Annual Review for 2024 Delivery Rates proceeding, flow-through O&M (i.e., non-controllable items and Clean Growth Initiatives) is expected to fluctuate more significantly from year to year, as the annual changes in these expenses are driven by factors other than inflation. Examples of flow-through expenses that increased at a rate higher than inflation in 2024 are insurance premiums, integrity O&M (primarily integrity dig costs), BCUC levies, and Clean Growth Initiative O&M.

Finally, FEI's and FBC's formula O&M is based on the unit cost of O&M for each utility (this is the approach used in the Current MRP and proposed for the Rate Framework). The unit cost of O&M is escalated by the net inflation factor and then multiplied by the forecast average customer count each year (with a true-up for actual customers based on a two-year lag). This means that FEI's and FBC's total formula O&M expenses are also influenced by the change in the average customer count each year, which have grown year over year for both utilities. As such, the annual increase in FEI's and FBC's total formula O&M is partly (and appropriately) due to the increase in the average customer count.

Accordingly, the more accurate assessment of FEI's and FBC's year-over-year increase in O&M during the Current MRP term is provided in Tables 1 and 2 below. These tables provide the year-over-year (YoY) increases from 2020 to 2024 in FEI's and FBC's formula O&M based on the changes in the unit costs each year as well as the YoY increases in CPI/AWE for FEI and FBC, with actuals from 2020 to 2023 and projected for 2024.

Table 1: Formula UCOM and YoY Increase, and CPI/AWE YoY Increase for FEI - Actual 2020 to 2023 and Projected 2024

	Actual				Projected	Cumulative	AAGR
	2020	2021	2022	2023	2024	(%)	(%)
Formula O&M ($000s)[1]	259,533	268,272	281,732	294,980	309,600	N/A	N/A
Average Customer Count[2]	1,044,623	1,057,086	1,067,191	1,080,379	1,091,091	N/A	N/A
UCOM ($)	248	254	264	273	284	N/A	N/A
YoY Increase (%)	N/A	2.1%	4.0%	3.4%	3.9%	13.5%	3.4%
CPI/AWE (%)	N/A	3.8%	3.9%	4.4%	4.4%	16.5%	4.1%

Notes to Table:

1 See Table B2-8 for Actual/Projected Formula O&M from 2020 to 2024.

2 See BCUC IR1 8.4.1 for Actual/Projected Average Customer Count from 2020 to 2024.

Table 2: Formula UCOM and YoY Increase, and CPI/AWE YoY Increase for FBC - Actual 2020 to 2023 and Projected for 2024

	Actual				Projected	Cumulative	AAGR
	2020	2021	2022	2023	2024	(%)	(%)
Formula O&M ($000s)[1]	58,234	58,880	63,569	66,083	70,800	N/A	N/A
Average Customer Count[2]	142,321	144,877	147,112	149,602	151,962	N/A	N/A
UCOM ($)	409	406	432	442	466	N/A	N/A
YoY Increase (%)	N/A	-0.7%	6.3%	2.2%	5.5%	13.3%	3.3%
CPI/AWE (%)	N/A	4.2%	4.5%	4.3%	4.2%	17.2%	4.3%

Notes to Table:

1 See Table B2-9 for Actual/Projected Formula O&M from 2020 to 2024.

2 See BCUC IR1 8.4.1 for Actual/Projected Average Customer Count from 2020 to 2024.

As shown in Tables 1 and Table 2 above, the cumulative increase in formula UCOM from 2020 to 2024 is projected to be 13.5 percent and 13.3 percent for FEI and FBC, respectively. For FEI, the average annual growth rate (AAGR) in formula UCOM is approximately 3.4 percent, while the AAGR for inflation was 4.1 percent over the same period. For FBC, the AAGR in formula UCOM is approximately 3.3 percent, while the AAGR for inflation was 4.3 percent.

Overall, both Companies' total formula UCOM grew at a rate that was less than inflation. This is expected given the savings achieved by FEI and FBC above the formula as well as the savings embedded in the productivity improvement factor (X-Factor) and the discount on the growth factor built into FEI's and FBC's formula O&M, as shown in Tables B2-8 and B2-9 of the Application. This indicates strong cost containment by both Companies, especially considering the significant and unanticipated events that occurred during the Current MRP, including the COVID-19 pandemic and unanticipated inflationary pressures.

The results in Tables 1 and 2 above also demonstrate the flexibility of the formulaic approach to FEI's and FBC's O&M, as discussed in the response to BCUC Panel Supplemental IR 2. Under the formulaic approach, both utilities are incented to achieve savings and contain costs regardless of the changes in the growth in customer count.

5.2 Please confirm that for FEI the cumulative CPI/AWE for the period 2020-2023 was 15.7% (1.028 x 1.038 x 1.039 x 1.044) which represents an annual growth rate of 3.7% over the four-year period.

<u>Response:</u>

Not confirmed. The appropriate range of CPI/AWE should be the year-over-year increase from 2020 to 2024 (i.e., four years of increase over a five-year period, including 2020 to 2021, 2021 to 2022, 2022 to 2023, and 2023 to 2024) which represents the term of the Current MRP. The 2.8 percent of CPI/AWE used in the question is the increase from 2019 to 2020.

As shown in the response to BCOAPO IR1 5.1, the cumulative CPI/AWE increase for FEI over the period from 2020 to 2024 is 16.5 percent (3.8 percent + 3.9 percent + 4.4 percent + 4.4 percent), and the average annual growth rate (AAGR) for CPI/AWE over the same period is 4.1 percent. For FBC, the cumulative CPI/AWE increase over the period from 2020 to 2024 is 17.2 percent (4.2 percent + 4.5 percent + 4.3 percent + 4.2 percent), and the average annual growth rate (AAGR) for CPI/AWE over the same period is 4.3 percent.

FortisBC notes that the 15.7 percent and 16.8 percent referenced by the BCOAPO in this question and also in BCOAPO IR1 5.4 is the overall percentage increase (or percentage change), as opposed to the percentage difference. Please refer to the response to BCOAPO IR1 6.2 for further clarification of the percentage change versus the percentage difference.

5.3 For FBC, please confirm that: i) actual O&M expenses have increased from $58.5 million in 2019 to $68.5 million in 2023, an increase of $10 million or 17.1% over the four-year period; and ii) the 17.1% increase equates to an average growth rate of 4.0% per year over the four-year period.

Response:

Please refer to the response to BCOAPO IR1 5.1.

5.4 Please confirm that, for FBC, the cumulative CPI/AWE for the period 2020- 2023 was 16.8% (1.028 x 1.042 x 1.045 x 1.043) which represents an annual growth rate of 4.0% over the four-year period.

Response:

Please refer to the response to BCOAPO IR1 5.2.

5.5 Please provide FortisBC's assessment of its O&M cost containment performance on behalf of ratepayers for the period 2020-2023 in the context of the growth in its actual O&M expenses when compared to inflation (as outlined in BCOAPO IRs 5.1-5.4).

Response:

Please refer to the response to BCOAPO IR1 5.1.

5.6 Please provide a table that includes the total projected O&M expenses separately for FEI and FBC for 2024 and forecast O&M expenses separately for FEI and FBC for each of 2025, 2026 and 2027.

<u>Response:</u>

For 2024 Projected formula O&M, please refer to Tables B2-8 and B2-9 for FEI and FBC, respectively. As 2024 is not yet complete, the Companies do not have an activity view breakdown of 2024 formula O&M at this time. For 2025 to 2027, FortisBC is proposing an index-based formula approach based on O&M per customer to determine the formulaic O&M funding for the Rate Framework term. As a result, FortisBC has not prepared a forecast of index-based O&M over the term of the proposed Rate Framework.

However, the 2024 Base O&M for each Company is calculated based on 2023 Actuals (of which the details are provided in Appendix C2-3 to the Application), 2024 required adjustments, and 2025 net incremental funding for the Rate Framework term (of which the details are provided in Sections C2.2 and C2.3 of the Application as well as further broken down and described in the responses to the BCUC IR1 13 and 15 series). The 2024 Base O&M per customer will then be escalated by the net inflation factor in each year of the proposed Rate Framework term.

With regard to flow-through O&M, the 2024 Approved amounts included as part of the FEI and FBC Annual Reviews for 2024 Rates are currently considered representative of the 2024 Projected amounts. As explained in the response to BCOAPO IR1 5.1, flow-through expenditures can vary significantly from year to year and are uncontrollable, which is why FEI and FBC were approved to forecast these expenditures annually as part of the Annual Reviews during the Current MRP term and record the variances between forecast and actual amounts in the Flow-through (or other) deferral accounts. As explained in the Application, FortisBC is not seeking approval of the 2025 revenue requirement and rates in this Application, which includes the forecasts for 2025 flow-through O&M. These forecasts will be provided when FEI and FBC file for approval of interim rates for 2025, which is expected in early Q4 of this year (as discussed in the response to BCSEA IR1 1.7).

6.0 Reference: Exhibit B-1, Part B, Figures B2-1 and B2-2, pages B-19 & B-23; Section 1.2, page B-2; Part C, Section 7, pages C-192 & C-193

Topic: Sustainability of Annual Rate Increases under the RSF

Preamble:

FortisBC states that "regardless of the pathway, there is a need for the energy transition to consider affordability, security, and resilience." **(Exhibit B-1, Part B, Section 1.2, p. B-2)**

FortisBC provides graphs indicating that: i) FEI cumulative delivery rate increases between 2020-2024 were 32.4% and cumulative CPI/AWE of 19.3%; ii) FBC cumulative rate increases between 2020-2024 were 19.5% and cumulative CPI/AWE of 20.0%. **(Exhibit B-1, Part B, Figure B2-1, p. B-19 & Figure B2-2, p. B-23)**

FortisBC provides 2025 indicative rate increases of 6.2% for FEI and 5.3% for FBC. **(Exhibit B-1, Part C, Section 7, pp. C-192 & C-193)**

Request:

6.1 Please provide FortisBC's perspectives on how best to measure its performance with respect to affordability from a ratepayer perspective. For instance, what level of even annual and cumulative rate increases would FortisBC consider affordable for ratepayers as it relates to FEI's rates and FBC's rates?

<u>Response:</u>

FortisBC considers affordability to be a relative measure that is defined differently by different customer segments, and even by customers within each segment; as such, there is no specific level of increase that can be used to measure affordability or affordable rates.

