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November 5, 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 BC Old Age Pensioners' Organization, Council of Senior Citizens' Organizations of BC, Active Support Against Poverty, Disability Alliance BC, Tenants Resource and Advisory Centre, and Together Against Poverty Society ("BCOAPO" or "BCOAPO et al.") Information Request (IR) No. 2

On April 8, 2024, FortisBC filed the Application referenced above. In accordance with the amended regulatory timetable established in BCUC Order G-255-24 for the review of the Application, FortisBC respectfully submits the attached response to BCOAPO IR No. 2.

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

13.0 Reference: Rate Setting Framework Policy Evaluation

Exhibit B-7, BCOAPO IRs 1.1 and 2.1

Topic: Appropriateness of Productivity as the Focus of the Rate Setting Framework

Preamble: FortisBC states:

> "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." **(BCOAPO IR 1.1)**

> "The need to depart from "business as usual"…the energy transition will require both FEI and FBC to adapt and evolve to the changing energy landscape." **(BCOAPO IR 2.1)**

13.1 Please provide FortisBC's views as to the appropriateness of a Rate Setting Framework with a continued focus on "productivity" as its central driving force - considering that the business environment in which FortisBC is now operating is "transformational" in nature. Please explain why a change in the central driving force of FortisBC's business model towards a transformational change is not the opportune time to revisit the appropriateness of its Rate Setting Framework.

<u>Response:</u>

The premise of the question is incorrect.

Similar to BCOAPO IR1 1.1, this question appears to be based on the incorrect assertion that the proposed Rate Framework was first established for the 2014-2019 test years and therefore, is primarily focused on productivity. This is not accurate. FortisBC established new rate-setting frameworks subsequent to 2019 with the approval of the 2020-2024 MRPs (Current MRPs). FortisBC is now applying for a new rate-setting framework for 2025 to 2027. As further explained in the response to BCOAPO IR1 1.1, while the 2014-2019 PBR Plans for FEI and FBC were established with a primary focus on productivity, the Current MRPs and the proposed 2025-2027 Rate Framework were/are not.

When applying for the Current MRPs, FortisBC explained that the focus of the plans had shifted due to changes in the operating environment, including the following key influences:[1]

- Policy direction and mandate from all levels of government towards decarbonization;

[1] 2020-2024 MRP Application, pp. A-1 and A-2.

- Changing customer expectations with respect to service, engagement channels and keeping pace with other service providers;
- Increased need for engagement with stakeholders and Indigenous communities as a result of stakeholder activism and provincial and federal policy change;
- Increased need for maintenance and investment in aging infrastructure to continue to provide safe, reliable services along with increased need to provide for physical and cyber security; and
- Increased need for innovation and the adoption of new technologies to improve operations, enhance customer service levels and meet decarbonization policy objectives.

As a result of the changing operating environment, FortisBC described the key themes of the Current MRPs as follows:[2]

- A five-year rate plan that includes incentive for the Utilities to perform. The five-year term promotes regulatory efficiency, sustained utility focus on managing the business, and flexibility to address emerging issues.
- Stable levels of O&M funding that are sufficient to address emerging pressures. This will provide certainty to support longer-term plans and initiatives, and encourage utility management to focus on the efficient allocation of resources within the business over time.
- A flexible approach that allows FortisBC to innovate and adapt to the changing environment. This is key to managing the transition to a lower carbon economy, while achieving a balance between affordability and lower emissions.
- Incentive to invest in the future through load growth opportunities. This will help offset the costs associated with climate policy and meeting emissions reduction targets as well as meeting growing demand for investment in system integrity and reliability.

As demonstrated above, FortisBC was already considering changes in the operating environment when it proposed the Current MRPs. While a productivity focus was maintained in the approved Current MRPs through the inclusion of the X-Factors for FEI and FBC, this was not the over-arching consideration when designing the Current MRPs.

The proposed 2025-2027 Rate Framework includes elements necessary to continue to respond to the changing external environment, particularly the policy changes regarding the energy transition. Many of these elements were included in the Current MRPs, as FortisBC was already working to respond to the changing external environment. While both FEI and FBC are proposing to include X-Factors in their formula O&M (and Growth capital for FEI), as this represents a continued focus on the importance of cost containment, achieving productivity improvements is

[2] 2020-2024 MRP Application, p. A-2.

not the primary focus of the Rate Framework. The key considerations of the proposed Rate Framework, as described in Section B3.2 of the Application, include:

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.

