

Sarah Walsh Director, Regulatory Affairs

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October 7, 2024

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

Attention: Patrick Wruck, Commission Secretary

Dear Patrick Wruck:

#### Re: FortisBC Energy Inc. (FEI)

#### Application for Approval to Sell the Prince George Customer Service Centre Office Property (Application)

FEI hereby applies, pursuant to section 52 of the *Utilities Commission Act* (UCA), for approval from the British Columbia Utilities Commission (BCUC) to sell the land and building located at 1190 2<sup>nd</sup> Avenue in Prince George, BC, which has been used as FEI's Prince George Customer Service Centre Office property (PGO Property). FEI also applies for approval to capture the net book value (NBV) of the PGO Property, less the net proceeds (including the cost of the disposition and taxes payable) from the sale of the land and building, in a deferral account for recovery in rates.

FEI (then Terasen Gas Inc.) acquired the PGO Property in 2010 for use as a customer service centre as part of the Customer Care Enhancement (CCE) Project. FEI's application for a Certificate of Public Convenience and Necessity (CPCN) for the CCE Project was approved by the BCUC pursuant to Orders G-23-10 and C-1-10 (CCE Decision).

However, the environment around the PGO Property location has deteriorated over the past years and the crime and social disorganization in the area has become a risk to the facility and to the mental and physical well-being of FEI employees, as well as to FEI's ability to continue to provide quality service to customers. FEI therefore determined that it was necessary to relocate the customer service centre to ensure that FEI could continue to provide quality customer service in a Prince George location without compromising the safety and health of its employees or the security of its facility.

Following a search for a suitable alternate location in Prince George, FEI entered into a lease for a new customer service centre facility in September 2022, and moved into the new facility



in March 2024. Further, FEI subsequently entered into an agreement with the Carrier Sekani Family Services Society (CSFS) for the sale and purchase of the PGO Property at the appraised value of (Purchase Agreement). The Purchase Agreement is conditional upon BCUC approval of this Application. A copy of the Purchase Agreement is filed confidentially as Appendix A to the Application. A copy of the appraisal of the PGO Property is filed confidentially as Appendix B to the Application.

In determining whether to approve the disposition, FEI submits that the BCUC's public interest assessment should centre on whether the sale results in harm to FEI's service to customers.<sup>1</sup> The disposition of the PGO Property will result in no harm to customers, as FEI will be able to maintain its high quality of customer service from the new Prince George location, from which it has been operating since March 2024. Given the need to relocate the customer service centre and the fact that FEI has already moved its customer service centre to a new location that is safer and more secure, FEI submits that the disposition is in the public interest and should be approved.

If the BCUC approves the sale, FEI proposes to capture the NBV of the PGO Property less the net proceeds (including the cost of disposition and taxes payable) from the proceeds of the sale (land and building), estimated to be approximately **Example**, in a deferral account for recovery in rates. To implement this approach, FEI requests approval, pursuant to sections 59 to 61 of the UCA, to establish a non-rate base deferral account, attracting a weighted average cost of capital (WACC) return, to record the NBV of the PGO Property at the time of the sale, less the net proceeds from the sale, until the balance of the deferral account is transferred to rate base on January 1, 2026. Once transferred to rate base in 2026, FEI proposes to amortize the balance in the deferral account over one year.

FEI respectfully requests that the BCUC issue its decision on this Application on or before December 31, 2024, so that there is adequate time, if approved, to complete the conditions precedent and meet the completion date of February 20, 2025 stipulated in the Purchase Agreement. FEI has filed a draft order sought as Appendix D to the Application

#### **Request for Confidentiality**

The public version of this Application has been redacted to remove commercially sensitive details about the valuation and sale price of the property. Pursuant to Section 18 of the BCUC's Rules of Practice and Procedure regarding confidential documents as set out in Order G-72-23, FEI requests that the commercially sensitive details of the Application and Appendices be held confidential by the BCUC at this time. The purchase and sale information and the contracts resulting from negotiations should be confidential as they contain sensitive market information, the release of which could adversely affect FEI's negotiations relating to the sale of the PGO Property. If approval of this Application is granted and upon completion and closing of all transactions, the confidential portions of the Application and Appendices may be made public.