FortisBC expects that pursuing policy-driven decarbonization initiatives will put upward pressure on rates for both Utilities. As such, FortisBC's view on affordability and affordable rates should be through the lens of FortisBC's ability to transition to low carbon fuels at the lowest reasonable cost, rather than on specific levels of rates or rate increases. For instance, FEI is seeking to acquire renewable and low carbon gas at the lowest reasonable cost as part of its renewable gas program, and FEI's long-term vision of maintaining or increasing throughput on its existing system through the Diversified Energy Planning (DEP) scenario would ultimately benefit all customers in mitigating the rate of increasing overall energy (electricity and gas) bills. Additionally, and as explained in Section C2.3.3.3 of the Application and in the response to BCUC IR1 14.3, FBC requires incremental resources to plan, model and develop strategies for developing new supply-side resources in order to continue to provide reliable and affordable energy service to customers over the long term. While these incremental O&M requirements contribute to rate pressures now (i.e., in 2025), the ability to develop cost-effective supply-side strategies will help to mitigate rate pressures in the long term (and thus positively contribute to affordability for customers).

Please also refer to the responses to BCUC Panel Supplemental IR 2 and 4 which discuss the increasing costs due to the energy transition that will be impacting both FEI and FBC as well as why FortisBC's proposed Rate Framework is flexible enough to address these impacts while also providing safe, reliable, and resilient service to its customers. FortisBC's response to BCUC Panel Supplemental IR 1 also discusses how the Annual Review process will continue to provide a regular and recurring opportunity to consider rate impacts when all aspects of FEI's and FBC's revenue requirements are identifiable, including all available offsetting benefits, before determining if a rate mitigation strategy is required. This approach has been successful during the previous 2014-2019 PBR Plan term as well as the Current MRP term.

Please also refer to the response to BCOAPO IR1 8.1 regarding a proactive rate mitigation plan and the response to BCOAPO IR1 10.3 regarding why it would not be reasonable to establish an affordability service quality indicator (SQI).

6.2 Please confirm that: i) the rate increases expressed on a cumulative basis over the period 2020-2024 for FEI are actually 36.7% (1.02 x 1.066 x 1.081 x 1.077 x 1.08) rather than 32.4% as provided in the Application, given that rate increases compound; and ii) cumulative CPI/AWE for 2020-2024 is 20.8% (1.028 x 1.038 x 1.039 x 1.044 x 1.044).

Response:

FortisBC notes that the calculations provided by BCOAPO as part of this BCOAPO IR1 6 series of questions are the "percentage change" between 2019 and 2024 (including the increase from 2019 to 2020), while FortisBC provided the "percentage difference" in the form of the cumulative increase in each year from 2020 to 2024 (sum of the increase from each individual year) in Figures B2-1 and B2-2 of the Application for FEI and FBC, respectively. Both the percentage change and percentage difference are statistical indicators. The percentage change can be used for comparing statistical data over time, while the percentage difference can be used to analyze the difference in rates.[5] However, FortisBC notes that in this instance, there is no right or wrong indicator to use between the two approaches. The difference between the two indicators is small,

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[5] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Beginners:Statistical_concept_-_Percentage_change_and_percentage_points or https://math.stackexchange.com/questions/3265272/reconciling-cumulative-total-percentage-with-overall-percentage-increase#:~:text=With%20the%20'overall%20percent%20change,%2C%20120%2C%20140%20respectively).

and the most important consideration is to use a consistent indicator when analyzing the data. Either indicator yields the same observations:

- For FEI, as discussed in Section B2.2.1.1 of the Application, the annual delivery rate increases from 2020 to 2024 exceed the average inflation over the same period; however, as the delivery rate is only a component of the total customer bill, the total bill increase over the term of the Current MRP is comparable to the cumulative increase in inflation over the same period. Further, when excluding items that were approved outside of the Annual Reviews during the Current MRP term, the delivery rate increase is less than the inflationary increase over the same period, as shown in Table B2-3 of the Application.
- For FBC, as discussed in Section B2.2.1.2 of the Application, the rate increases from 2020 to 2024 were generally in line with inflation and, if excluding items that were approved outside of the Annual Reviews during the Current MRP term, the rate increase would be approximately half of the inflationary increase from 2020 to 2024, as shown in Table B2-5 of the Application.

6.3 For FEI, please confirm that: i) a cumulative rate increase of 36.7% over a five year period between 2020-2024 is equivalent to an even annual rate increase of 6.5%; and ii) a cumulative CPI/AWE of 20.8% is equivalent to an even annual inflation increase of 3.9%.

Response:

Please refer to the response to BCOAPO IR1 6.2.

6.4 Please confirm that: i) the rate increases expressed on a cumulative basis over the period 2020-2024 for FBC is actually 21.1% (1.01 x 1.044 x 1.035 x 1.04 x 1.067) rather than 19.5% as provided in the Application, given that rate increases compound; and ii) cumulative CPI/AWE for 2020-2024 is 21.7% (1.028 x 1.042 x 1.045 x 1.043 x 1.042).

Response:

Please refer to the response to BCOAPO IR1 6.2.

6.5 For FBC, please confirm that: i) cumulative rate increases of 21.1% over a five year period between 2020-2024 is equivalent to an even annual rate increase of 3.9%; and ii) cumulative CPI/AWE of 21.7% is equivalent to an even annual inflation increase of 4.0%.

Response:

Please refer to the response to BCOAPO IR1 6.2.

6.6 Please explain if FortisBC is of the view that: i) 6.2% even annual rate increases (36.7% cumulative) between 2020-2024 and an indicative 2025 rate increase of 6.2% (cumulative 45.2% or 1.367 x 1.062) for FEI; ii) 3.9% even annual rate increases between 2020-2024 (21.1% cumulative) and an indicative 2025 rate increase of 5.3% (27.5% cumulative or 1.211 x 1.053) for FBC – are a sustainable level of rate increases for ratepayers. As part of the response, please address the potential rate spiral for FEI that could occur as a result of the energy transition and the attrition of customers, and for FBC, the rapid growth through the addition of customers and throughput as a result of the energy transition.

Response:

Please refer to the response to BCOAPO IR1 6.1.

C. Ex-Ante Evaluation of the RSF Proposed Changes

7.0 Reference: Exhibit B-1, Part C, Section 1.11, page C-23; Part C, Section 1.1, Table C1-1, pages C-2 to C-3

Topic: Balance/Benefits of FortisBC's Proposed RSF Changes to Ratepayers

Preamble:

FortisBC provides the following criteria that it used to evaluate its proposed changes to the current RSF:

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. **(Exhibit B-1, Part C, Section 1.11, p. C-23)**

FortisBC's proposals for RSF changes include the following:

1. A shorter (3-year term) with FortisBC's option to extend;
2. A lowering of the Productivity Factor (X-Factor) from 0.5% to 0.38% for FEI and from 0.5% to 0.20% for FBC;
3. The elimination of the 0.75% Discount Factor currently applied to the Growth Factor in the O&M formula;
4. Informational service quality indicators (SQI's) related to the energy transition;
5. Continuation of the existing materiality threshold ($500,000 for FEI and $150,000 for FBC) related to Exogenous Factors (Z-Factor);
6. Discontinuation of the Efficiency Carry-Over Mechanism (ECM); and
7. Reducing the scope of the annual review process. **(Exhibit B-1, Part C, Section 1.1, Table C1-1, pp. C-2 - C-3)**

Request:

7.1 For <u>each</u> of the four criteria outlined in the preamble above that FortisBC used to evaluate the proposed changes to the RSF, please explain how each is beneficial to and balanced for ratepayers.

<u>**Response:**</u>

The four items referenced in this IR were <u>not</u> criteria that FortisBC used to evaluate its proposed changes to the Current MRP. Rather, FortisBC stated that these were four key proposals or features that address the energy transition and other factors in its operating environment, considering the flexibility and features of the Current MRP and stakeholder feedback.

Consistent with the MRP Decision,[6] the guiding principles (the criteria) for designing the proposed Rate Framework are as follows:

Rate Plan Principles	Elements of Proposed Rate Framework
Principle 1: The Rate Framework should, to the greatest extent possible, align the interests of customers and the Companies; customers and the Companies should share in the benefits.	In its efforts to develop a rate framework that recognizes the interests and issues of concern of interveners, FortisBC solicited input from interveners and where appropriate, incorporated changes to address intervener feedback (interveners' feedback and FortisBC's proposals to address the feedback are listed in Table B2-11 of the Application). The proposed X-Factor values will ensure that customers receive savings during the Rate Framework term. Further, the proposed symmetrical earnings sharing mechanism will align the interests of customers and the Companies throughout the proposed Rate Framework term. In addition, the safeguard mechanisms, such as the proposed offramp provisions and the Z-factor treatment, will further protect the Companies' and customers' interests against the potential for excessive profits or losses.

[6] MRP Decision and Orders G-165-20 and G-166-20, p. 168.

Rate Plan Principles	Elements of Proposed Rate Framework
Principle 2: The Rate Framework must provide the utility with a reasonable opportunity to recover its prudently incurred costs including a fair rate of return.	The proposed Rate Framework has been designed to achieve a proper balance of risks and rewards between the Companies and customers, and reflects the current operational circumstances. The proposed Rate Framework includes incentive to maximize the efficiency of capital and O&M spending through: • A unit cost approach to O&M and FEI Growth capital spending; and • A three-year forecast for FBC Growth and FEI/FBC Sustainment and Other capital spending. Further, FortisBC is proposing to continue the flow-through treatment for Clean Growth Initiatives and to forecast the cost of these initiatives each year in the Annual Review process. 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 the actual costs.
Principle 3: The Rate Framework should recognize the unique circumstances of FortisBC that are relevant to the Rate Framework design.	The proposed Rate Framework is designed to provide FortisBC the flexibility and incentive to address challenges and pursue opportunities presented by changes in its operating and policy environments. The Rate Framework incorporates features such as the CGIF, the new category of Clean Growth Initiatives related to methane emission mitigation and the newly proposed energy transition related informational indicators to reflect FEI's specific operating and policy circumstances.
Principle 4: The Rate Framework should maintain FortisBC's focus on maintaining, safe, reliable service and customer service quality while creating the efficiency incentives to continue with its productivity improvement culture.	As discussed in Section B1.6 of the Application, the proposed Rate Framework will continue to maintain FortisBC's focus on providing safe, reliable service by supporting the Companies' investments in physical and cyber security, climate change operational adaptation and sustainability. Both FEI's and FBC's Sustainment capital spending will support the continued maintenance of the Companies' aging infrastructure. FEI has carefully considered and scoped projects that are driven by capacity to ensure they meet the needs of the shorter-term system demand forecast, and FEI's annual Growth capital spending envelope is directly correlated to the number of new connections. For FBC, the proposed three-year Growth capital expenditures forecast will provide the required funding to meet the growing load over the term of the Rate Framework. FortisBC also proposes a suite of SQIs for FEI and FBC that will monitor each utility's performance to ensure that any efficiencies and cost reductions do not result in a degradation of service quality. The traditional incentives embedded within the proposed Rate Framework provide a continued focus on efficient operations.

