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November 5, 2024

Commercial Energy Consumers Association of British Columbia
c/o Owen Bird Law Corporation
Vancouver Centre II
2900 – 733 Seymour Street
Vancouver, BC
V6B 0S6

Attention: Christopher P. Weafer

Dear Christopher P. Weafer:

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 Commercial Energy Consumers Association of British
Columbia (CEC) 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 CEC IR No. 2.

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

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1 **17. Reference: Exhibit B-9, CEC IR 1.1 and CEC IR 1.1.1, Page 1**

12 **Response:**

13 Affordability is a relative measure and is defined differently by different customer segments, so
14 there is no specific level of increase that can be used to measure affordability or affordable rates.
15 As discussed in the response to BCOAPO IR1 6.1, the energy transition is expected to continue
16 to put upward pressure on rates for both FEI and FBC. FortisBC considers that affordability and
17 affordable rates should be viewed through the lens of the Companies' ability to decarbonize the
18 system and transition to low carbon fuels at the lowest reasonable cost, while also maintaining
19 safe, reliable and resilient service, rather than on a specific level of rates or rate increase.

36 4. **An efficient annual rate-setting process that allows the Companies to focus on**
37 **responding to the energy transition operationally and through key regulatory filings**
38 **focused on the energy transition:** As discussed in the responses to BCUC Panel
39 Supplemental IR 1 and 4, the Annual Review process will continue to provide a regular
40 opportunity for the BCUC to consider rate impacts and affordability. Through the Annual

17.1 Please identify the proposed measures or other criteria by which the Commission
could determine FortisBC's progress on affordability as part of the Companies'
Annual Review processes under the proposed Rate Framework.

Response:

FortisBC recognizes that affordability is a relative measure that is defined differently by different
customer segments, that there are many drivers of increasing costs that are outside of the
Companies' control, and that the concept of affordability extends well-beyond just gas and electric
rates. As discussed in the response to BCOAPO IR1 8.1, FortisBC has designed the Rate
Framework with energy affordability and the impacts of the energy transition on customer energy
costs in mind. In that response, FortisBC outlines how the design of the Rate Framework and the
actions it is taking to manage costs and invest in the most affordable ways can help mitigate rate
increases.

However, for the reasons discussed in the response to BCOAPO IR1 10.3, FortisBC does not
consider it reasonable to establish an SQI (i.e., a measure) for affordability. Please also refer to
the response to BCOAPO IR1 6.1 for a discussion of the challenges of measuring performance
in relation to affordability, including the external factors (e.g., the energy transition) that are driving
increased costs and why there is no specific level of rate increase that can be used to measure
affordability or affordable rates.

Fundamentally, FortisBC considers that it would not be reasonable to establish an SQI with
respect to affordability. The affordability of its service to customers is nonetheless important for
FortisBC, which is why continuing to support customers with opportunities to reduce their energy
use through energy efficiency incentives, providing customers with accurate and timely energy
use information, identifying and supporting access to governmental and non-governmental
assistance programs, and providing flexible bill payment support for those who may need it, will
all remain part of how FortisBC addresses the affordability concerns that customers may be faced
with.

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Reference: Exhibit B-9, CEC IR 1.1 and CEC IR 1.1.1, Page 1

Response:

Affordability is a relative measure and is defined differently by different customer segments, so there is no specific level of increase that can be used to measure affordability or affordable rates. As discussed in the response to BCOAPO IR1 6.1, the energy transition is expected to continue to put upward pressure on rates for both FEI and FBC. FortisBC considers that affordability and affordable rates should be viewed through the lens of the Companies' ability to decarbonize the system and transition to low carbon fuels at the lowest reasonable cost, while also maintaining safe, reliable and resilient service, rather than on a specific level of rates or rate increase.