#### Background of the Prince George Customer Service Centre Office Property

The PGO Property is located in the downtown core of Prince George on 1190 2<sup>nd</sup> Avenue, as shown in Figure 1 below, bordered by 2<sup>nd</sup> Avenue and Dominion Street as well as the service

<sup>&</sup>lt;sup>1</sup> ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board), 2006 SCC 4 at 168 and 181-182. The decision is available online at the following: <u>https://decisions.scc-csc.ca/scc-csc/scc-csc/en/17/1/document.do</u>.



lane to the east of the property. The property has two stories with approximately 23,000 square feet and includes 40 on-site parking stalls.

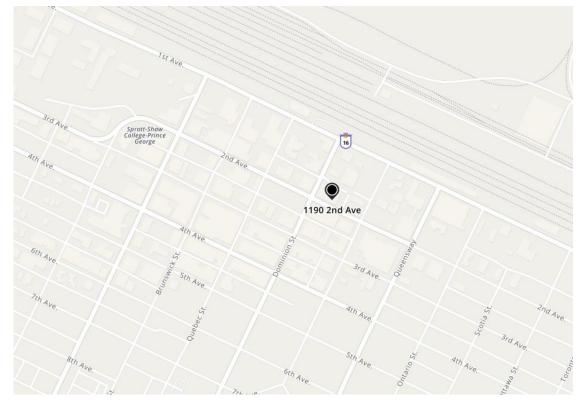


Figure 1: Location of Prince George Customer Service Centre Office Property

FEI acquired the PGO Property as part of the CCE Project approved by the CCE Decision in 2010. The CCE Project included establishing two customer service call centres, one in the Lower Mainland and one in Prince George, to insource FEI's customer service function and provide redundancy in the event of a disaster affecting either location. At the time of the CCE Project CPCN application, the Prince George customer service centre was estimated to cost approximately \$7.8 million, which included the acquisition of the land and existing building as well as the capital improvement work that would be required to make the building suitable for use as a customer service call centre.<sup>2</sup>

FEI purchased the site and existing building located on 1190 2<sup>nd</sup> Avenue, Prince George on June 28, 2010 for \$2.331 million. Capital improvements and resiliency upgrades to the facility, which were required to convert the existing building into a service centre, were completed in 2011 for \$5.630 million. The work included substantial upgrades to the mechanical system with improvements to the heating, ventilation and air conditioning (HVAC) equipment and high efficiency boiler equipment, upgrades to the electrical and lighting system, and retrofitting the building envelope systems. The work also included a new Uninterrupted Power Supply (UPS) and generator system added to the building to ensure reliability and resiliency of the service centre. All of these capital improvements and upgrades were necessary to meet FEI's intended use as a customer service centre.

<sup>&</sup>lt;sup>2</sup> CCE Decision, p. 54.



The total cost of the PGO Property was \$7.961 million, which was approximately 2.1 percent higher than the original estimate of \$7.800 million. The Prince George customer service contact centre commenced operation immediately in September 2011 after all construction and improvement work was completed and has been FEI's customer service contact centre for nearly 13 years.

## The Prince George Customer Service Centre was Moved to a New Location in Prince George due to Area Crime and to Ensure the Safety of FEI's Employees

Over the past seven years, there has been an increase in crime and social disorganization at and around the PGO Property. In response, FEI implemented security enhancements to the property to improve the environment around the property and engaged with multiple community organizations including the City of Prince George and the local RCMP.

During those discussions, FEI related challenges with the deteriorating socioeconomic environment and sought to understand the opportunities to improve the situation. A security assessment and liaison with the local RCMP was conducted in late May 2019 which included a review of historical security incident reports, facilities service requests, and interviews with employees. The results of the security assessment revealed the following activities were regularly observed at the customer service centre's main entrance or near the property:

- Drug consumption;
- Used drug and other paraphernalia left on site;
- Clear signs of public urination and smearing of feces in the entranceway;
- Vandalism and property defacement; and
- Persistent loitering.

Specifically, over a five-month period from January 1 to May 27, 2019, employees at the PGO Property witnessed or experienced the following incidents:

- 95 nuisance issues (loitering/trespassing/removal of persons);
- 18 reports involving police file numbers;
- 1 physical employee threat from a member of the public;
- 1 suspicious package left on-site;
- 3 break & enters (including 1 break-in to a vehicle); and
- 2 vandalism events.