Rate Plan Principles	Elements of Proposed Rate Framework
Principle 5: The Rate Framework should be easy to understand, implement and administer and should reduce the regulatory burden over time.	The proposed Rate Framework builds on the success of the Current MRP, continuing with many of the same features that are well understood. The Annual Review process, with some adjustments to the scope to improve regulatory efficiency, will be continued, providing an efficient forum and opportunity for the BCUC and interveners to review the Companies' performance.

In the MRP Decision[7], the BCUC agreed with the appropriateness of these principles to evaluate FEI's and FBC's proposals and agreed with FortisBC's position that rather than focusing on each principle in isolation, the Companies' proposals should be assessed holistically:

> The Panel agrees that these principles ought to guide its assessment of the efficacy of the Proposed MRPs. However, the Panel views it unreasonable to expect every element of the Proposed MRPs to reflect the five principles outlined above. In reviewing this Application, the Panel assesses, on a holistic basis taking all of the plan elements into account, whether the MRPs strike an appropriate balance of the principles so as to result in a fair, reasonable and not unduly discriminatory rate-setting framework. In that regard, the Panel rejects the suggestion that any one of the five principles is of a higher order of priority or importance than the others. As FortisBC submits, the Proposed MRPs should reflect all of these principles, albeit in varying degrees. Whether the plans actually achieve all of these objectives will not be known until the end of the MRP term. However, the Panel needs to satisfy itself whether, from a design perspective and considering the Proposed MRPs as a whole, the plans reflect these general principles.

Consistent with the MRP Decision, FortisBC considers that when evaluated as a whole, the proposed Rate Framework strikes a reasonable balance between the Companies' and customers' interests.

Specifically, the four considerations outlined in Section B3.2, page B-45 of the Application (and referenced in the preamble to this IR), both individually and in totality, positively contribute to the overall balance of the Companies' and customers' interests during the term of the proposed Rate Framework. As explained in Section B3.2.1 of the Application, the proposed three-year term with the potential for further extension creates an appropriate balance between a long enough time frame to find some efficiencies in the regulatory process (a benefit to both the Companies and customers) and provide certainty on the rate mechanisms in place (a benefit to both the Companies and customers), while recognizing that the timing and quantum of the energy transition impacts are uncertain. Further, providing sufficient funding and flexibility to adapt to the

[7] MRP Decision and Orders G-165-20 and G-166-20, p. 168.

energy transition to manage costs through an efficient annual rate-setting process enables the Companies to make timely and important investments in support of the energy transition to support the Companies' financial health and long-term viability which, as recognized by the BCUC in the Stage 1 Generic Cost of Capital Decision[8], are to the mutual benefit of the Companies and customers.

7.2 For <u>each</u> of the proposed changes outlined in the preamble above, please explain: i) if the change primarily benefits FortisBC; ii) if the change primarily benefits ratepayers; and iii) if the change benefits both the utility and the ratepayer. As part of the response, please explain FortisBC's assessment for each of the changes.

<u>Response:</u>

The various components of the proposed Rate Framework are interconnected. As such, the assessment of the Rate Framework's benefits should consider all the elements together (including those that are retained from the Current MRP), not individually. However, to be responsive, the table below evaluates the benefits of each item outlined in the preamble.

Proposed Change	FortisBC's Assessment of Benefits
A shorter (three-year term) with the option to extend	Given the uncertainty in the operating and policy environment, a shorter term will reduce the risk of large variances between forecast and actual costs. This is to the mutual benefit of the Companies and customers, as these variances can go both ways (could result in underfunding or overfunding). The option to extend the three-year term is also in the interest of both customers and the Companies. Please refer to the response to BCOAPO IR1 7.5 for further discussion.
A lowering of the Productivity Improvement Factor (X-Factor) from 0.5% to 0.38% for FEI and from 0.5% to 0.20% for FBC	The proposed X-Factor values (inclusive of the stretch factor for FEI) are based on Dr. Kaufmann's recommendations and calculated based on industry productivity trends and benchmarking results. A properly calibrated X-Factor is a benefit to both the Companies and customers as it ensures that formula O&M is set neither too high nor too low over the term of the Rate Framework. It ensures that the Companies have a reasonable opportunity to recover their prudently incurred costs while customers receive the expected productivity savings during the term of the Rate Framework regardless of the actual performance of the Companies.

[8] Generic Cost of Capital Proceeding (Stage 1) Decision and Order G-236-23, p. 30.

Proposed Change	FortisBC's Assessment of Benefits
The elimination of the 0.75 discount factor currently applied to the Growth Factor in the O&M formula	As explained in Dr. Kaufmann's report (Appendix C1-1 to the Application), any discount of the customer growth factor would be unwarranted and tantamount to a "double counting" of scale economies, which are fully recovered in the productivity factors. Therefore, by eliminating the 0.75 discount factor to the growth factor, the O&M formulas will reflect the full O&M costs associated with each additional customer which will improve the ability of the formula to estimate the O&M costs, which is a benefit to both the Companies and customers.
Informational indicators related to the energy transition	The newly proposed informational indicators will provide an annual assessment of FEI's GHG emissions, renewable gas supply, energy efficiency savings, and natural gas for transportation volumes. This additional visibility into key aspects of FortisBC's response to the energy transition is a benefit to customers.
Continuation of the existing materiality threshold ($500,000 for FEI and $150,000 for FBC) related to Exogenous Factors (Z-Factor)	Since FEI and FBC are not proposing any changes to the Z-factor treatment and materiality threshold, there is no change in the benefits to the Companies or customers. Please refer to the response to BCOAPO IR1 7.8 for a discussion of why an increase to the materiality threshold would not be in the interest of the Companies or customers at this time.
Discontinuation of the Efficiency Carry-Over Mechanism (ECM)	Under the Current MRP, FortisBC could apply for approval of an ECM any time in the last three years of the term but did not do so. Therefore, for all practical matters, FortisBC's decision to not propose an ECM will have no impact on the benefits of the proposed Rate Framework.
Reducing the scope of the annual review process	FortisBC is proposing to retain the Annual Review process but is seeking clearer parameters at the outset of this Rate Framework on topics that are out of scope in the Annual Reviews, thus allowing the Companies, the BCUC and interveners to focus on the in-scope issues and generally improve the efficiency of the process, which is beneficial to the BCUC, customers and the Companies.

7.3 In consideration of the totality of the listed proposed changes to the RSF, please provide an overall evaluation of the balance between FortisBC interests and the interests of ratepayers.

<u>Response:</u>

Please refer to the response to BCOAPO IR1 7.1.

7.4 Please explain if FortisBC used other criteria to evaluate the proposed changes to the RSF such as affordability, service reliability, transparency, and accountability. If so, please explain how these criteria factor into the proposed changes. If not, please explain why not.

Response:

Please refer to the response to BCOAPO IR1 7.1.

7.5 With respect to the shortened three-year term proposal: i) please confirm that FortisBC will largely retain the optionality associated with either proposing to extend the framework or proposing a new framework if necessary; and ii) please explain if FortisBC has provided any benefits to ratepayers in its RSF proposals in exchange for largely retaining this optionality.

Response:

As discussed in the response to RCIA IR1 7.1, FortisBC will consider the potential to extend the Rate Framework in 2027 in consultation with interveners and BCUC Staff; however, any such extension would be subject to BCUC approval.

FortisBC notes that it has proposed a three-year term to be responsive to the feedback received from BCUC staff and from interveners when developing the Application and to recognize the uncertainty inherent in the operating environment due to the energy transition. As discussed 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 that the energy transition will have transformational impacts and that the timing and quantum of these impacts is uncertain.

As explained in the response to BCUC IR1 5.1, a term of three years or longer is beneficial to both the Companies and to customers as it provides for a more efficient rate-setting process (i.e., the Annual Reviews), which will allow the Companies to focus their time and resources on responding to the energy transition and climate-driven changes to provide safe, reliable and affordable energy service to customers.

Please also refer to the response to ICG IR1 3.1 for the advantages and disadvantages of a three-year versus a five-year term for FEI and FBC.

7.6 With respect to the indices used to calculate the Inflation Factor (I-Factor): i) please provide the definition of how AWE:BC is constructed by Statistics Canada and specifically explain if the AWE:BC includes both a volume factor associated with hours worked in addition to a rate factor in terms of rates of pay; and ii) please provide the definition of how CPI:BC is constructed by Statistics Canada and specifically explain if the CPI:BC includes a comprehensive basket of goods including volatile goods and services.

Response:

FortisBC provides the following explanations of how the AWE:BC and CPI:BC are calculated.

Average Weekly Earnings in British Columbia (AWE:BC)

FortisBC uses the BCUC-approved tables[9] to determine AWE:BC which is constructed of average weekly earnings, including overtime, for all employees in BC, monthly and seasonally adjusted. The AWE:BC measure accounts for the total number of weekly hours worked by employees, including overtime, for hourly and salaried employees in BC and excludes businesses that could not be classified to a North American Industry Classification System (NAICS) 2022 version 1.0.[10] The rate factor relates to the pay rates of employees with those hours worked, and it is reflected in the weekly earnings data which is based on gross taxable payroll before source deductions. This allows for a comprehensive assessment of compensation trends within the province. An increase in pay rates or number of hours worked will typically result in an increase in average earnings, while a decrease will have the opposite effect. Average weekly earnings are derived by dividing total weekly earnings by the number of employees.

In summary, the AWE:BC includes both volume factors related to hours worked and rate factors regarding wages, providing a well-rounded view of wage employment in British Columbia. It reflects how changes in either or both of these components can influence the overall average weekly earnings statistic and provides a reasonable overall reflection of labour price changes facing FEI and FBC.

Consumer Price Index for British Columbia (CPI:BC)

CPI:BC is a statistical measure produced by Statistics Canada that tracks the changes in the price level of a basket of consumer goods and services in BC. FortisBC uses the BCUC-approved tables[1] to determine CPI:BC, which is the Consumer Price Index, monthly, not seasonally adjusted. The CPI:BC includes a comprehensive basket of goods and services, including more

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[9] In Orders G-164-14 for FEI and G-182-14 for FBC, the BCUC approved the use of Statistics Canada CANSIM Table 326-0020 (now 18-10-0004-01) to determine the CPI:BC and CANSIM Table 281-0063 (now 14-10-0223-01) to determine AWE:BC.