14.0 Reference: Rate Setting Framework Policy Evaluation

Exhibit B-7, BCOAPO IRs 2.1 and 2.2

Topic: Reconciling FortisBC's Differing Assertions as to the Impact of the Energy Transition

Preamble: FortisBC states:

> "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." **(BCOAPO IR 2.1)**

> "The energy transition and related policies are having a significant impact on FortisBC's operating environment." **(BCOAPO IR 2.2)**

14.1 Please reconcile FortisBC's position that the energy transition is "expected to unfold over decades" and will not unfold in the upcoming three years with its position that the energy transition is "already having a significant impact" on its operating environment.

<u>Response:</u>

There is no discrepancy in FortisBC's statements. The energy transition is unfolding and will continue to unfold over the next three years <u>and beyond</u>. As explained in the response to BCOAPO IR2 13.1, FortisBC had already been recognizing the impacts of decarbonization policies when it proposed the Current MRPs, which is why the Current MRPs included such features as the Clean Growth Innovation Fund (for FEI) and flow-through treatment for Clean Growth Initiatives.

The Rate Framework has been designed with the continuing impacts of the energy transition in mind, and the Rate Framework is flexible enough to respond to energy transition-related and other impacts during the proposed three-year term. Please also refer to the response to BCUC Panel Supplemental IR 1 (Exhibit B-2).

15.0 Reference: Ex-Post Evaluation of the Current Rate Setting Framework Exhibit B-7, BCOAPO IRs 3.1, 3.3 and 15.1d

Topic: Reasons for Reverting from the MRP Rate Setting Framework

Preamble: FortisBC states:

"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 Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. - Fort Nelson (FEFN) between 2010 and 2013." **(BCOAPO IR 3.1)**

"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..." **(BCOAPO IR 3.3)**

"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." **(BCOAPO IR 3.3)**

15.1 Please confirm, or otherwise explain, that the impact of the energy transition on the operations of FortisBC is likely to be many times more impactful to FortisBC compared to the impact of (i) any past merger and acquisitions and (ii) the transition to IFRS or US GAAP.

<u>Response:</u>

Events such as mergers and acquisitions and accounting changes can have a significant, broad, and measurable impact on a utility's business at a point in time. Therefore, for these types of events, a cost-of-service application can be beneficial to establish a new baseline for the utility's costs that reflects the impact of the event.

In contrast, the impact of the energy transition on FEI's and FBC's operations is generally gradual, uneven, uncertain, and spread over several decades. The energy transition therefore has not given rise to the need for a cost-of-service application to set a new cost base line. Rather, what is needed is a flexible rate-setting plan that allows the utilities to respond to the impacts as they unfold and can incorporate the impacts as they occur from year to year. Therefore, as discussed in the response to BCUC Panel Supplemental IR 1, FortisBC has designed the Current MRP and the proposed Rate Framework to respond to the impacts of the energy transition and has used the Annual Review process to incorporate the impacts of the energy transition into rates each year as they occur, providing the needed flexibility to deal with policy and operational changes and uncertainties associated with the energy transition.

15.2 Considering FortisBC's response to BCOAPO IR 15.1, please elaborate on how energy transition-related strategies, activities and costs can receive effective regulatory oversight under the constraints of the streamlined annual rate review process that currently exists. Please note that the question is requesting FortisBC's views on the "effectiveness" of the regulatory oversight of the BCUC during the energy transition and not "efficiency" of the regulatory process.

Response:

FortisBC reiterates that many energy transition-related strategies, activities and costs will be reviewed in other important applications, such as long-term resource plans, demand-side management (DSM) expenditure plans, rate design applications, energy supply contracts, and CPCN applications. With this in mind, the Annual Review process is well suited to effectively review the impacts of the energy transition and FEI's and FBC's activities in response. For instance, consistent with the Annual Review process during the Current MRP term, FEI and FBC will provide annual forecasts of Clean Growth Initiatives, and the BCUC and interveners will have the opportunity to review variances between forecast/approved and actual spending and to investigate the reasons for forecast increases and variances. Similarly, FEI will report on the funding being provided through the Clean Growth Innovation Fund, and, if approved, FEI will commence reporting annually on energy transition related informational indicators.

The Annual Review process provides an opportunity each year for the BCUC and interveners to review the Companies' proposed rate increases and to ask questions both written and orally. This is different than a typical cost of service application review process, where the utility typically applies for multiple years of rate increases in one application and there is thus a longer lag between regulatory review processes. While FortisBC considers the Annual Review process to be reasonably efficient despite the annual filings, the process still spans approximately five months from application filing to the issuance of a decision so as to enable a fulsome and effective regulatory review process.