The subsequent Security Risk Assessment resulted in 10 recommendations to enhance employee safety and property integrity. These included reception area double-doors, intercoms, security cameras, an on-premise security guard, and personal alarm devices.

Despite these additional security measures and actions taken, crime and social disorganization continued, and employees continued to experience negative and/or unsafe interactions around the office, particularly while on break and when leaving/entering the office from the overflow parking area. The situation became so severe that routine activities, such as taking a walk on a break, going out for lunch, or visiting their vehicles (particularly those in the overflow parking lot), raised significant safety issues, negatively impacting



employee mental and physical well-being as the site has continued to experience vandalism and break and enters, and staff have continued to witness crimes, including serious assaults and major medical incidents. These experiences are not unique to FEI at the PGO Property; other business owners in Prince George's downtown core where the PGO Property is located have experienced similar issues.<sup>3</sup>

FEI is committed to the safety and well-being of its employees and to the security of its facilities. FEI explored security enhancements and safety measures, implementing all reasonable means of improving the situation; however, there was no material improvement as the situation in downtown Prince George continued to deteriorate. As a result, FEI determined that relocating the Prince George Customer Service Centre was the most reasonable and appropriate option. As discussed above, FEI entered into a lease for a new building in Prince George and in March 2024 relocated the customer service centre to that new location. The employee response to the new location has been positive.

#### FEI Has Negotiated the Sale of the PGO Property At Fair Market Value

In order to determine a reasonable asking price for the PGO Property, FEI engaged A-Tech Appraisals to complete an appraisal of the building and property in January 2024. The appraisal valued the PGO Property at **Exercise**. The appraisal is filed confidentially as Appendix B to the Application.

Based on discussions with a real estate broker regarding selling the facility and property, FEI was concerned that there would be little interest given the building's size and location within a troubled area of the city. FEI anticipated that either the building would require retrofitting into a multi-tenant space, or a substantial price discount would need to be offered.

However, prior to placing the property on the market, two community groups expressed interest in purchasing the PGO Property: BC Housing and the CSFS. Both organizations provide support to vulnerable people and were considered to be a good fit for the area as well as the building.

FEI received Offers to Purchase from both organizations. While both are a good fit for the area and building, FEI chose to finalize the Purchase Agreement with CSFS as it made the highest offer at the second structure, matching the appraised value. The completion date stipulated in the Purchase Agreement is the later of February 20, 2025 or 20 business days after the removal of conditions in the Purchase Agreement, which is filed as Confidential Appendix A to the Application.

#### The Disposition of the PGO Property is Necessary and in the Public Interest

In determining whether to approve the disposition, FEI submits that the BCUC's public interest assessment should centre on whether the sale results in harm to FEI's service to its customers. In *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)*, the Court discussed a property disposition in the context of a similar provision in the Alberta legislation,

<sup>&</sup>lt;sup>3</sup> Prince George Citizen, Downtown crime wave worries Prince George business owner (September 20, 2023): <u>https://www.princegeorgecitizen.com/local-news/downtown-crime-wave-worries-prince-george-business-owner-7569995?utm\_source=Email\_Share&utm\_medium=Email\_Share&utm\_campaign=Email\_Share and Drugs and crime are downtown's costly new reality (May 30, 2024): <u>https://www.princegeorgecitizen.com/local-news/drugs-and-crime-are-downtowns-costly-new-reality-8777657</u></u>



stating: "The provision can only be meant to ensure that the asset in question is indeed nonutility, so that its loss does not impair the utility function or quality."<sup>4</sup>

As discussed above, FEI's customer service centre has already been moved to another location in Prince George and has been operational since March 2024. As such, the sale will not harm FEI's service to its customers. The need for a customer service centre in Prince George, which was established in the CCE Decision in 2010, remains, as it is required for FEI's operations and to provide quality service to customers. However, as discussed above, the move of the customer service centre and the sale of the PGO Property is required due to the ongoing deterioration of the environment around the PGO Property location and the crime and social disorganization in the area which represented a risk to the mental and physical well-being of FEI employees and to the property. Relocating the customer service centre was necessary to ensure that FEI could continue to provide quality customer service in a Prince George location without compromising the safety and health of its employees. As such, the disposition will not result in any harm to customers, and FEI submits that the disposition is in the public interest and should be approved.