[10] https://www150.statcan.gc.ca/n1/daily-quotidien/240725/dq240725a-eng.htm.

volatile products and services such as food and energy.[11] Statistics Canada collects prices from various sources across BC. Most of the goods and services included in the CPI are priced once per referenced month, while the frequency of the collection of prices varies depending on the nature of the good or service.[12] The CPI:BC index compares current prices to those in a base year. The resulting value represents the percentage change in prices over time.

In summary, CPI:BC is a broad measure of inflation for the overall BC economy that represents the rate of price changes for finished goods and services across all BC, and it is therefore an appropriate measure of non-labour inflation.

FortisBC continues to consider the AWE:BC and CPI:BC to be the most appropriate indices to use for the calculation of the I-Factor. Both indices are the BC indices published by Statistics Canada. Further, these indices have been approved for use by the BCUC in both the 2014-2019 PBR Plan Decisions[13] and the Current MRP Decision[14].

7.7 With respect to FortisBC's proposal to eliminate the 0.75% discount factor currently applied to the Growth Factor for the O&M Formula: i) please explain if FortisBC considers the costs of customer additions to the fixed, variable, or fixed-variable in nature; and ii) for 2025, please quantify the $ increase in the O&M Formula for FEI and FBC associated with the elimination of this discount factor.

Response:

Please refer to the response to MoveUP IR1 2.1 for a discussion of fixed, variable and semi-variable costs.

Please refer to Table 1 below which shows the forecast difference in the formula O&M for both FEI and FBC in 2025 with and without the 0.75 percent discount factor.

Table 1: Estimate of FEI's and FBC's 2025 Formula O&M With and Without the Discount Factor

2025 Formula O&M ($millions)	FEI	FBC
With 0.75% Discount Factor	313.047	80.147
No Discount Factor	313.830	80.517
Difference	**0.783**	**0.370**

11 https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000401.
12 https://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=2301.
13 Order G-138-14, p. 34 (FEI) and Order G-139-14, p. 33 (FBC).
14 MRP Decision and Orders G-165-20 and G-166-20, pp. 47-48.

Note: The figures in Table 1 are based on the Inflation Factor calculated using CPI-BC and AWE-BC results up to February 2024.

7.8 With respect to FortisBC's proposal to maintain the existing materiality threshold related to Exogenous Factors (Z-Factor), please explain why FortisBC is not proposing to increase the Z-Factor materiality threshold when its CPI/AWE increases from 2020 to 2024 total 21%.

Response:

FortisBC considers that increasing the materiality threshold at this time would be inappropriate and would not benefit either the Companies or customers. Exogenous factors relate to cost pressures and/or savings due to events that are non-controllable and unforeseeable in nature, and the costs or savings associated with these exogenous events are not necessarily tied to inflation. For example, part of the cost that FEI is seeking to recover through exogenous factor treatment related to the 2021 flooding event (as described in Section C1.6.1 of the Application) is the insurance deductible. The quantum of the insurance deductible is unrelated to inflation.

The current materiality thresholds continue to reflect an appropriate level of risk for the Companies and customers given their respective size. The current materiality thresholds ensure that the Companies and customers are able to recover/receive the costs/savings associated with unforeseen and uncontrollable events without resulting in the Companies seeking exogenous factor treatment for every event that may occur. During the Current MRP term, FEI and FBC were approved for exogenous factor treatment of the COVID-19 pandemic cost reductions, which resulted in savings flowing 100 percent back to customers, and FBC was approved for exogenous factor treatment for two other events: (1) the MRS Assessment Report No. 13 incremental costs; and (2) the costs resulting from the 2021 Nk'Mip Creek wildfire.[15]

FortisBC notes that the BCOAPO's reference to a CPI/AWE increase from 2020 to 2024 of 21 percent is incorrect. Please refer to the response to BCOAPO IR1 5.1 for the correct CPI/AWE increases from 2020 to 2024.

[15] FEI is also seeking exogenous factor treatment in this Application for the 2021 flooding event, as described in Section C1.6.1 of the Application.

7.9 With respect to FortisBC's proposal to discontinue the Efficiency Carryover Mechanism (ECM), please describe the purpose of the ECM and FortisBC's position on how it has functioned under the current RSF.

<u>Response:</u>

Please refer to the response to RCIA IR1 8.1.

7.10 With respect to FortisBC's proposal to reduce the scope of the annual review process, please explain if the proposed change is beneficial for ratepayers considering the movement towards the energy transition and significant levels of rate increases that FortisBC is requesting/projecting.

<u>Response:</u>

Please refer to the response to BCUC IR1 10.4, which clarifies the intent of explicitly scoping the Annual Review process.

FortisBC confirms that the BCUC and interveners would still have the opportunity to examine the impacts of the energy transition and the drivers of forecast rate increases through the Annual Review process. Managing rate impacts has been, and will continue to be, a component of the Annual Review process, and topics related to the energy transition are expected to continue to be examined during the Annual Review process.

FortisBC considers the clarity of scope to be beneficial for both customers and for the Companies as it contributes to the efficiency of the process and frees up time for individuals throughout the Companies to focus on responding to the energy transition.

7.11 With respect to FortisBC's proposal to add informational energy transition indicators to the SQI's, given the risk associated with the viability of FortisBC's utility and strategic importance of the energy transition to FortisBC and to ratepayers, please explain why FortisBC would only propose informational SQI's as compared to formal energy transition SQI's that include benchmark and thresholds. For instance, why hasn't FortisBC developed formal Key Performance Indicators (KPIs) associated with the energy transition so that both the utilities and ratepayers have vital information in terms of whether progress is being reasonably achieved.

Response:

Please refer to the response to BCUC IR1 33.1.

8.0 Reference: BCUC Decision and Order C-1-24, Section 9.2; Exhibit B-1, Part C, Section 7, Tables C7-1 & C7-2, pages C-192 to C-193

Topic: Rate Mitigation Strategy/Plan & Indicative Rate Increases 2025-2027

Preamble:

"The Panel acknowledges BCOAPO's concern regarding the potential for cumulative rate impacts due to FEI's capital projects and costs associated with other items such as legislated environmental targets….The Panel recognizes that it may be useful to canvass, in a future proceeding, whether a proactive rate mitigation plan for cumulative rate increases is warranted. The Panel recommends that the BCUC consider this matter during the review of FEI's upcoming 2025 Multi Year Rate Plan, which is anticipated in 2024." **(BCUC Decision and Order C-1-24, Section 9.2)**

FortisBC provides calculations of the indicative 2025 rate changes for FEI (6.2% increase) and FBC (5.3% increase). **(Exhibit B-1, Part C, Section 7, Tables C7-1 &C7-2, pp. C-192 - C-193)**

Request:

8.1 Please explain why FortisBC has not responded to the BCUC Panel's recommendation to canvas a proactive rate mitigation plan as part of the review of the 2025 Multi Year Rate Plan.

<u>Response:</u>

FortisBC has considered the BCUC Panel's comments regarding a proactive rate mitigation plan for cumulative rate increases. In particular, as set out in Section B1.5 of the Application, the Companies have considered energy affordability and the impacts of the energy transition on customer energy costs, as well as outlining actions to mitigate rate increases both through the design of the Rate Framework and by seeking to manage costs and invest in the most affordable ways, including:

- Continuing with an indexed-based formula approach for the majority of O&M costs and for FEI Growth capital, limiting spending in these areas and maintaining a cost-control focus;
- Increasing investment in energy efficiency programs aimed at reducing customers' energy consumption;
- Optimizing energy supply portfolios to reduce customer costs;
- Pursuing a diversified approach to long-term planning to manage affordability and optimize the use of gas and electric infrastructure;

- Carefully considering the need for capital investments and available project alternatives, including considering whether there are smaller incremental investments to increase future optionality as the energy transition evolves;
- Balancing the need to be proactive in building capacity with the expected timing of demand on the system; and
- Adding new sources of revenue through serving non-traditional markets, like transportation end uses.

FortisBC will continue to explore and further develop these avenues to mitigate rate increases. FortisBC also recognizes that the provincial government can play a key role in assisting with the affordability of the energy transition, whether through managing the pace of the energy transition or by assisting utilities or customers directly.

FortisBC notes that rate mitigation must work within legislated and common law requirements. Thus, FortisBC does not consider it reasonable or appropriate to pre-determine whether projects or expenditures should be approved without the Companies having the opportunity to provide evidence and justify the requests. For instance, while the rate impact of a CPCN project is considered as part of the CPCN review process, the rate impact is not the only consideration in determining whether the project is in the public interest. FortisBC also has a right to a reasonable opportunity to recover its prudently incurred costs and its allowed return of and on its investments. Ultimately, managing rate impacts is best addressed during the rate-setting process when all costs and expected load for the upcoming year(s) are reasonably known. It is only at this time that the overall revenue requirement and rate impacts are known and the BCUC can consider whether it should approve mechanisms to mitigate the rate impacts.

8.2 With respect to the indicative 2025 incremental revenue requirement calculations for FEI and FBC, please explain what each of the items under the "resetting MRP" represents.

<u>Response:</u>

As discussed on page C-191 of the Application, the resetting MRP lines in Tables C7-1 and C7-2 reflect adjustments to revenue requirements necessary to reset rate base at the termination of the Current MRP and the resetting of Base O&M for 2025. The rate base impact is due to adding to rate base the capital expenditures excluded during the Current MRP term (expenditures over the approved amounts). The adjustments to O&M are described in Sections C2.2.1 and C2.3.1 of the Application.

Please also refer to the response to BCOAPO IR1 3.2.

8.3 Please provide indicative incremental revenue requirement/rate calculations for FEI and FBC for 2026 and 2027 in the same format as Tables C7-1 and C7-2, respectively.

Response:

Please refer to Table 1 below for the high-level indicative delivery rate increases for FEI and Table 2 below for the high-level indicative rate increases for FBC from 2025 to 2027. FortisBC notes the 2025 delivery rate impact for FEI shown in Table 1 below has been updated to 7.4 percent from the 6.2 percent increase shown in Table C7-1 of the Application. The change is due to a change to the 2025 LNG demand forecast for spot non-NGT customers, as discussed in the response to BCUC IR1 26.1.

Please also refer to Table 3 below for the assumptions used for the indicative rates from 2025 to 2027. However, FortisBC notes that the indicative rate increases for FEI and FBC are high-level forecasts based on the information available at the time of filing the Application (with the exception of the change to FEI's 2025 LNG demand forecast discussed above). The purpose of these high-level indicative increases is to illustrate how the various components of the Rate Framework fit together and to provide some insight into the upcoming rate changes during the term of the proposed Rate Framework. These rate increases do not represent the actual increases in each year. As discussed in Section C7 of the Application, FortisBC will file for interim 2025 rates before the end of 2024 that will factor in all components of FEI's and FBC's revenue requirement.