FortisBC further explained how the Annual Review process will continue to provide effective regulatory oversight in the response to BCSEA IR1 1.3. FortisBC has copied some of that response here for ease of reference:

The Annual Review process will continue to be an important and regular touch point for the Companies, the BCUC and interveners to provide transparency and review topics related to rate-setting, service quality and the energy transition. More specifically, the BCUC and interveners will still have the ability to annually review and examine aspects of FEI's and FBC's revenue requirement that relate to the energy transition, such as the annual forecasts of Clean Growth Initiatives. This provides the necessary flexibility to expand these initiatives and consider their rate impacts in a timely manner.

In addition, as discussed in the response to BCUC Panel Supplemental IR 1, many of the energy transition related activities such as DSM expenditures and renewable gas supply contracts are already reviewed in separate regulatory proceedings. This approach would not change regardless of whether FortisBC is operating under a multi-year rate framework or a cost-of-service rate-setting approach.

15.3 Considering FortisBC's response to BCOAPO IR 15.1, please explain if consideration of the effectiveness of regulatory oversight and the associated opportunity to engage with intervenors (as representatives of customers groups and other stakeholder advocacy organizations) in regulatory proceedings - is a more important consideration during the energy transition - than FortisBC's apparent view that a more efficient regulatory process allows it more time to work on the energy transition operationally.

Response:

Please refer to the response to BCOAPO IR2 15.2.

16.0 Reference: Ex-Post Evaluation of the Current Rate Setting Framework Exhibit B-7, BCOAPO IR 5.1

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

Preamble: FortisBC states:

> "...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….
>
> 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….
>
> 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." **(BCOAPO IR 5.1)**

16.1 Please confirm, or otherwise explain, whether FortisBC's position is that in the absence of the current Rate Setting Framework and formula O&M expenses, FortisBC is entitled to all operating cost pressures including: i) O&M that is at the level of last year plus inflation; ii) customer growth; and iii) non-formula O&M increases. The question seeks to understand how the evaluation of FortisBC's performance in controlling actual O&M expenses (both formula and non-formula O&M) can be undertaken by using the very same formula and non-formula components of the current Rate Setting Framework that are used to set O&M – without this evaluation essentially resulting in circular reasoning or an entitlement mentality to all O&M cost pressures.

<u>Response:</u>

Not confirmed. FortisBC has set out detailed evidence to justify the plan components and the level of expenditures necessary for the test period (2025 to 2027). FortisBC expects that the BCUC's decision on this Application, which includes a Base O&M per customer, a net inflation factor, and the treatment of certain O&M items as flow-through, among other elements, will be made in consideration of the Companies' evidence in this proceeding, including the evidence of historical

O&M spending, the evidence of the Companies' incremental funding needs for the Rate Framework term, and the supporting studies underpinning elements such as the X-Factor.

In the response to BCOAPO IR1 5.1 (referenced in the preamble to this question), FortisBC provided evidence to demonstrate that the Companies' total formula UCOM grew at a rate that was less than inflation during the Current MRP term. This is an indication of strong cost containment performance during the Current MRP term. The proposed productivity improvement factor (X-Factor) that is built into the formulaic approach to O&M inherently contains annual O&M spending to a level lower than inflation. This requires the Companies to continue to look for savings opportunities while maintaining or improving the service quality to its customers as it is only entitled to a unit cost amount that is <u>less</u> than the previous year due to the X-Factor before the consideration of inflation and growth.

FortisBC also notes that, in addition to the embedded productivity improvement factor, it was able to achieve further savings (i.e., incremental to the embedded productivity improvement factor), and these savings were shared with customers. FortisBC considers these results during the Current MRP term to demonstrate that the Current MRP worked effectively at containing costs and generating savings for customers.

However, as discussed above, the proposed Rate Framework is justified on its own merits, including evidence of FEI's and FBC's current and expected funding needs and operating environments over the 2025 to 2027 test period. The evidence in the Application and IR responses separately demonstrate that: (i) the Current MRP operated effectively and as intended; and (ii) the proposed Rate Framework provides the necessary funding, incentives, and flexibility for the Companies to provide reliable service for the upcoming three years, while managing through the ongoing challenges presented by the energy transition and other external influences, including the need to consider customer affordability.