#### Proposed Treatment for the Sale of the PGO Property

FEI proposes to capture the net book value of the PGO Property less the net proceeds (including the cost of disposal and taxes payable) from the sale of the PGO Property (land and building) in a deferral account for recovery from customers in rates in 2026. Table 1 below provides a summary of the net amount of estimated to be captured in the deferral account, on February 28, 2025.

<sup>&</sup>lt;sup>4</sup> ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board), 2006 SCC 4 at 168 and 181-182. The decision is available online at the following: <u>https://decisions.scc-csc.ca/scc-csc/scc-csc/en/17/1/document.do</u>



#### Table 1: Estimated Net Deferred Gain/(Loss) on Sale of PGO Property

FORTIS BC<sup>--</sup>

FEI does not anticipate that the actual costs will vary significantly from the estimate shown in Table 1 above.

FEI proposes to establish a non-rate base deferral account, titled the Prince George Customer Service Centre Disposition deferral account, attracting WACC, to record the net book value of the PGO Property at the time of the sale less the net proceeds of the sale. The balance in the non-rate base deferral account (estimated to be ) would then be transferred to rate base on January 1, 2026. Once transferred to rate base in 2026, FEI proposes to amortize the balance in the deferral account over one year. Please refer to Appendix C which addresses the considerations identified in the BCUC's Regulatory Account Filing Checklist as they pertain to the proposed new deferral account.

FEI will report on the details of the balance in the Prince George Customer Service Centre Disposition deferral account (i.e., the actual amount recorded in the deferral account) in FEI's annual rate setting proceeding subsequent to a decision on this Application and the final sale and closing of the PGO Property transaction.

#### Summary of Approvals Sought and Proposed Regulatory Process

FEI is seeking the following approvals in this Application:



- 1. Pursuant to section 52 of the UCA, approval to dispose of the Prince George Customer Service Centre Property on 1190 2<sup>nd</sup> Avenue, Prince George.
- Pursuant to sections 59 to 61 of the UCA, approval to establish a non-rate base deferral account (Prince George Customer Service Centre Disposition deferral account) attracting WACC, to capture the net proceeds of the sale, less the net book value of the PGO Property. The balance in this account will be transferred to rate base on January 1, 2026 and will be amortized over one year commencing January 1, 2026.

A draft form of order sought is provided in Appendix D.

FEI submits that a minimal, if any, public hearing process is required for the review of the Application. First, as explained in the Application above, the sale of the PGO Property will not have any impact on FEI's service to customers. Second, FEI has obtained an independent fair market value appraisal of the PGO Property and negotiated a sale price that is consistent with this appraisal. Third, FEI requires a BCUC decision on or before December 31, 2024, in order to, if approved, meet the timing for the conditions precedent stipulated in the Purchase Agreement.

For regulatory efficiency and in consideration of the limited scope and impact of this Application, FEI proposes that the BCUC limit participation by interveners to letters of comment. FEI proposes the following regulatory timetable for review of the Application.

Action	Date (2024)
BCUC Information Request (IR) No. 1	Tuesday, October 29
FEI Response to IR No. 1	Wednesday, November 20
Deadline for Letters of Comments	Friday, November 22
FEI Responses to Letters of Comment	Friday, November 29

#### Table 2: Proposed Regulatory Timetable

#### Conclusion

FEI submits that the proposed sale of the PGO Property is in the public interest and should be approved. The sale will have no impact on FEI's service to customers as the customer service centre was relocated to a new location in Prince George in March 2024. The move of the customer service centre and the sale of the PGO Property is necessary due to the ongoing deterioration of the environment around the PGO Property location and the crime and social disorganization in the area which represented a risk to the physical and mental well-being of FEI's employees and to the facility, as well as to FEI's ability to continue to provide quality service to customers. FEI has negotiated a sale price reflecting the fair market value of the PGO Property. The proposed Prince George Customer Service Centre Disposition deferral account will enable FEI to recover the net book value of the PGO Property, less the net proceeds, from customers in a timely manner.