1 **Table 1: FEI Indicative Incremental Revenue Requirements and Delivery Rates (2025 to 2027)**

Particular	Incremental Revenue Requirement 2025 ($millions)	2026 ($millions)	2027 ($millions)
Resetting MRP			
Rate Base	14.1	-	-
Base O&M	(9.2)	-	-
Subtotal	**4.9**	**-**	**-**
Studies			
Depreciation Study	2.0	-	-
Capitalized overheads study	5.9	-	-
Corporate Services	-	-	-
Cash Working Capital - Lead Lag	-	-	-
Subtotal	**7.9**	**-**	**-**
Incremental Revenue Requirements			
Volume/Revenue Related	(11.9)	(6.7)	(6.8)
O&M Changes	28.3	11.9	12.7
Depreciation Expense	(3.8)	15.2	17.4
Amortization Expense	13.7	14.0	9.1
Financing and Return on Equity	23.1	29.7	36.2
Tax Expense	7.7	15.1	11.8
2024 Revenue Deficiency	15.9	-	-
Subtotal	**73.0**	**79.2**	**80.4**
Total Deficiency	**85.82**	**79.2**	**80.4**
Margin @ Existing Rates	1,152.4	1,244.9	1,330.9
Indicative Delivery Rate Change	**7.4%**	**6.4%**	**6.0%**

2

1 **Table 2: FBC Indicative Incremental Revenue Requirements and Rates (2025 to 2027)**

Particular	Incremental Revenue Requirement 2025 ($millions)	2026 ($millions)	2027 ($millions)
Resetting MRP			
Rate Base	0.6	-	-
Base O&M	3.7	-	-
Subtotal	**4.3**	**-**	**-**
Studies			
Depreciation Study	4.3	-	-
Capitalized overheads study	(0.4)	-	-
Corporate Services		-	-
Cash Working Capital - Lead Lag	0.2	-	-
Subtotal	**4.1**	**-**	**-**
Incremental Revenue Requirements			
Volume/Revenue Related	(1.7)	(0.0)	(0.3)
Power Supply	0.3	5.8	6.1
O&M Changes	2.9	3.2	3.3
Depreciation Expense	3.3	4.0	5.1
Amortization Expense	3.2	2.4	(1.1)
Financing and Return on Equity	4.7	6.1	7.8
Tax Expense	3.2	2.3	1.8
Subtotal	**15.9**	**23.7**	**22.8**
Total Deficiency	**24.3**	**23.7**	**22.8**
Revenue @ Existing Rates	458.9	483.2	507.2
2 **Indicative Rate Change**	**5.3%**	**4.9%**	**4.5%**

3

1 **Table 3: FEI and FBC Indicative Rates Assumptions for 2025 to 2027**

	FEI	FBC
Net Inflation Factor	2.979% (based on CPI-BC/AWE-BC as of January 2024, incl. proposed 50%/50% labour/non-labour weighting, X-Factor of 0.38% and no discount factor on the growth factor)	3.333% (based on CPI-BC/AWE-BC as of January 2024, incl. proposed 60%/40% labour/non-labour weighting, X-Factor of 0.2% and no discount on the growth factor)
Customer Growth	Average 0.6% per year (based on the demand forecast method described in Appendix C4-1 to the Application, extrapolated for 2026 and 2027)	Average 1.0% per year (based on the demand forecast method described in Appendix C4-2 to the Application, extrapolated for 2026 and 2027)
Demand Forecast	Based on the demand forecast method described in Appendix C4-1 to the Application, extrapolated for 2026 and 2027	Based on the demand forecast method described in Appendix C4-2 to the Application, extrapolated for 2026 and 2027
O&M Expense	Indexed O&M based on 2024 Base O&M discussed in Section C2.2.1 of the Application and Net Inflation Factor shown above; also includes Forecast O&M (with 2% annual escalation)	Indexed O&M based on 2024 Base O&M discussed in Section C2.3.1 of the Application and Net Inflation Factor shown above; also includes Forecast O&M (with 2% annual escalation)
Growth, Sustainment, and Other Capital	As per Table C3-2 of the Application	As per Table C3-27 of the Application
Forecast Capital	2024 Approved forecast plus 3% annual escalation: • Biomethane Assets • NGT Assets	2024 Approved forecast plus 3% annual escalation: • EV DCFC Assets

	FEI	FBC
Major Projects	Previously approved or under BCUC review: • Inland Gas Upgrade (IGU) • Coastal Transmission System (CTS) and Interior Transmission System (ITS) Transmission Integrity Management Capabilities (TIMC) • Pattullo Gasline Replacement (PGR) • Advanced Metering Infrastructure (AMI) • Okanagan Capacity Mitigation Plan (OCMP) • Tilbury 1A Expansion	Previously approved: • AS Mawdsley Terminal Station (ASM) • Fruitvale Substation Project
Deferral Amortization	Current approved deferral account and amortization for 2025 to 2027	Current approved deferral account and amortization for 2025 to 2027
Depreciation Rates	See Section D2.2	See Section D2.3
Cash Working Capital	As per Lead-Lag Studies discussed in Section D3	As per Lead-Lag Studies discussed in Section D3
Capitalized Overhead Rate	14.5% as discussed in Section D5	15.5% as discussed in Section D5
Power Supply Costs	n/a	Based on current load and peak demand forecast at current contracts prices
Income Taxes	Existing rates	Existing rates

9.0 Reference: Exhibit B-1, Part C, Section 2.2.1, Table C2-1, page C-26; Section 2.3.1 Table C2-10, page C-49

Topic: Higher Projected O&M Costs and Lower Productivity Savings

Preamble:

FortisBC provides the following information in its calculation of the FEI 2024 base O&M for the RSF:

- 2024 base O&M (in 2023 dollars) = $277.0 million
- 2024 base O&M (in 2024 dollars) = $289.2 million
- Adjustments for required 2024 spending (2024 dollars) = $3.2 million
- Net incremental funding for rate framework (2024 dollars) = $9.9 million
- 2024 base O&M for rate framework = $302.4 million **(Exhibit B-1, Part C, Section 2.2.1, Table C2-1, p. C-26)**

FortisBC provides the following information in its calculation of the FBC 2024 base O&M for the RSF:

- 2024 base O&M (in 2023 dollars) = $66.7 million
- 2024 base O&M (in 2024 dollars) = $69.0 million
- Adjustments for required 2024 spending (2024 dollars) = $1.7 million
- Net incremental funding for rate framework (2024 dollars) = $5.7 million
- 2024 base O&M for rate framework = $76.4 million **(Exhibit B-1, Part C, Section 2.3.1, Table C2-10, p. C-49)**

FortisBC is proposing to reduce the productivity factors for FEI and FBC from 0.5% to 0.38% and 0.2%, respectively. **(Exhibit B-1, Part C, Section 1.1, Table C1-1, p. C-2)**

Request:

9.1 Further to BCUC IR 24.13, please explain whether FortisBC has identified any areas of its O&M expenditures where it is able to: i) reduce the level of expenditures on a go forward basis; or ii) find areas it can eliminate to offset the rate pressures as outlined in this Application.

Response:

As explained in Sections C2.2.1 and C2.3.1 of the Application, FEI and FBC used the 2023 Actual expenditures as the starting point for calculating the 2024 Base O&M. The 2023 Actuals provide the most recent representation of the level of O&M funding required to operate FortisBC's system safely and reliably while maintaining its overall service quality. Starting with the Actual 2023 results also ensures that the 2023 O&M savings achieved are reflected in the 2024 Base through a reduction to the O&M. As such, FortisBC confirms that there are no further areas of O&M spending that can be removed from FEI's and FBC's 2024 Base O&M that would be in addition to the 2023 savings achieved and the adjustments for exogenous factors and flow-through items.

9.2 For FEI, please confirm that the order of magnitude of the productivity savings inherent in the calculation of the 2024 base O&M is $1.1 million (2024 base O&M in 2023 dollars of $277.0 million x proposed X Factor of 0.38%). If not, please provide FortisBC's calculations.

Response:

Not confirmed.

The 0.38 percent is the proposed productivity factor for the term of the Rate Framework from 2025 to 2027. The productivity factor for the Current MRP term is 0.5 percent and is inherent in the calculation of the 2024 Base O&M in Table C2-1 of the Application. Please refer to Table 1 below which provides a calculation of the total savings inherent in FEI's 2024 Base O&M for the Rate Framework, which includes both the savings related to the 0.5 percent productivity factor and the savings achieved by FEI above the formula which carried into the 2024 Base O&M. FEI notes that the net incremental funding has been updated from $9.901 million to $9.652 million (Line 10 of Table 1 below) related to a correction to the Community Investment funding. Please refer to the response to BCUC IR1 16.2 and the Errata to the Application filed concurrently with these IR responses.

Table 1: FEI 2024 Base O&M for the Rate Framework With and Without Savings (Savings from 0.5% Productivity Factor and Savings Above Formula) ($millions)

Line	Particular	Reference	Without Productivity Factor	With Productivity Factor	Total Savings (incl. PIF and above Formula)
1	2023 Approved Base O&M	Table B2-8	304.336	299.302	
2	2023 Savings - Base O&M	Table B2-8 or Table C2-1	-	(4.322)	
3	**2023 Actual Base O&M**	**Line 1 + Line 2**	**304.336**	**294.980**	
4	Adjustment for Z-Factor and Flow-through (in 2023 Dollars)	Table C2-1	(18.007)	(18.007)	
5	**2024 Base O&M (in 2023 Dollars)**	**Line 3 + Line 4**	**286.329**	**276.973**	
6	2024 Inflator	Table C2-1 (4.43% + 0.5%)	1.0493	1.0443	
7	**2024 Base O&M (in 2024 Dollars)**	**Line 5 x Line 6**	**300.445**	**289.243**	
8	Adjustments required to 2024 Spending (in 2024 Dollars)	Table C2-1	3.232	3.232	
9	**2024 Projected Base O&M**	**Line 7 + Line 8**	**303.677**	**292.475**	**11.202**
10	Net Incremental Funding	Table C2-1	9.652	9.652	
11	**2024 Base O&M for Rate Framework**	**Line 9 + Line 10**	**313.329**	**302.127**	**11.202**

As shown in Table 1 above, the total savings inherent in the 2024 Base O&M for FEI is approximately $11.202 million, while the net incremental funding which FEI is proposing for the Rate Framework term is $9.652 million.