16.2 Please clarify whether FortisBC's calculations of "Formula O&M" and "OCOM" in Table 1 (FEI) and Table 2 (FBC) in the response to BCOAPO IR 5.1, include non-formula O&M increases or not.

<u>Response:</u>

The calculations of Formula O&M and UCOM in the response to BCOAPO IR1 5.1 do not include non-formula O&M (i.e., flow-through O&M) increases. As stated on lines 10-12 of the response to BCOAPO IR1 5.1 (PDF page 18 of the responses), Table 1 (FEI) and Table 2 (FBC) "…provide the year-over-year (YoY) increases from 2020 to 2024 in FEI's and FBC's *<u>formula O&M</u>* based on the changes in the unit costs each year…" [emphasis added].

As also discussed in the response to BCOAPO IR1 5.1, non-formula O&M expenditures are for non-controllable items and Clean Growth Initiatives, as these expenditures are expected to fluctuate more significantly from year to year. Flow-through expenditures are forecast on an annual basis and the variances between forecast and actual costs are recorded in the Flow-through deferral account and recovered from/returned to customers through amortization of the deferral account. Thus, these expenditures are not part of the Base Formula O&M / Base UCOM.

17.0 Reference: Ex-Post Evaluation of the Current Rate Setting Framework Exhibit B-7, BCOAPO IRs 6.1 and 6.6

Topic: Sustainability of Rate Increases & Energy Transition Incentives

Preamble:

It is noted that the portion of BCOAPO IR 6.6, in which FortisBC was requested to address the sustainability of the 2020 to 2024 level/indicative level of rate increases for ratepayers related to (i) the potential rate spiral for FEI that could occur as a result of the energy transition and the attrition of customers and (ii) the rapid growth potential for FBC through the addition of customers and throughput as a result of the energy transition - was not addressed by FortisBC in its response which referred to the response to BCOAPO IR 6.1

17.1 Please specifically respond to the question of the sustainability of rate increases for ratepayers vis-a-vie the potential for a death spiral for FEI and the potential for rapid growth for FBC.

Response:

FortisBC reiterates that the impacts of the energy transition on FEI and FBC will be spread out over many years, and that there is no evidence that either utility will experience a death spiral or unmanageable increase in throughput over the term of the Rate Framework. While there are real long-term risks to the viability of the gas system due to climate policy, FEI currently expects to continue to add customers and experience increased demand over the next three years. Similarly, while FBC is facing growth in customers and demand as a result of the energy transition, FBC is able to forecast this growth and has set out the Base O&M and forecast capital expenditures it needs to continue to serve its customers over the term of the Rate Framework.

Nonetheless, the energy transition is underway and, given the pressures described in the response to BCUC Supplemental Panel IR 1, both Companies expect that the level of rate increases experienced during the Current MRP term will continue. To help ensure rates increases are sustainable for customers, FEI and FBC will continue to manage rate impacts through the Annual Review process, and through the actions outlined in Section B1.5 of the Application and in the response to BCOAPO IR1 8.1. Please also refer to the response to CEC IR2 17.1 regarding how both utilities will continue to support customers with respect to affordability.

While the challenges of the energy transition necessitate that FEI and FBC maintain a focus on cost containment and productivity, FortisBC does not consider this a reason to reject proven and reasonable mechanisms to manage costs. The formulaic approach to O&M enables the Companies to manage within an envelope of spending, and reprioritize costs where needed to flexibly respond to changing operating needs each year of the term. The formula approach therefore remains a useful cost management tool during the energy transition at this time.

Therefore, the proposed continuation of an indexed-based formula approach to the majority of O&M costs and for FEI's Growth capital is one of a number of different approaches that FortisBC is taking to help manage rate impacts.

17.2 In light of the energy transition which could lead to a rate spiral for FEI, rapid growth of FBC (and the resultant rapid increase in investment of G,T&D at higher current cost compared to embedded cost) and the potential for the non-viability of FortisBC's business, please explain FortisBC's views as to why, in light of these circumstances, these threats/risks are not sufficient incentives for the utilities to contain O&M costs and generate productivity savings – and why formulas are needed in a Rate Setting Framework to incent FortisBC to generate productivity savings in these circumstances.

Response:

Please refer to the response to BCOAPO IR2 17.1.