Reference: Exhibit B-7, BCOAPO IR 1.10.3

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

Reference: Exhibit B-1-2, Section 6.1.4

6.1.4 Informational Indicators

Some SQIs do not have benchmarks or thresholds and are classified as informational indicators. An SQI works well as an informational indicator when there are factors outside of the Companies' control that may influence the metric's performance. For example, the Customer Satisfaction

When discussing informational indicators in Section 6.1.4 of the Application, FortisBC states that 'an SQI works well as an informational indicator, when there are factors outside of the Companies' control that may influence the metric's performance'. In response to BCOAPO IR 1 10.3 inquiring on SQIs with respect to rate affordability, FortisBC suggests that owing to circumstances 'largely outside of the Companies' control, it would not be reasonable to penalize the companies for not achieving a specified affordability target'.

17.2 Further to CEC IR 1.1 series, please discuss the merits of developing informational SQIs with respect to rate affordability including by customer segment (residential, commercial and industrial) and please identify potential metrics particularly as they may relate to the FortisBC mentioned "lens" criteria, (a) decarbonization costs & impacts, (b) low carbon solutions cost & impacts, and (c) resilience and other costs and impacts.

Response:

Please refer to the response to CEC IR2 17.1.

1 **18. Reference: Exhibit B-9, CEC IR 1.2, Table 1**

Productivity Factor (X-Factor)	<p>FEI: An X-Factor of 0.38 percent, consisting of 0.28 percent industry O&M partial factor productivity (PFP) and 0.10 percent stretch factor for FEI's O&M and Growth capital indexing formulas.</p> <p>FBC: An X-Factor of 0.20 percent, consisting of 0.20 percent industry PFP and zero percent stretch factor for FBC's O&M indexing formula.</p>	C1.4	Helps	The X-Factor built into FortisBC's formula O&M (FEI and FBC) and Growth capital (FEI) will inherently constrain the spending envelope of both Companies. Please also refer to the responses to CEC IR1 1.1 and BCOAPO IR1 7.2.	Same
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3 Through CEC IR 1.2 Series, the CEC requested commentary on the directional impact of
4 the proposed Rate Framework changes on affordability relative to the 2020-2024 MRP.

5 18.1 Please confirm that a 38% X-Factor for FEI would result in higher Formula O&M
6 and higher Growth Capital requirements for FEI (vis-à-vis the MRP) and therefore
7 contribute to declining rate affordability for FEI's ratepayers (everything else
8 equal). Likewise, please confirm that a 20% X-Factor for FBC would result in higher
9 Formula O&M requirements for FBC (vis-à-vis the MRP) and therefore contribute
10 to declining rate affordability for FBC's ratepayers (everything else equal).

11
12 **Response:**

13 To clarify, FortisBC's proposed X-Factors are 0.38 percent for FEI and 0.20 percent for FBC.

14 FortisBC disagrees that it is reasonable to compare the proposed X-Factor values to the X-Factor
15 values under the Current MRP when assessing affordability of the Rate Framework. The function
16 of the X-Factor in both the Current MRP and the Rate Framework is to constrain the formula
17 spending envelope of the Companies below the level of inflation based on an industry productivity
18 value and a stretch factor value. In this way, the X-Factor contributes to rate affordability.

19 The purpose of a formula in any rate framework is to provide sufficient funding to undertake
20 necessary capital and operating activities (as the case may be), while providing incentive for the
21 utilities to lower their costs. Periodic adjustments to the I-X formula elements are required to
22 ensure the formula properly reflects inflation, industry productivity, and the appropriate stretch
23 factor for the utility. It is also necessary for the formula to provide adequate funding so that the
24 utility has a reasonable opportunity to recover its prudently incurred costs. FEI's and FBC's
25 proposed X-Factor values are therefore based on the analysis and recommendations of an
26 external expert on productivity studies. As explained in Dr. Kaufmann's report in Appendix C1-1
27 to the Application, a discount to the customer growth factor is unwarranted and double counts the

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1 effect of scale economies which are already accounted for in the X-Factor values. Overall, the
2 inclusion of an I-X formula will result in an incentive for FEI and FBC to contain spending within
3 the net inflation factor, which supports customer affordability.