The "Adjustments for Required 2024 Spending" of $3.232 million, shown in Table C2-1 (or Line 8 in Table 1 above), are not part of the 2025 net incremental funding. Due to the timing of this Application, the 2024 Actual Formula O&M is not available to use as the starting point for formula O&M in 2025 under the proposed Rate Framework. Therefore, in order to arrive at an appropriate starting Base O&M for 2025, FEI used the 2023 Actual formula O&M spending and added the projected spending in 2024 in order to estimate the 2024 Projected formula O&M under the Current MRP (i.e., a projection of FEI's 2024 Actual formula O&M at the end of the year) before the new incremental funding needed for the proposed Rate Framework from 2025 to 2027. Therefore, as discussed in Section C2.2.3 of the Application, the $3.232 million of adjustments required for 2024 spending are related to the Current MRP (i.e., new spending required that began in 2024 and is thus not reflected in 2023 Actuals), which includes, for example, new lease costs for the new facility in Kelowna which FortisBC started to occupy in 2024. FEI would be spending the $3.232 million under the allowed O&M spending envelope in 2024 regardless of the proposed Rate Framework.

Therefore, the total inherent savings built into the 2024 Base O&M are $11.202 million, not $1.1 million as suggested by the BCOAPO in this IR.

Further, the total inherent savings of $11.202 million are more than the net incremental funding of $9.652 million that is needed for new activities over the term of the Rate Framework. FEI considers that the requested net incremental funding represents a balanced approach that provides the necessary funding for the Company while considering customer rate impacts.

Finally, FEI notes that the proposed Rate Framework will continue the formulaic approach for Base O&M, which includes a productivity improvement factor (X-Factor). As such, FEI expects there will continue to be savings in formula O&M related to the X-Factor.

9.3 For FEI, please confirm: i) that the total adjustments and net incremental O&M funding for 2024 is approximately $13.1 million ($3.2 million + $9.9 million); ii) which represents an increase in O&M in 2024 of 4.5% ($13.1 million/$289.2 million). If not, please provide FortisBC's calculations.

<u>Response:</u>

Please refer to the response to BCOAPO IR1 9.2.

9.4 For FBC, please confirm that the order of magnitude of the productivity savings inherent in the calculation of the 2024 base O&M is $0.1 million (2024 base O&M in 2023 dollars of $66.7 million x proposed X Factor of 0.2%). If not, please provide FortisBC's calculations.

Response:

Not confirmed.

The 0.2 percent is the proposed productivity factor for the term of the Rate Framework from 2025 to 2027. The productivity factor for the Current MRP term is 0.5 percent and is inherent in the calculation for the 2024 Base O&M in Table C2-10 of the Application. Please refer to Table 1 below which provides a calculation of the total savings inherent in the 2024 Base O&M for the Rate Framework, which includes both the savings related to the 0.5 percent productivity factor and the savings achieved by FBC above the formula which carried into the 2024 Base O&M. FBC notes that the net incremental funding has been updated from $5.681 million to $5.556 million (Line 10 of Table 1 below) related to a correction to the Community Investment funding. Please refer to the response to BCUC IR1 16.2 and the Errata to the Application filed concurrently with these IR responses.

Table 1: FBC 2024 Base O&M for the Rate Framework With and Without Savings (Savings from 0.5% Productivity Factor and Savings Above Formula) ($millions)

Line	Particular	Reference	Without Productivity Factor	With Productivity Factor	Total Savings (incl. PIF and above Formula)
1	2023 Approved Base O&M	Table B2-9	71.693	70.318	
2	2023 Savings - Base O&M	Table B2-9 or Table C2-10	-	(4.235)	
3	**2023 Actual Base O&M**	**Line 1 + Line 2**	**71.693**	**66.083**	
4	Adjustment for Z-Factor and Flow-through (in 2023 Dollars)	Table C2-10	0.585	0.585	
5	**2024 Base O&M (in 2023 Dollars)**	**Line 3 + Line 4**	**72.278**	**66.668**	
6	2024 Inflator	Table C2-10 (3.56% + 0.5%)	1.0406	1.0356	
7	**2024 Base O&M (in 2024 Dollars)**	**Line 5 x Line 6**	**75.212**	**69.043**	
8	Adjustments required to 2024 Spending (in 2024 Dollars)	Table C2-10	1.670	1.670	
9	**2024 Projected Base O&M**	**Line 7 + Line 8**	**76.882**	**70.713**	**6.169**
10	Net Incremental Funding	Table C2-10	5.556	5.556	
11	**2024 Base O&M for Rate Framework**	**Line 9 + Line 10**	**82.438**	**76.269**	**6.169**

As shown in Table 1 above, the total savings inherent in the 2024 Base O&M for FBC is approximately $6.169 million, while the net incremental funding which FBC is proposing for the Rate Framework term is $5.556 million.

The "Adjustments for Required 2024 Spending" of $1.670 million, shown in Table C2-10 (or Line 8 in Table 1 above), are not part of the 2025 net incremental funding. Due to the timing of this Application, the 2024 Actual Formula O&M is not available to use as the starting point for formula O&M in 2025 under the proposed Rate Framework. Therefore, in order to arrive at an appropriate starting Base O&M for 2025, FBC used the 2023 Actual formula O&M spending and added the projected spending in 2024 in order to estimate the 2024 Projected formula O&M under the Current MRP (i.e., a projection of FBC's 2024 Actual formula O&M at the end of the year) before the new incremental funding needed for the proposed Rate Framework from 2025 to 2027. Therefore, as discussed in Section C2.3.3 of the Application, the $1.670 million of adjustments required for 2024 spending are related to the Current MRP (i.e., new spending required that began in 2024 and is thus not reflected in 2023 Actuals), which includes, for example, new lease costs for the new facility in Kelowna which FortisBC started to occupy in 2024. FBC would be spending the $1.670 million under the allowed O&M spending envelope in 2024 regardless of the proposed Rate Framework.

Therefore, the total inherent savings built into the 2024 Base O&M are $6.169 million, not $0.1 million as suggested by the BCOAPO in this IR.

Further, the total inherent savings of $6.169 million are more than the net incremental funding of $5.556 million that is needed for new activities over the term of the Rate Framework. FBC considers that the net incremental funding represents a balanced approach that provides the necessary funding for the Company while considering customer rate impacts.

Finally, FBC notes that the proposed Rate Framework will continue the formulaic approach for Base O&M, which includes a productivity improvement factor (X-Factor). As such, FBC expects there will continue to be savings in formula O&M related to both the X-Factor.

9.5 For FBC, please confirm: i) that the total adjustments and net incremental O&M funding for 2024 is approximately $7.4 million ($1.7 million + $5.7 million); ii) which represents an increase in O&M in 2024 for 10.7% ($7.4 million/$69.0 million). If not, please provide FortisBC's calculations.

Response:

Please refer to the response to BCOAPO IR1 9.4.

9.6 Please provide FortisBC views on whether the large differential between the proposed incremental O&M increases and the incremental productivity offsets ($13.1 million vs. $1.1 million for FEI and $7.4 million vs. $0.1 million for FBC) in 2024 represents a balanced RSF for ratepayers.

Response:

Please refer to the responses to BCOAPO IR1 9.2 and 9.4 for FEI and FBC, respectively.

10.0 Reference: Exhibit B-1, Part B, Section 2.4.2, Table B2-11, page B-38 to B-39 & Appendix B2-3, page 4 of 6

Topic: Stakeholder Feedback incorporated in proposed RSF

Preamble:

FortisBC summarized the stakeholder feedback that it received from its November, 2023 Workshop to include the following:

- Affordability during the energy transition;
- Viability of the gas utility;
- Transparency in regulatory processes;
- Reporting (SQIs) on the energy transition; and **(Exhibit B-1, Part B, Section 2.4.2, Table B2-11, pp. B-38 - B-39)**
- Reporting (SQIs) on rate affordability. **(Exhibit B-1, Appendix B2-3, p. 4 of 6)**

Request:

10.1 Please provide: i) FortisBC's assessment of the positions received from intervenors as part of their respective final arguments in MRP Application for 2020 to 2024 proceeding in terms of their agreement/disagreement to continue with the RSF; and ii) how, if at all, these perspectives were incorporated in the current proposal for the 2025-2027 RSF.

<u>Response:</u>

FortisBC notes that the preamble is partially incorrect and incomplete. FortisBC's summary of stakeholder feedback received from the November 20, 2023 workshop, as listed in Table B2-11 of the Application, included the following:

- Adapt with the energy transition while maintaining affordability;
- Concerns about the viability of the gas utility given existing and anticipated government policy direction;
- Utilize innovation, renewable gases, gas and electric integration, and new lines of business to help keep the gas utility viable;
- Pursue regulatory efficiencies where possible while enabling collaboration and ensuring transparency;
- Comfortable with the Application incorporating both FEI and FBC;
- FEI will be experiencing a drop off in customer growth and this should be considered for the growth capital formula and depreciation moving forward;

- Investment is needed for emergency event preparedness and cyber related risks; and
- 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.

As noted in Table B2-11 of the Application, stakeholder feedback from the November 20, 2023 workshop included suggestions to adapt to the energy transition while maintaining affordability, concerns about the viability of the gas utility given existing and anticipated government policy direction, and suggestions to pursue regulatory efficiencies where possible while enabling collaboration and ensuring transparency.

The November 20, 2023 workshop included a presentation from FortisBC on the draft outline of the proposed overall rate framework. Stakeholder feedback from this section of the workshop is included in Appendix B2-3 of the Application. None of the feedback received suggested that stakeholders were opposed to the overall rate framework being proposed.

Further, FEI and FBC have considered the feedback received through arguments in the 2020-2024 MRP Application proceeding, the Annual Review processes, and engagements leading up to the filing of the Rate Framework Application. While this ongoing dialogue has informed FortisBC's approach, FortisBC considers the most recent engagement to be the most relevant and has therefore not prepared an assessment of the intervener arguments from the 2020-2024 MRP Application proceeding.

Please also refer to the responses to BCUC Panel Supplemental IR 1 and 4 which explain in detail how FortisBC considered the BCUC's and interveners feedback when developing the proposed Rate Framework.

10.2 Considering Stakeholder feedback in November 2023 that included concerns with respect to affordability, viability of the gas utility, and transparency of regulatory processes, please explain if FortisBC's assessment of this feedback was that Stakeholders desired the continuation of the current RSF with modifications.

Response:

Please refer to response to BCOAPO IR1 10.1.

10.3 Please explain why FortisBC did not address Stakeholder feedback to add SQI's with respect to rate affordability to the proposed SQI's in this proceeding.