18.0 Reference: Ex-Ante Evaluation of the RSF Proposed Changes Exhibit B-7, BCOAPO IRs 7.5 & 7.11 and BCUC IR 33.1

Topic: Benefits of Energy Transition KPIs vs. Informational Indicators

Preamble: FortisBC states:

"As discussed in the response to RCIA IR 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." **(BCOAPO IR 7.5)**

The response to BCOAPO IR 7.11, is referenced to the response to BCUC IR 33.1. **(BCOAPO 7.11)**

"The disadvantage of this approach is that informational indicators do not have the added incentive to perform that could potentially come from having penalties attached to the indicators. However, adding benchmarks and thresholds, as suggested in BCUC IR1 33.3, would have significant disadvantages which outweigh any benefit…Given the constraints imposed by factors that are outside of FEI's control, it would not be just or reasonable to penalize FEI for failure to achieve levels under these indicators... Because of these factors outside of the Company's control, the proposed energy transition indicators may not fully reflect the efforts undertaken by FEI and its progress towards advancing the energy transition. It would therefore be unfair to penalize FEI for not achieving a specified target for these metrics" **(BCUC IR 33.1)**

18.1 Further to the response to BCOAPO IR 7.5, please discuss further <u>when</u> FortisBC plans to consult with interveners and the BCUC staff and when would it plan to make application related to the potential extension of the Rate Framework beyond 2027. As part of the response, please indicate if FortisBC would advance such an application to the BCUC with sufficient time to meaningfully consider other alternatives to the Rate Setting Framework in a regulatory proceeding, such that these alternatives would practically be available to set rates for 2028.

<u>Response:</u>

FortisBC would first need to consider the BCUC's decision on the proposed Rate Framework before determining how to proceed. However, under the assumption that the 2025-2027 Rate Framework is approved as applied for, FortisBC would likely commence consultation with BCUC staff and interveners regarding the next rate-setting process in mid 2026.

FortisBC notes that, while it is desirable to have permanent rates in place prior to the rate-setting year (2028 in this case), depending on any specific direction from the BCUC and the feedback gathered during consultation, interim rates may need to be put in place for 2028 so that there is adequate time to complete the application review process in 2027.

18.2 Please provide (i) FortisBC's views on whether the energy transition is so impactful that the establishment of energy transition KPIs (Key Performance Indicators), KRIs (Key Risk Indicators) and associated targets – beyond its current proposal for informal energy transition indicators only - are in the public interest and (ii) FortisBC's concerns that such formal metrics and targets may be punitive due to factors beyond its control – is a strong indicator that the current MPR incentive-focused Rate Setting Framework is of lessor importance in an era of the energy transition.

Response:

As explained in the response to BCUC IR1 33.1, FEI considers its proposed energy transition informational indicators to be a transparent and sufficient approach to showing its progress in a number of areas central to addressing the energy transition. However, given the constraints imposed by factors that are outside of the Company's control, FEI does not consider it appropriate or in the public interest to be penalized for not achieving a specific target for these metrics.

FortisBC disagrees that the incentives provided under the proposed Rate Framework are less important. To the contrary, considering the scale of investment needed to address the energy transition, it is important for utilities to continuously pursue productivity improvements. Further, as explained in the response to BCUC Panel Supplemental IR 5, performance incentive mechanisms (PIMs) can be designed to address specific aspects of performance regarding the energy transition and can work alongside existing ratemaking practices rather than fundamentally changing the utility remuneration paradigm. In other words, the incentives provided under the proposed Rate Framework and PIMs are not mutually exclusive but, rather, can complement each other.

19.0 Reference: Ex-Ante Evaluation of the RSF Proposed Changes Exhibit B-7, BCOAPO IRs 6.2, 6.3 and 8.3

Topic: Sustainability of Past & Indicative Rate Increases

Preamble:

In the response to BCOAPO IR 6.2, FortisBC confirmed the cumulative rate increase (percentage change approach) for FEI over the period 2020 to 2024 of 36.7%. **(BCOAPO IR 6.2)**

In the response to BCOAPO IR 6.3. FortisBC confirmed the cumulative rate increase (percentage change approach) for FBC over the period of 2020 to 2024 of 21.1%. **(BCOAPO IR 6.3)**

In Tables 1 and 2 of the response to BCOAPO IR 8.3, FortisBC provides the indicative 2025, 2026, and 2027 rate increases for FEI (7.4%, 6.4% and 6.0%, respectively) and FBC (5.3%, 4.9% and 4.5%, respectively), consistent with FortisBC's Application. **(BCOAPO IR 8.3)**

19.1 Please provide a table that reflects separately for FEI and FBC the resulting indicative rate increases for 2025, 2026 and 2027 assuming that all existing RSF parameters are maintained including for example, an X-Factor of 0.5% and the inclusion of the 0.75% Discount to the Growth Factor (along with all material assumptions).