4 Further, the issue of rate affordability is an important consideration, but it should not be conflated
5 with cost increases. The challenges facing FEI and FBC to respond to the impacts of
6 decarbonization policies, while continuing to provide safe, reliable and resilient service to
7 customers, will result in higher costs and rates, but will also provide value to customers. FEI and
8 FBC have developed the proposed Rate Framework with all of these considerations, including
9 affordability, in mind, which is why the Companies have proposed to continue with a formulaic
10 approach to the majority of O&M and for FEI's Growth capital, flow-through treatment for Clean
11 Growth Initiatives, and the Annual Review process to consider how best to manage customer rate
12 impacts (among other things).

13 Finally, while FortisBC provided the table as requested in the response to CEC IR1 1.2, FortisBC
14 does not agree that it is reasonable or appropriate to assess the reasonableness of each
15 individual element of the Rate Framework based on whether it results in higher costs compared
16 to the Current MRP or helps with affordability. Ultimately, as explained in the response to CEC
17 IR1 1.2, the Rate Framework should be viewed on a holistic basis taking all of the plan elements
18 into account, in order to assess whether the Rate Framework strikes an appropriate balance of
19 the principles so as to result in a just, reasonable, and not unduly discriminatory rate-setting
20 framework.

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1

Reference: Exhibit B-9, CEC IR 1.2, Table 1

Item	2025-2027 Rate Framework	Section(s)	Affordability	Comments/Compared to Current MRP	FEI vs FBC
Growth Factor	Continue with annual forecast of customer growth for FEI's and FBC's index-based O&M and gross customer additions (GCA) for FEI's Growth capital, both with a true-up to actual when available. In addition, FortisBC is proposing to eliminate the 0.75 discount factor currently applied to the growth factor for the O&M formula.	C1.5	Neutral	Regarding the approach to forecasting customer growth for formula O&M and Growth capital (FEI), the impact on affordability is neutral. Please refer to the response to CEC IR1 1.1. Regarding the growth factor, 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 in fact 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. FortisBC accordingly considers the elimination of the growth factor to be neutral with regard to affordability.	Same

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Through CEC IR 1.2 Series, the CEC requested commentary on the directional impact of the proposed Rate Framework changes on affordability relative to the 2020-2024 MRP.

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18.2 Please confirm that eliminating the 0.75 discount factor would result in higher formula O&M requirements for FEI and FBC (vis-a-vis the MRP) and therefore contribute to declining rate affordability for the Companies' ratepayers (everything else equal).

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Response:

12 Please refer to the response to CEC IR2 18.1.

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18.3 Please confirm that FEI & FBC may have fixed costs and variable costs applicable, when customers are added, in which the FEI & FBC costs per customer formulas do not necessarily account for the efficiency of scale.

17

18

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Response:

The following response was provided by Dr. Kaufmann:

Not confirmed. While it is sometimes argued that a firm's mix of "fixed" long-term costs and "variable" short-term costs impacts its measured scale economies, this is not correct. Economies of scale is an inherently long-run concept, and all assets (and costs) are variable in the long run. Measures of economies of scale depend entirely on the relationship between unit costs and the change in output, not the proportions of "fixed" and "variable" costs.

Reference: Exhibit B-9, CEC IR 1.2, Table 1

Controllable Expenses – O&M	Continue with an indexed (I – X) unit cost approach for O&M. A 2024 Base O&M is established. O&M will not be rebased during the term of the Rate Framework but will be subject to true-up for actual customers.	C2	Helps	Please refer to the response to CEC IR1 1.1.	Same
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Through CEC IR 1.2 Series, the CEC requested commentary on the directional impact of the proposed Rate Framework changes on affordability relative to the 2020-2024 MRP.

- 18.4 Please confirm that higher unit costs for controllable O&M owing to a lower X-Factor will result in higher O&M requirements for each of FEI and FBC (vis-a-vis the MRP) and therefore contribute to declining rate affordability for the Companies' ratepayers (everything else equal).

Response:

Please refer to the response to CEC IR2 18.1.