Response:

FortisBC considered the feedback regarding developing an SQI related to rate affordability; however, FortisBC ultimately determined that such an SQI would not be appropriate. As explained in the Application and in the responses to BCUC Panel Supplemental IRs (in particular, BCUC Panel Supplemental IR 1), affordability will be increasingly challenged over time and FortisBC expects that pressure on FEI's and FBC's rates will continue over the term of the Rate Framework. FortisBC has included mechanisms in the proposed Rate Framework to provide incentives to find efficiencies and cost savings, however, increased costs and rate pressures are expected, including in the following areas:

- Increased costs related to investments in the reduction of GHG emissions, 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, which will result in increased costs per customer, all else equal.

Given the requirements to undertake these types of investments and the timing of the legislation or environmental factors that drive these investments are largely outside of the Companies' control, it would not be reasonable to penalize the Companies for not achieving a specified affordability target. The incentive to control costs is already built into the Rate Framework through the formulaic approach to controllable O&M expenses (and Growth capital for FEI) which includes a productivity factor, as well as the three-year forecast approach for Sustaining and Other capital (and Growth capital for FBC), with variances shared equally between the Companies and customers. Further, in accordance with the Fair Return Standard and the Regulatory Compact, FortisBC has a right to a reasonable opportunity to recover its prudently incurred costs and to earn its allowed return on investment.

Please also refer to the response to BCOAPO IR1 8.1 for a discussion on how FortisBC has considered energy affordability and the impacts of the energy transition on customer energy costs through the design of the proposed Rate Framework.

11.0 Reference: Exhibit B-1, Part B, Section 2.2.2.1, Tables B2-6 & B-2-7, page B-27; Appendix A1-2 & A1-3; Part B, Section 2.2.1.1, Figure B2-1, B2-2, pages B-19, B-23 and B-26; Part C, Section 1.10, page C-22

Topic: Proposed Scope Reductions to Annual Review Process & Regulatory Costs per Customer

Preamble:

FortisBC provides a table of the average annual cost of the FEI and FBC annual review indicating that the average cost for FEI was $182,000 and FBC was $190,000. **(Exhibit B-1, Part B, Section 2.2.2.1, Table B2-6, p. B-27)**

FortisBC provides key operating facts indicating that: i) for FEI average customers have ranged between 1,046,977 in 2020 and 1,080,378 in 2023 (average of 1,063,678); and ii) for FBC average customers have ranged between 142,321 in 2020 and 149,602 in 2023 (average of 145,962). **(Exhibit B-1, Appendix A1-2 & A1-3)**

FortisBC provides tables of total IRs by year of the MRP as well as the annual rate increases for FEI and FBC, which have been combined in the table below: **(Exhibit B-1, Part B, Section 2.2.2.1, Table B2-7, p. B-27)**

	2020-2021	2022	2023	2024
Total IRs (FEI & FBC)	603	594	672	788
FEI Rate Increase*	2.0%/6.6%	8.1%	7.7%	8.0%
FBC Rate Increase*	1.0%/4.4%	3.5%	4.0%	6.7%

***(Exhibit B-1, Part B Section 2.2.1.1, Figure B2-1, p. B-19 & Section 2.2.1.1, Figure B2-2, p. B-23)**

FortisBC indicates its view that the efficiencies in the annual review process have started to erode as the number of IRs in 2024 increased. **(Exhibit B-1, Part B, Section 2.2.2.1, p. B-26)**

FortisBC is proposing that the following components, once approved by the BCUC as part of the rate framework, should be out of scope for the annual review process and not the subject of IRs or argument during the three-year term: i) I-Factor and X-Factor; ii) Growth Factor; iii) Demand/Load Forecast Method; iv) Index-based O&M (FEI & FBC) and Growth Capital (FEI); v) Forecast Capital; vi) Major Projects or Other Approved Projects/Initiatives; and vii) FEI Biomethane Program & FBC RS 96 EV DCFC Service. **(Exhibit B-1, Part C, Section 1.10, p. C-22)**

Request:

11.1 Please confirm that based on the information in the preamble: i) the cost per customer for the FEI annual review is approximately 17 cents

($182,000/1,063,678); and ii) the cost per customer for the FBC annual review is approximately $1.30 ($190,000/145,962).

Response:

Confirmed.

11.2 Please explain if FortisBC would attribute the increase in information requests in the latter years of the 2020-2024 MRP term as provided in the preamble to the significant increases in delivery rates proposed by FEI and FBC and, in particular, the 2024 increases of 8.0% and 6.7% for FEI and FBC respectively.

Response:

As shown in Tables B2-2 and B2-4, the primary drivers of the rate increases in 2024 were the GCOC Stage 1 impact for FEI (6.06 percent out of the total 8.00 percent increase), and the GCOC Stage 1 impact and power supply costs for FBC (4.12 percent out of the total 6.74 percent). FortisBC agrees that there can be variation in the number of IRs in each Annual Review depending on the number of issues that may arise in the rate-setting year and the complexity or impact of the issues.

Ultimately, irrespective of the reasons for increased IRs during the Current MRP term, and as explained in the responses to BCUC IR1 10.4 and BCOAPO IR1 7.10, the purpose of explicitly identifying out-of-scope items in this Application is to provide greater clarity for the Annual Reviews as to what is appropriately examined through IRs and at the Workshops, similar to the BCUC's intent with scoping IRs which was implemented as part of the BCUC's Regulatory Efficiency Initiative's Final List of Efficiencies.[16] Therefore, FortisBC does not have a directional estimate of the total cost reduction and the cost per customer reduction associated with its proposal since the goal of explicitly identifying out-of-scope items was not targeted towards achieving a specific cost reduction for the Annual Review process. As BCOAPO has noted in this question, there may be instances where the number of IRs are higher due to the number and complexity of topics that arise in a specific rate-setting year. For example, the inclusion of an exogenous factor event could increase the number of IRs in a particular Annual Review.

With the exception of the demand/load forecast methods, FortisBC has not proposed any other changes in the scope of the Annual Reviews as compared to the Current MRP term and the 2014-2019 PBR Plan term. For clarity, and as explained in the responses to BCUC IR1 10.4 and

[16] https://docs.bcuc.com/documents/other/2023/doc_75555_bcuc-regulatory-efficiency-initiative-final.pdf.

BCOAPO IR1 7.10, FortisBC's approach for this Application is to explicitly identify and formalize the items that have been implicitly out of scope under previous frameworks.

FortisBC has taken this approach because it has observed that the lack of clarity has resulted in IRs being asked related to topics such as the appropriateness of the I-Factor calculation and detailed breakdowns of formula O&M and regular forecast capital, which have been out-of-scope of both the 2014-2019 PBR Plan and the Current MRP. FortisBC has responded to these IRs historically and has made the point in reply argument as to why the items are out-of-scope, and the BCUC Panel has accordingly noted that the items are out-of-scope in their decisions.[17] To provide better clarity and to avoid this situation going forward, FortisBC proposes, in consideration of regulatory efficiency, to explicitly identify out-of-scope items at the outset of the Rate Framework.

FortisBC does not consider it necessary to provide a list of costs and issues that would remain in-scope. The list of out-of-scope items is contained in Section C1.10 of the Application. Attempting to prepare an exhaustive list of costs and issues that would remain in-scope for the Annual Reviews may result in items that are in-scope being inadvertently missed, and such an approach might create the impression that issues or topics that arise during the Rate Framework term could not be canvassed during the Annual Reviews, which is not the intent of FortisBC's proposal. Ultimately, FortisBC's proposal is substantially similar to the previous rate frameworks, which provided guidance as to the intent of the Annual Reviews in the BCUC's decisions on the rate frameworks. For instance, on page 167 of the MRP Decision, the BCUC determined the topics that would provide a framework for the MRP Annual Reviews. In this Application, FortisBC is attempting to clarify the items that are appropriately out-of-scope for the Annual Reviews to improve regulatory efficiency.

11.3 Please provide a directional estimate of the total cost reduction and the cost per customer reduction associated with FortisBC's proposed reduction of the scope of the annual review process for FEI and FBC.

Response:

Please refer to the response to BCOAPO IR1 11.2.

[17] E.g., FBC Annual Review for 2020-2021 Rates Decision and Order G-42-21, p. 14; FBC Annual Review for 2022 Rates Decision and Order G-374-21, pp. 20-21.

11.4 Please provide a list of costs and issues that would remain in scope as part of the annual review process under FortisBC's proposed scope for annual reviews.

Response:

Please refer to the response to BCOAPO IR1 11.2.

D. Evaluation of Alternatives to the Proposed RSF

12.0 Reference: Exhibit B-2, Question 8, pages 35-39; BC Hydro 2020-2021 RRA, Exhibit B-1, Appendix FF, PBR Report, Dr. Weisman, page 33; BCUC Review of BC Hydro's PBR Report, Exhibit A2-5, Pacific Economics Group, PBR, Feb 28, 2020, page 33;

Topic: Evaluation of Alternatives to the Proposed RSF

Preamble:

FortisBC did not provide alternatives to its proposed RSF as part of its Application.

The BCUC requested FortisBC to identify feasible alternatives (including pros and cons) to the proposed RSF to set rates in the near term in light of the uncertainty caused by energy transition as part of its supplemental information requests. In response, FortisBC evaluated four discrete alternatives for setting rates:

1. Cost of Service;
2. Extension of the Current MRP;
3. The Proposed Rate Framework; and
4. The Proposed Rate Framework with Targeted Incentives. **(Exhibit B-2, BCUC Supplemental IRs, pp. 35-36)**

"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)." **(Exhibit B-2, BCUC Supplemental IRs, p. 36)**

"…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." **(Exhibit B-2, BCUC Supplemental IRs, p. 36)**

There were two expert reports prepared as part of the BCUC's review of the application of a PBR rate-setting framework to BC Hydro. Excerpts of these experts' reports are as follows:

> "One additional parameter is the term of the PBR plan or the number of years prior to rebasing (i.e., the true-up of rates to a target rate-of-return at the end of the PBR regime)….In contrast to COSR, rebasing under PBR occurs under discrete intervals….While there is considerable variability of the terms of the PBR plans, 4-6 years is common, with an average of approximately 5 years." **(BC Hydro 2020-2021 RRA, Exhibit B-1, Appendix FF, PBR Report Dr. Weisman, PBR Report, p. 33)**

"Multi-year rate plans have the following essential characteristics:

- A moratorium on general rate cases. Rate cases are typically held every four to five years, but plan terms of eight and tens have been approved." **(BCUC Review of BC Hydro's PBR Report, Exhibit A2-5, Pacific Economics Group, PBR, Feb 28, 2020, p. 33)**

Request:

12.1 Please explain if FortisBC undertook an evaluation of the alternatives to its proposed RSF prior to the preparation of its Application. If yes, please summarize this evaluation and explain why FortisBC did not provide the evaluation as part of its Application. If not, please explain why not.