<u>Response:</u>

Concurrently with these IR responses, FortisBC has filed requests to establish interim rates effective January 1, 2025 for each of FEI and FBC (2025 Interim Rates Applications), with updated forecasts for 2025. Accordingly, FortisBC has updated the indicative rate forecasts provided in the response to BCOAPO IR1 8.3 to reflect the updated forecasts and other revenue requirement items underpinning the 2025 Interim Rates Applications. FortisBC notes that the indicative rate increases for 2026 and 2027 were also revised accordingly based on the changes to the 2025 forecast revenue requirement and proposed interim rate increases for both utilities.

Table 1: Revised FEI Indicative Delivery Rate Increases (2025 to 2027) under the Proposed Rate Framework

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 Overhead Study	5.9	-	-
Corporate Services	-	-	-
Cash Working Capital - Lead Lag	-	-	-
Subtotal	**7.9**	**-**	**-**
Incremental Revenue Requirements			
Volume/Revenue Related	(11.2)	(9.6)	(5.0)
O&M Changes	35.7	14.7	16.4
Depreciation Expense	(1.9)	10.4	12.1
Amortization Expense	6.5	34.0	22.2
Financing and Return on Equity	28.8	15.1	31.8
Tax Expense	3.5	18.6	15.5
2024 Revenue Deficiency	15.9	-	-
Subtotal	**77.3**	**83.1**	**93.0**
Total Deficiency	**90.1**	**83.1**	**93.0**
Margin @ Existing Rates	1,163.1	1,262.9	1,351.0
Indicative Delivery Rate Change	**7.7%**	**6.6%**	**6.9%**

Table 2: Revised FBC Indicative Rate Increases (2025 to 2027) under the Proposed Rate Framework

	Incremental Revenue Requirement		
Particular	**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 Overhead Study	(0.4)	-	-
Corporate Services		-	-
Cash Working Capital - Lead Lag	0.2	-	-
Subtotal	**4.1**	**-**	**-**
Incremental Revenue Requirements			
Volume/Revenue Related	(19.6)	(0.0)	(0.3)
Power Supply	21.0	5.8	6.1
O&M Changes	3.1	3.8	4.0
Depreciation Expense	3.5	4.1	5.1
Amortization Expense	3.5	2.0	(1.1)
Financing and Return on Equity	2.7	6.1	7.8
Tax Expense	4.2	3.4	1.9
Subtotal	**18.5**	**25.1**	**23.5**
Total Deficiency	**26.9**	**25.1**	**23.5**
Revenue @ Existing Rates	475.7	512.7	536.5
Indicative Rate Change	**5.7%**	**4.9%**	**4.4%**

Using the updated information in Tables 1 and 2, FortisBC provides Table 3 below in response to the question, which includes the indicative rate increases for 2025, 2026, and 2027 assuming the Rate Framework parameters are maintained consistent with the Current MRP. These parameters include the following:

- Maintaining the X-Factor at 0.5 percent for both FEI and FBC, instead of the proposed 0.38 percent and 0.2 percent, respectively;
- Maintaining the discount to the Growth Factor for formula O&M at 75 percent for both FEI and FBC, instead of the proposed elimination of the discount on the Growth Factor; and

- Using the most recent completed year for the labour/non-labour weightings[3] in the calculation of the I-Factor instead of the proposed fixed labour/non-labour weighting of 50/50 percent for FEI and 60/40 percent for FBC.

FortisBC did not use the depreciation rates, capitalized overhead rates, and cash working capital from the Current MRP in the analysis in Table 3 because these changes would occur regardless of the proposed Rate Framework (i.e., FortisBC would update these components based on the studies regardless of the type of rate-setting mechanism being proposed, as it is necessary to update these components periodically to reflect changes to the Companies' operations). FortisBC also notes that the indicative rate increases contained in Table 3 still include the forecast regular capital expenditures for Sustainment, Growth and Other capital contained in the Application, as FortisBC does not have approved forecasts for regular capital beyond the term of the Current MRP (i.e., FortisBC's regular capital expenditures were approved for 2023 and 2024 only as part of the Annual Reviews for 2023 Rates proceedings) and therefore, FortisBC would have to forecast its regular capital requirements for 2025 and beyond regardless of the type of rate-setting mechanism in place in 2025.