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1

Reference: Exhibit B-9, CEC IR 1.2, Table 1

Item	2025-2027 Rate Framework	Section(s)	Affordability	Comments/Compared to Current MRP	FEI vs FBC
Controllable Expenses – Capital	<p>FEI: Continue with an indexed $(I - X)$ unit cost approach for Growth capital. The Growth capital formula is tied to the forecast GCA with the base unit cost developed using a regression of three-year actuals and projected results. Growth capital will not be rebased during the term of the Rate Framework but will be subject to true-up for actual GCA. Three-year forecast of Regular Sustainment and Other capital.</p> <p>FBC: Continue with a forecast of Regular Growth, Sustainment and Other capital expenditures for the term.</p>	C3	Helps	<p>As discussed in the response to CEC IR1 1.1, the cost of inaction could pose an even greater risk on affordability to FortisBC's customers. As such, the capital forecasts ensure there is sufficient funding to provide safe and reliable service while still progressing decarbonization over the term of the proposed Rate Framework.</p> <p>FEI: Given FEI has an obligation to serve, the continuation of the formulaic approach for Growth capital ensures the spending envelope is symmetrical. For instance, a decline in new customer connections will result in a smaller increase to the Growth capital funding envelope, thereby reducing the rate impact from Growth capital. For Sustainment capital, FEI has scoped capacity-driven projects to the extent possible so that the expenditures are focused on meeting near-term demand.</p> <p>FBC: The capital forecasts will proactively build capacity during the term of the proposed Rate Framework due to the expected growth in demand on the electric system.</p>	Different; however, in both cases the Companies are focused on prioritizing projects to ensure that customers continue to receive reliable and resilient service in an affordable manner.

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3 Through CEC IR 1.2 Series, the CEC requested commentary on the directional
4 impact of the proposed Rate Framework changes on affordability relative to the
5 2020-2024 MRP.

6 18.5 Please confirm that higher unit costs for controllable capital expenses will result in
7 higher capital requirements for FEI (vis-à-vis the MRP) and therefore contribute to
8 declining rate affordability for FEI's ratepayers (everything else equal).

9

10 **Response:**

11 Please refer to the response to CEC IR2 18.1.

12

13

14

1 **Reference: Exhibit B-9, CEC IR 1.2, Table 1**

Deferral Accounts	Continue the use of rate base and non-rate base deferral accounts, with any required changes proposed at each year's Annual Review. Continue the use of a single Flow-through deferral account for each utility to capture all variances that are approved with flow-through treatment, except where a separate deferral account is approved.	C4	Helps	Deferral accounts are an important tool for rate smoothing.	Same
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3 Through CEC IR 1.2 Series, the CEC requested commentary on the directional
4 impact of the proposed Rate Framework changes on affordability relative to the
5 2020-2024 MRP. In response to CEC IR 1.2, FortisBC indicates that deferral
6 accounts help affordability owing to their being an important tool for rate
7 smoothing.

8 18.6 Please explain if the beneficial impact of deferral accounts on rate affordability is
9 unconstrained practically, or whether a utility could theoretically reach 'peak
10 deferral account use' as it concerns the benefits of deferral accounts as rate-
11 smoothing tools.

12
13 **Response:**

14 Deferral accounts are a tool that can be utilized for rate smoothing in order to mitigate rate impacts
15 and therefore support rate affordability in the near term; however, the costs being smoothed will
16 ultimately be recovered from customers. As deferral account requests are reviewed and approved
17 by the BCUC, FortisBC does not have an unconstrained ability to utilize deferral accounts.
18 Further, when considering whether a rate smoothing deferral account is appropriate, FortisBC
19 gives consideration to the impact on intergenerational equity, as well as potential future rate
20 increases (as deferring costs will result in greater amortization expense in future years, which will
21 contribute to rate increases in the future). Ultimately, FortisBC considers deferral accounts to be
22 an important tool to help smooth rate impacts, but each request must be justified in consideration
23 of the circumstances at the time of the request.

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1 **19. Reference: Exhibit B-9, CEC IR 2.2 (excerpt below) and CEC IR 3.1 Series**

1 **Response:**

2 The following response was provided by Dr. Kaufmann:

3 Please refer to the response to CEC IR1 2.1. A declining customer base will be reflected directly
4 in a lower level of O&M for the company. However, there is no conceptual or mathematical basis
5 for applying discounts to customer growth factors when the customer growth is declining or
6 increasing.