If you require further information or have any questions regarding this submission, please contact Becky Richardson at (604) 592-7744.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Sarah Walsh

Attachments

cc (email only): Registered Interveners to FEI's Annual Review for 2024 Rates proceeding

Appendix A PURCHASE AGREEMENT

FILED CONFIDENTIALLY

### Appendix B APPRAISAL OF PGO PROPERTY

FILED CONFIDENTIALLY

# Appendix C DEFERRAL ACCOUNT FILING CHECKLIST

DEFERRAL ACCOUNT FILING CHECKLIST



ltem	Consideration	Prince George Customer Service Centre Disposition
Ι.	Indicate if the request is: (a) for a modification or a change in scope to an existing Commission approved regulatory account; or (b) to establish a new regulatory account.	FEI requests the establishment of one new deferral account to capture the net book value of the Prince George Customer Service Centre property (PGO Property) less the net proceeds (including the cost of disposition and taxes payable).
a)	If the request is for a modification or change in scope to an existing regulatory account, explain why the existing regulatory account is an appropriate account to use (specifically addressing the existing account's intended and approved purpose, mechanism for recovery, timeline for recovery and carrying costs).	N/A
b)	If the request is for approval of a new regulatory account, state the purpose of the regulatory account and explain its intended use.	The requested account will capture the net book value of the PGO Property less the net proceeds (including the cost of disposition and taxes payable).
II.	Propose a term (i.e. length of time) that the regulatory account should be approved for and explain why that term is appropriate.	The anticipated date of sale is the first quarter of 2025.
111.	Identify any alternate treatments that were considered, including an overview of what the accounting treatment would be in the absence of approval of the request to establish a regulatory account, and explain why these alternate treatments may not be appropriate.	In the absence of this deferral account, the sales proceeds and associated costs would be recorded in the individual components of the revenue requirement, i.e., disposal costs will be expensed to O&M or recorded in accumulated depreciation, taxes payable will be recorded as tax, and the proceeds less the remaining net book value will be recorded in accumulated depreciation, all of which would be subject to the Earnings Sharing Mechanism. The net proceeds on sale would therefore be shared 50/50 with customers. To be consistent with past practice, e.g., the Princeton Office Disposition, FEI proposes the net book value of the PGO Property less the net proceeds be captured in a deferral account.
IV a)	Address: whether, or to what extent, the item is outside of management's control;	While the decision to sell is within FEI's control, based on the circumstances described in the Application, the deteriorating socioeconomic environment was very challenging and therefore was outside of management's control. Despite FEI's best efforts to enhance the safety of employees by implementing significant security measures on site, the situation became severe and was negatively impacting employees' mental and physical well-being, which in turn can affect the quality of service provided to customers. FEI determined that moving the contact centre to another location in Prince George and selling the PGO Property is the best course of action.



ltem	Consideration	Prince George Customer Service Centre Disposition
b)	the degree of forecast uncertainty associated with the item;	FEI does not anticipate that actual costs will vary significantly from the estimates provided in the Application. Please refer to the <i>Proposed Treatment for the Sale of the PGO Property</i> section of the Application.
c)	the materiality of the costs	FEI estimates the net book value of the PGO Property less the net proceeds on sale to be approximately
d)	any impact on intergenerational equity	See the response to item IX.
V.	Classify the regulatory account as either: (a) forecast variance account; (b) rate smoothing account; (c) benefit matching account; (d) retroactive expense account; or (e) other.	FEI classifies the Prince George Customer Service Centre Disposition deferral account as Other as it relates to a one- off sale of property.
VI.	Identify if the regulatory account is a cash or non-cash account.	The Prince George Customer Service Centre Disposition deferral account would be a cash account.
VII.	Specify what additions to the regulatory account are being requested (i.e. type and amount of additions), including whether the account is intended to capture additions for a specific period of time or on an ongoing basis.	The addition to the account will be the net book value of the PGO Property less the net proceeds (including the cost of disposition and taxes payable) on the sale of the PGO Property. Please refer to the <i>Proposed Treatment for the Sale of the PGO Property</i> section of the Application.
VIII.	Propose a mechanism for recovery (e.g. how the balance in the regulatory account will be recovered or refunded to ratepayers) and explain why it is appropriate.	The net book value of the PGO Property less the net proceeds on sale will be incorporated into revenue requirements by way of amortization expense.
IX.	Propose a timeline for recovery (e.g. the period over which the regulatory account balance is either collected or refunded; also referred to as the amortization period) and explain why it is appropriate.	FEI proposes to record the net book value of the PGO Property less the net proceeds on the sale in the Prince George Customer Service Centre Disposition deferral account in 2025. The balance in the non-rate base deferral account would then be transferred to rate base on January 1, 2026, and amortized over one year in 2026.
Х.	Propose a carrying cost for the balance in the regulatory account and explain why it is appropriate.	FEI is requesting carrying costs based on its weighted average cost of capital (WACC). Non-rate base deferral accounts are generally financed using WACC and rate base deferral accounts are included in rate base and are therefore implicitly financed using WACC.
XI.	Outline a recommended regulatory process for the Commission's review of the application.	The proposed deferral account can be reviewed as part of this Application.