Table 3: Comparison of FEI and FBC Indicative Rate Increases with and without the Proposed Changes to the Rate Framework Parameters

	2025	2026	2027
FEI			
Indicative Delivery Rate Increases (Revised in accordance with proposed 2025 Interim Rate Increase; Table 1 of BCOAPO IR2 19.1)	7.7%	6.6%	6.9%
Indicative Delivery Rate Increases (excl. changes to Rate Framework parameters identified)	7.6%	6.5%	6.8%
FBC			
Indicative Rate Increases (Revised in accordance with proposed 2025 Interim Rate Increase; Table 2 of BCOAPO IR2 19.1)	5.7%	4.9%	4.4%
Indicative Rate Increases (excl. changes to Rate Framework parameters identified)	5.5%	4.8%	4.3%

19.2 Please provide a table that reflects the calculation of the (i) cumulative rate increases and (ii) even annual rate increases, under the percentage change approach, for both FEI & FBC from 2020 to 2027, and consolidate together with the respective actual rate increases for 2020 to 2024 and indicative rate increases for 2025 to 2027.

[3] Calculated based on most the recent July to June values.

Response:

FortisBC maintains that, as discussed in the response to BCOAPO IR1 6.2, the "percentage change" approach requested by BCOAPO should not include the increase from 2019 to 2020, which is prior to the term of the Current MRP. As such, FortisBC disagrees with the time period requested, but has nonetheless completed the requested analysis.

Please refer to Tables 1 and 2 below for the cumulative rate increases as well as the compound annual growth rate (CAGR) over the period from 2019 to 2027 for FEI and FBC. The rate increases from 2025 to 2027 are based on the indicative rate increases provided in the response to BCOAPO IR2 19.1, which are revised from the response to BCOAPO IR1 8.3 to reflect the revenue requirement amounts contained in FEI's and FBC's 2025 Interim Rates Applications (the 2025 Interim Rates Applications have been filed concurrently with these IR responses).

Table 1: FEI Cumulative and CAGR for Delivery Rate and Total Bill Increase (2020 to 2024 Actual, 2025 to 2027 Forecast)

			Actual						Indicative		
Line	**Particular**	**Reference**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
1	FEI Annual Delivery Rate Increase			2.0%	6.6%	8.1%	7.7%	8.0%	7.7%	6.6%	6.9%
2	FEI Delivery Costs (Unit Cost Basis) ($)	Prior Year x (1 + Line 1)	1.000	1.020	1.087	1.175	1.266	1.367	1.472	1.570	1.678
3	Cumulative Increase (%)	(Line 2 - 1) x 100	0.0%	2.0%	8.7%	17.5%	26.6%	36.7%	47.2%	57.0%	67.8%
4	**CAGR - Delivery Portion Only (%)**	**Line 2: (EV/SV)^(1 / 8 yrs) -1)**									**6.7%**
5											
6	Delivery Portion (%)	RS 1: Actual 2019-24; 2025-27 = 60%	49%	48%	43%	40%	48%	61%	60%	60%	60%
7	Total Bill (Unit Cost Basis) ($)	Line 2 / Line 6	2.06	2.12	2.50	2.95	2.65	2.24	2.45	2.62	2.80
8	**CAGR - Total Bill (%)**	**Line 7: (EV/SV)^(1 / 8 yrs) -1)**									**3.9%**
9											
10	CPI/AWE			2.79%	3.75%	3.92%	4.43%	4.41%			
11	CPI/AWE - Index Basis	Prior Year x (1 + Line 10)	1.000	1.028	1.066	1.108	1.157	1.208			
12	**CAGR - CPI/AWE (%)**	**Line 11: (EV/SV)^(1 / 5 yrs) -1)**						**3.9%**			

Note: EV = Ending Value; SV = Starting Value

Table 2: FBC Cumulative and CAGR for Rate Increase (2020 to 2024 Actual, 2025 to 2027 Forecast)