7
8 19.1 When a utility's customer base experiences declining growth, is in decline, or is
9 expected to decline over time - please explain how employing a two-year lag in
10 truing-up customer counts for purposes of calculating average customer (AC) for
11 formula O&M forecasts and gross customer additions (GCA) for purposes of
12 calculating formula-driven growth capital forecasts, represent a 'direct' (i.e., timely)
13 reflection of customer base realities for rate setting processes.

10 **Response:**

11 Currently, neither FEI nor FBC are experiencing a decline in customer base and are not expecting
12 a decline to occur during the proposed Rate Framework term. In the case of FEI, although the
13 rate of customer growth is expected to be slower, FEI is still expecting to have positive gross
14 customer additions (GCA) during the proposed Rate Framework term.

15 Further, the calculation of the annual formula O&M (FEI and FBC) and Growth capital (FEI) itself
16 is not based on a two-year lag. FortisBC is proposing to continue to forecast the average number
17 of customers and the GCA each year as part of the calculation of the annual formula O&M and
18 Growth capital. The purpose of the true-up mechanism for formula O&M (FEI and FBC) and
19 formula Growth capital (FEI) is to correct the forecasting variance from two years prior when
20 compared with actuals (which can only occur when actuals are available). Therefore, the annual
21 calculation of formula O&M and Growth capital will continue to be based on the forecast of
22 average customers and GCA, respectively, and the true-up will ultimately ensure the level of base
23 O&M (FEI and FBC) and Growth capital (FEI) reflects the actual customer base or actual customer
24 additions, albeit with a two-year lag. This approach is appropriate regardless of whether
25 FortisBC's customer bases are in a decline or growing.

26 Further, the forecasting variance from two years prior can be positive or negative regardless of
27 whether the customer base or gross customer additions is trending downward or upward. For
28 instance, in the case of FEI's forecasting of GCA for Growth capital, FEI may forecast a lower
29 number of GCA compared to the prior year (in recognition of the slowing growth rate), but the
30 variance between the forecast and actual GCA will be driven by whether FEI has under-forecast
31 or over-forecast customer additions. Thus, the true-up can be an addition or subtraction to the
32 current year's formula O&M or Growth capital.

33 FortisBC notes that in the MRP Decision, the BCUC agreed with FortisBC that the forecast and
34 true-up approach is superior to the "lagged actual" approach used in the 2014-2019 PBR Plan:

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1 **The Panel approves the use of forecast average number of customers and**
2 **the related true-up mechanism for calculating the FEI and FBC growth factor.**

3 The Panel notes that none of the interveners raised concerns with FortisBC's
4 request to eliminate the use of lagged actual customer growth and agrees with its
5 reasons for an adopting forecast/true-up approach as a preferable methodology
6 ...

7 ... **The Panel approves FortisBC's proposal to eliminate the lagged actual**
8 **customer approach for FEI Growth capital used in FEI's Current PBR Plan.**
9 **The Panel also approves FortisBC's proposal to use forecast Gross**
10 **Customer Additions with true-up to actual amounts in each test year for the**
11 **previous year's forecasts.**

12 Please also refer to the response to CEC IR2 20.1.

13

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20. Reference: Exhibit B-9, CEC IR 3.1 Series

20.1 Please confirm for the record of this proceeding that the following excerpts are among the submissions of the Commercial Energy Consumers Association of British Columbia (the “CEC”) in its Final Argument for FEI’s 2024 Annual Review of Delivery Rates proceeding.

3. The CEC recommends that the Commission direct FEI to modify, starting in MRP Application, the MRP formula for forecasting gross customer additions such that it anticipates declining additions related to rising delivery rate costs and government policy drivers to reflect anticipated demand destruction.

107. The CEC is concerned that FEI does not employ any rate impact analysis to directly inform its gross customer additions forecast, in the context of not just short-term price elasticity but more importantly the evolving landscape of heating options for home and commercial settings (i.e., gas versus electricity).

108. The CEC submits that in a declining trend of gross customer additions, the MRP formula at 75% results in an over-calculation of O&M costs given the 2-year lag in customer growth and customer count true-ups.

109. The CEC submits that the calculation of formula growth capital, which includes a two-year lag in gross customer additions true-up, results in the build-up of over-calculated formula-driven growth capital, should the declining trend of gross customer additions continue.