Response:

FortisBC provides the following excerpt from the response to BCUC Panel Supplemental IR 4 which described the process the Companies undertook when developing the Application:

> 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.

Regarding why FortisBC did not present alternative rate-setting approaches in the Application, FortisBC prepared the Application based on the rate-setting approach that it considers to be the most appropriate to enable the Companies to manage the rate impacts of the energy transition and other influences in the operating environment while continuing to provide safe and reliable service to customers. Unlike CPCN applications, there is no requirement for the Companies to present alternatives to the proposed rate-setting approach. Unless specifically directed by the regulator (for instance when the BCUC directed BC Hydro to evaluate the PBR model as an alternative for setting its revenue requirement), the utilities' revenue requirement applications generally do not include detailed evaluations of other rate-setting mechanisms as doing so would be unnecessarily inefficient and costly. An exception could be when a utility is proposing a new or a materially different regulatory framework and would need to justify the proposed changes, which is not the case for FEI's and FBC's proposed Rate Framework. However, FortisBC provided a high-level comparison between the different feasible alternatives for the Rate Framework in the response to BCUC Panel Supplemental IR 8 and performed a jurisdictional review of other utilities operating under indexed-based multi-year rate frameworks, as provided in Section B2.3.1 and Appendix B2-2 to the Application.

12.2 Despite FortisBC's evaluation of Cost-of-Service as being a discrete alternative to the extension of the current RSF and proposed RSF, please confirm that Cost of Service rebasing under PBR and MRPs is an "essential characteristic" or "parameter" of such plans.

Response:

Confirmed. However, this does not mean that filing a discrete traditional cost-of-service application is necessarily required or that it is the only method of rebasing. Rather, the cost-of-service rebasing for formula driven amounts can be implemented as part of the rate application using a hybrid approach guided by the nature, size or complexity of the associated cost to facilitate a streamlined review. Please refer to the response to BCUC IR1 1.1 for a discussion on rebasing and BCOAPO IR1 3.2 for an explanation of how rebasing has been incorporated into the 2025 revenue requirements for FEI and FBC.

12.3 Please provide FortisBC's understanding: i) as to why rebasing between MRP terms is an "essential characteristic" or "parameter" of MRPs; and ii) of the circumstances that would precipitate a Cost-of-Service rebasing under an MRP.

Response:

In competitive markets, companies are price takers and can only remain in business over the long-term if they can meet or exceed the industry's long-term productivity trends. Incentive regulation attempts to mimic the competitive market pressures by decoupling the link between the utility's costs and revenues while linking the utility's revenues to industry productivity trends. This creates opportunities for the utility to seek additional efficiencies and reduce costs. If the utility is successful, it can then keep those savings for the term of the plan. Conversely, if the utility's costs increase more rapidly than its revenues, it shall bear its losses for the term of the plan.

The rebasing process is needed to realign the utility's costs with its revenue requirement, including embedding any potential savings/losses in the rebased rates. The rebasing process, whether done through a traditional or hybrid cost-of-service approach, cannot normally be "precipitated" unless the plan's safeguard mechanisms, such as offramps or re-opener provisions, are triggered.

As discussed in the response to BCOAPO IR1 3.2, the proposed Rate Framework already incorporates a rebasing process, which includes embedding savings in the Base O&M and resetting rate base; therefore, a separate year under traditional cost-of-service for rebasing is not required.

Further, with regard to the second part of this question, FortisBC assumes that the question is asking under which circumstances a traditional cost-of-service rebasing application becomes more appropriate. As explained in the response to BCUC IR1 1.1, some rate-setting frameworks such as price caps provide less opportunity to scrutinize a utility's itemized costs, thus a traditional cost-of-service rebasing application might be necessary. Further, a utility may be involved in activities that can significantly impact its cost structure. Under these circumstances, a traditional cost-of-service may be more appropriate. This has at times been the case for FEI and FBC, as shown in the response to BCOAPO IR1 3.1. However, as also shown in that response, there have only been a few occasions in the Companies' last 29 years where either utility has reverted back to a traditional cost-of-service approach. Instead, the Companies have generally taken a hybrid approach to rebasing wherein the Companies' O&M and rate base are reset as part of the multi-year rate framework applications.

12.4 Please explain why FortisBC has not proposed to rebase its rates through Cost of Service in this Application: i) given the long passage of time since the last Cost-of-Service RRA (2013); and ii) the uncertainty associated with the energy transition.

Response:

FortisBC disagrees with the premise of the question suggesting there has been no rebasing since 2013. Despite not filing a discrete traditional cost-of-service application since 2013, FEI's and FBC's rates have been rebased in 2020 and will include the impact of rebasing in 2025 under the proposed Rate Framework. Please refer to the responses to BCUC IR1 1.1 and BCOAPO IR1 3.2, 3.3, and 12.2.

Further, FortisBC's rationale for not proposing a discrete traditional cost-of-service application is already discussed in the response to BCUC Supplemental IR 8:

> … 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.

FortisBC is not aware of any regulator that has determined that the traditional pure cost-of-service regulation is a preferable alternative to incentive regulation for encouraging investor-owned utilities to address the energy transition.

12.5 Considering the wide acceptance of Cost-of-Service for purposes of setting rates in BC and other jurisdictions across North America, please elaborate on the additional advantages of Cost of Service, other than the two identified by FortisBC of: i) being well known; and ii) relatively simple.

Response:

While FortisBC agrees that cost-of-service is a widely accepted rate-setting approach, as discussed in Section B2.3.1 and Appendix B2-2 to the Application, many Canadian utilities are currently operating under some form of incentive-based multi-year rate frameworks.

Further, the preamble to this IR refers to the report authored by Dr. Weisman in BC Hydro's 2020-2021 Revenue Requirement Application. In this report, Dr. Weisman notes that the labels of PBR and COS regulation (COSR) can sometimes be misleading and that these regulatory regimes should be viewed as part of a continuum:

> Whereas COSR is frequently treated in the literature as a discrete alternative to PBR, these two types of regulatory regimes are best understood in terms of lying along a continuum based on the strengths of the incentives for efficient performance.

FortisBC agrees and notes that a review of the advantages and disadvantages of the cost-of-service model and incentive regulation depends on the specific placing of a plan in this continuum. In other words, while the review of literature often focuses on the pros and cons of a pure traditional cost-of-service model versus pure incentive regulation, in practice, the differences between approved plans are usually much smaller.

FortisBC's proposed Rate Framework has many similarities with the cost-of-service model. FortisBC discussed this at the November 2023 workshop and presented on the differences between a pure cost-of-service approach, performance-based rate-making approach, and FortisBC's hybrid approach (please refer to Appendix B2-3 to the Application for the workshop presentation). In both the Current MRP and the proposed Rate Framework, the majority of the revenue requirement items are determined by forecast (i.e., a cost-of-service approach), with only FEI's and FBC's O&M (and FEI's Growth capital) subject to formula (and even in this case, some O&M items such as Clean Growth Initiatives are forecast annually and subject to flow-through treatment). Further, and as explained in the responses to BCUC IR1 1.1 and BCOAPO IR1 3.2, FEI's and FBC's O&M and capital are being rebased as part of this Application, thus providing the BCUC and interveners the opportunity to scrutinize the O&M and capital prior to commencing the proposed three-year Rate Framework term.

FortisBC accordingly does not consider there to be any additional advantages to a traditional cost-of-service approach beyond those identified in the response to BCUC Panel Supplemental IR 8. Further, as stated in that IR response, FortisBC does not support a traditional cost-of-service approach to setting rates at this time.

12.6 Please elaborate on FortisBC's assertions with respect to the disadvantages of Cost of Service in terms of: i) being less flexible; and ii) not reducing the uncertainty or eliminating costs associated with the energy transition. Please also explain how other rate setting methodologies reduce the uncertainty or eliminate costs associated with the energy transition.

Response:

The lack of flexibility of a cost-of-service approach is due to the requirement to prepare an entirely new application over shorter intervals of time, thus increasing the regulatory burden, reducing efficiency, and diverting focus away from managing the energy transition.

In contrast, the proposed Rate Framework is more flexible because, once in place, the Rate Framework could be efficiently extended beyond three years, with only certain components being reviewed and reset at the end of the three years. Please refer to the responses to MoveUP IR1 1.1 and RCIA IR1 7.1 for further details.

The reduced efficiency was further explained in the response to BCUC Panel Supplemental IR 8:

> Under this [cost of service] 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.
>
> …
>
> 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.

With regard to BCOAPO's reference to "not reducing the uncertainty or eliminating costs associated with the energy transition", FortisBC stated in the response to BCUC Panel Supplemental IR 8 (page 38, Lines 19-20): "The disadvantages of this alternative [the proposed Rate Framework], <u>which are common to all the alternatives</u>, are that it does not reduce the uncertainty or eliminate costs associated with the energy transition." [Emphasis added]

12.7 Please provide FortisBC's pros and cons of the following alternative to its proposal in this Application of extending the current MRP to set rates for 2025 along with the filing a Cost-of-Service Rebasing Application to set rates for 2026 and 2027.

<u>Response:</u>

The alternative suggested by BCOAPO in this question is a combination of Options 1 and 2 from the response to BCUC Panel Supplemental IR 8. Please refer to that response for a discussion of the pros and cons.

FortisBC is not amenable to the alternative proposed in the question. As explained in the response to BCUC Panel Supplemental IR 8, even an extension of the Current MRP for one year requires a certain level of regulatory effort and process, as FortisBC's regular capital expenditures (other than FEI's Growth capital which is subject to formula) would still need to be reviewed and approved for 2025, as well as the forecast items that are typically reviewed through the Annual Review process.

Further, and as explained in the response to BCUC IR1 1.1, there is no need to undertake a traditional cost-of-service rebasing application, as the same level of scrutiny can be applied to the costs presented in this Rate Framework Application. FortisBC has provided its historical actual O&M and capital expenditures and has provided detailed explanations for the proposed 2024 Base O&M and the three-year forecasts of regular capital expenditures in this Application.

12.8 Please provide an estimation of when (year and month) FortisBC could prepare and file a Cost-of-Service Rebasing Application for FEI and FBC to set rates for 2026 and 2027.

Response:

As explained in the response to BCOAPO IR1 12.7, FortisBC is not amenable to this approach and, therefore, respectfully declines to provide an estimated timeline.