			Actual						Indicative		
Line	**Particular**	**Reference**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
1	FBC Annual Rate Increase			1.0%	4.4%	3.5%	4.0%	6.7%	5.7%	4.9%	4.4%
2	FBC Total Bill (Unit Cost Basis) ($)	Prior Year x (1 + Line 1)	1.000	1.010	1.054	1.091	1.135	1.211	1.280	1.343	1.402
3	Cumulative Increase (%)	(Line 2 - 1) x 100	0.0%	1.0%	5.4%	9.1%	13.5%	21.1%	28.0%	34.3%	40.2%
4	**CAGR - Delivery Portion Only (%)**	**Line 2: (EV/SV)^(1 / 8 yrs) -1)**									**4.3%**
5											
6	CPI/AWE			2.81%	4.17%	4.54%	4.34%	4.15%			
7	CPI/AWE - Index Basis	Prior Year x (1 + Line 6)	1.000	1.028	1.071	1.120	1.168	1.217			
8	**CAGR - CPI/AWE (%)**	**Line 7: (EV/SV)^(1 / 5 yrs) -1)**						**4.0%**			

Note: EV = Ending Value; SV = Starting Value

For FEI, the CAGR of the delivery rate increase over the period from 2019 to 2027 is approximately 6.7 percent. However, as discussed in Section B2.2.1.1 of the Application, the delivery rates portion is typically approximately 50 to 60 percent of a residential customer's total bill. Therefore, on a total bill basis, the CAGR from 2019 to 2027 would be approximately 3.9 percent. This is essentially the same as the CAGR of 3.9 percent for CPI/AWE, albeit only for the period from 2019 to 2025 (i.e., actual from 2019 to 2023, forecast for 2024 and 2025) as CPI/AWE data is only available from 2019 to 2025.

For FBC, the CAGR of the rate increase over the period from 2019 to 2027 is approximately 4.3 percent. This is comparable to the CAGR of 4.0 percent for CPI/AWE, albeit only for the period from 2019 to 2025 (actual from 2019 to 2023, forecast for 2024 and 2025).

20.0 Reference: Ex-Ante Evaluation of the Proposed RSF Changes Exhibit B-7, BCOAPO IRs 9.2 and 9.4

Topic: Materiality of Ratepayer O&M Savings

Preamble: FortisBC states:

> "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." **(BCOAPO IR 9.2)**

> "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 is $5.556 million." **(BCOAPO IR 9.4)**

20.1 Please confirm that (i) for FEI the net incremental O&M savings to ratepayers asserted in the response to BCOAPO IR 9.2 is $1.550 million ($11.202 - $9.652) and (ii) for FBC the net incremental O&M savings to ratepayers asserted in the response to BCOAPO IR 9.4 is $0.613 million ($6.169 - $5.556).

<u>Response:</u>

Not confirmed. The total savings of $11.202 million for FEI shown in Table 1 in the response to BCOAPO IR1 9.2 and $6.169 million for FBC shown in Table 1 in the response to BCOAPO IR1 9.4 only represent the savings achieved in one year of the Current MRP (i.e., 2023, adjusted to 2024 dollars).

The appropriate evaluation of the savings achieved during the Current MRP term is provided in Tables B2-8 and B2-9 of the Application, which show that FEI achieved approximately $28.0 million of savings and FBC achieved approximately $11.8 million of savings (using 2020 to 2023 actuals and 2024 projected). If FortisBC had set the rates from 2020 to 2024 by assuming these O&M savings did not occur, then FEI's delivery rates would have been higher cumulatively by 7.3 percent and FBC's rates would have been higher cumulatively by 7.6 percent over the 5-year period from 2020 to 2024. FortisBC considers the total O&M savings during the term of the Current MRP are material and represent a successful outcome for customers, particularly given the challenges faced by both Companies as a result of the COVID-19 pandemic and the subsequent broader pandemic impacts which included significant inflationary pressures and major supply chain shortages.

By proposing to use 2023 Actual O&M as the starting point in developing the Base O&M for the Rate Framework, the savings achieved in 2023 are fully captured. While ultimately the net incremental funding required for the term of the proposed Rate Framework results in a 2024 Base O&M that is higher than 2023 Actual O&M, this does not change the fact that customers have benefited from year-over-year savings during the Current MRP term, as explained above. The net incremental funding for the proposed Rate Framework is required to address key issues and changes in the Companies' operating environments that either did not exist during the Current MRP term or have increased in scope.

20.2 In the context of FortisBC's operations, using revenue at existing rates as a frame of reference (or another metric with FortisBC believes is appropriate) for each of FEI and FBC, please explain whether $1.550 million and $0.613 million of net incremental O&M savings, respectively, is viewed by FortisBC as a material and successful outcome of the Rate Setting Framework for ratepayers.

Response:

Please refer to the response to BCOAPO IR2 20.1.