Response:

FEI confirms that the submission excerpts provided in the above preamble can be found in the CEC Final Argument filed in the Annual Review for 2024 Delivery Rates proceeding. As outlined in the response to CEC IR1 3.1, FEI addressed the CEC’s submissions in its Reply Argument in the Annual Review for 2024 Delivery Rates proceeding.

In its Reply Argument, FEI disagreed with and refuted each of the CEC’s assertions. Accordingly, while FEI reviewed the CEC’s (and other interveners) statements regarding the Current MRP when developing the proposed Rate Framework, FEI may not have incorporated the feedback into the design of the proposed Rate Framework.

Each of the excerpts referenced in the preamble to this question is further discussed below.

CEC Excerpt Paragraph 3

In FEI’s Reply Argument in the Annual Review for 2024 Delivery Rates proceeding¹ (and referenced in the response to CEC IR1 3.1), FEI submitted that CEC had not established any reasonable grounds for revising FEI’s gross customer additions forecast and explained how its forecast GCA was reasonable based on the best available information.

¹ At paras. 20-24.

1 **CEC Excerpt Paragraph 107**

2 In FEI's Reply Argument in the Annual Review for 2024 Delivery Rates proceeding² (and
3 referenced in the response to CEC IR1 3.1), FEI discussed how the forecast of FEI's GCA is
4 developed by including the use of FEI's customer relationship management system, interactions
5 with builders, developers and contractors, market information, and assumptions regarding
6 conversion activities and home electrification. As such, FEI stated that the concern raised by CEC
7 was unfounded because these considerations were already informing FEI's forecast of GCA and,
8 in particular, the evolving landscape of heating options for home and commercial settings.

9 FEI's Reply Argument in the Annual Review for 2024 Delivery Rates proceeding also addressed
10 the topic of demand elasticity on GCA by explaining that FEI is only forecasting GCA for one year
11 and, as such, there would be limited impact of demand elasticity. Further, any impact of demand
12 elasticity would be inherently reflected in the actual GCA and therefore taken into account in FEI's
13 forecast each year.

14 **CEC Excerpt Paragraph 108**

15 This excerpt from CEC's Final Argument in the Annual Review for 2024 Delivery Rates
16 proceeding was repeated from CEC's Final Argument in the 2023 Annual Review proceeding. In
17 its Reply Argument in the 2023 Annual Review, FEI explained why, contrary to CEC's submission,
18 there was no over-calculation of O&M costs.³ In particular, FEI submitted:

- 19 • First, FEI has calculated the growth factor consistent with the MRP Decision.
- 20 • Second, the growth factor calculation for formula O&M and Growth capital are different
21 and a declining trend in GCA has no impact on formula O&M.
- 22 • Third, FEI's forecast of average customers and GCA is reasonable and in line with
23 projections.
- 24 • Fourth, any variance between forecast and actual average customers or GCA will be trued
25 up in subsequent annual reviews.

26 **CEC Excerpt Paragraph 109**

27 Contrary to CEC's submission in its Final Argument in the 2024 Annual Review, there is no over-
28 calculation of formula-driven Growth capital as the true-up is not the difference between the
29 current year forecast of GCA and the actual GCA from two years prior. As noted in the response
30 to CEC IR1 3.1, the true-up mechanism is to correct the variance between the forecast from two
31 years prior and the actual GCA from that same year. The variance between forecast and actual
32 GCA can be positive or negative, and this variance is not related to either a declining or inclining
33 trend of GCA. Depending on the variance, the true-up can be an addition or subtraction to the
34 current year formula-driven Growth capital.

² At paras. 20-24.

³ At paras. 32-36.

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21. Reference: Exhibit B-9, CEC IR 4.1 Series (excerpt below), CEC IR 4.2 Series, and CEC IR 5 Series

Response:

The following response was provided by Dr. Kaufmann:

The calculation of an appropriate O&M PFP trend is not impacted in any way by FEI's and FBC's forecasting methodology. Both output and input measures are based on observed, actual values and not impacted by forecast methodology.