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Appendix D DRAFT ORDER



Suite 410, 900 Howe Street Vancouver, BC Canada V6Z 2N3 bcuc.com P: 604.660.4700TF: 1.800.663.1385

#### ORDER NUMBER G-<mark>xx-xx</mark>

## IN THE MATTER OF the Utilities Commission Act, RSBC 1996, Chapter 473

and

FortisBC Energy Inc. Application for Approval to Sell the Prince George Customer Service Centre Office Property

#### **BEFORE:**

[X. X. Last Name, Panel Chair] [X. X. Last Name, Commissioner] [X. X. Last Name, Commissioner]

on [Month Day, Year]

#### ORDER

#### WHEREAS:

- A. On October 7, 2024, FortisBC Energy Inc. (FEI) filed an application (Application) with the British Columbia Utilities Commission (BCUC), pursuant to section 52 of the Utilities Commission Act (UCA), seeking approval to sell the land and building located at 1190 2<sup>nd</sup> Avenue in Prince George, BC, which has been used as FEI's Prince George Customer Service Centre Office property (PGO Property), to the Carrier Sekani Family Services Society (CSFS) (Application);
- B. In the Application, FEI also requests approval, pursuant to sections 59 to 61 of the UCA, to establish a non-rate base deferral account attracting a weighted average cost of capital return, titled the Prince George Customer Service Centre Disposition deferral account, to record the net book value of the PGO Property at the time of the sale, less the net proceeds from the sale. FEI proposes to transfer the balance of the non-rate base deferral account to rate base on January 1, 2026, and seeks approval to amortize this deferral account over one year, commencing January 1, 2026;
- C. Pursuant to Section 18 of the BCUC's Rules of Practice and Procedure, FEI requests that the redacted portions of the Application and confidential Appendices be held confidential as they contain commercially sensitive information related to the purchase and sale, property valuation, and the contracts resulting from negotiations and that this information be held confidential until completion of the sale, as the disclosure of this information could adversely affect negotiations relating to the sale of the PGO Property;
- D. In the Application, FEI states it has relocated its Prince George Customer Service Centre to another property to address ongoing employee safety and security concerns;
- E. By Order G-xx-24 dated [date], 2024, the BCUC established a regulatory timetable for the review of the Application; and

F. The BCUC has reviewed the Application and considers that approval is warranted.

NOW THEREFORE, the BCUC orders as follows:

- 1. Pursuant to section 52 of the UCA, FEI is approved to sell the PGO Property to the Carrier Sekani Family Services Society.
- Pursuant to sections 59 to 61 of the UCA, FEI is approved to establish the Prince George Customer Service Centre Disposition non-rate base deferral account, financed at FEI's WACC, to record the net proceeds of the sale, less the net book value of the PGO Property. FEI is approved to transfer the balance in the Prince George Customer Service Centre Disposition deferral account to a rate base deferral account on January 1, 2026 and is approved to amortize that account over one year, commencing January 1, 2026.
- 3. FEI's request to keep the redacted portions of the Application and evidence related to the purchase and sale information, and the contracts resulting from negotiations, confidential is accepted. FEI is directed to notify the BCUC of the completion and closing of all transactions related to the sale of the PGO Property within 15 days of the closing of the last transaction and must make the confidential portions of the Application and evidence public at that time.
- 4. FEI is directed to provide details of the final balance in the Prince George Customer Service Centre Disposition deferral account in the rate setting process for 2026 delivery rates.

**DATED** at the City of Vancouver, in the Province of British Columbia, this [XXth] day of (Month Year).

BY ORDER

(X. X. last name) Commissioner