21.1 Please identify the process which FortisBC followed to determine which of its formula-based rate-setting elements it would revisit and benchmark in preparation for the proposed Rate Setting Framework.

Response:

FortisBC's process to determine which formula elements may need to be revisited included the following steps:

- **Review of Prior BCUC Decisions:** FortisBC reviewed the MRP Decision, the Annual Review decisions from the Current MRP term, the PBR Plan Decision, and the BC Hydro Review of the Performance Based Regulation Report. For instance, FortisBC was in part guided by the BCUC's findings in the MRP Decision regarding the X-Factor and productivity studies. These findings led FortisBC to determine that it was appropriate to retain an expert to provide a recommendation on the X-Factors for the proposed Rate Framework. Another example is that, based in part on the BCUC's commentary in the FEI and FBC Annual Review for 2024 Rates Decisions, FortisBC ultimately decided to propose a shorter term for the Rate Framework. Further, when considering whether to change how the labour versus non-labour split should be calculated for the I-Factor, FortisBC reviewed the MRP Decision, Annual Review decisions, and the PBR Plan Decisions, all of which led FortisBC to determine that reverting back to the approach used in the 2014-2019 PBR Plans was preferable to continuing with the approach used during the Current MRP term.
- **Evaluation of the Formulas' Performance in the Current MRP:** FortisBC reviewed the performance of each formulaic component of the Current MRP (i.e., O&M and Growth capital for FEI), as well as reviewing the non-formulaic components of O&M and capital, to see whether changes were required when designing the proposed Rate Framework. For example:
 - FortisBC reviewed the results of the formulaic O&M for each of FEI and FBC to assess whether a formulaic approach still made sense, and to assess whether any O&M items needed to be moved either in or out of the formula. As described in Section B2.2.2.2 of the Application, the formulaic approach to O&M was successful during the Current MRP term as it provided stable levels of funding and resulted in savings for customers and the Companies. Accordingly, FortisBC determined that it was appropriate to continue with the formulaic O&M approach, with some adjustments to the formulaic mechanisms as discussed above. FortisBC also

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reviewed the items that were treated as forecast/flow-through in the Current MRP to assess if those items were still appropriately characterized. FortisBC then considered whether any items should be moved out of the formula due to changes in operational circumstances. As explained in Section C2.2.2.2.1, FEI determined that certain O&M items should be reclassified from formula to forecast O&M due to the deployment of AMI during the Rate Framework term.

- Regarding Growth capital, based on the results of the formula versus actual Growth capital spending, it was evident to FEI that the formula did not fully work as intended, as the annual formula amount provided during the Current MRP was insufficient to fund FEI's Growth capital requirements, resulting in FEI over-spending on Growth capital in each year of the Current MRP term. FEI accordingly considered whether a different approach to Growth capital would be more appropriate, such as providing three-year forecasts similar to FBC's approach to Growth capital. However, for the reasons described in Section C3.3.1.2 of the Application, FEI determined that a formulaic approach to Growth capital remained the preferred method, but that adjustments needed to be made to the Base Growth capital to mitigate issues of insufficient funding for the term of the Rate Framework.

- **Reviewing Prior Stakeholder Feedback and Gathering New Stakeholder Feedback:** Stakeholder feedback was another important consideration when developing the Application and informed FortisBC's process as to which elements of the formulas may need to be revisited or may require additional explanation/evidence to respond to certain concerns/suggestions. Through the review of the past decisions described above, FortisBC considered interveners' comments regarding the various components of the Current MRP. In some cases, as explained in the response to CEC IR2 20.1, FortisBC may have considered the feedback but ultimately not incorporated the feedback into the proposed Rate Framework. In other cases, such as stakeholder questions and comments made in IRs and arguments during the Annual Reviews on the labour versus non-labour weightings applied to the I-Factor, FortisBC proposed a different approach from the Current MRP in part due to this feedback. As explained in Section B2.4 of the Application, FortisBC engaged with BCUC staff and interveners when developing the proposed Rate Framework. This took the form of initial informal one-on-one conversations in April 2023 and then a full workshop on November 20, 2023. Table B2-11 of the Application provides a summary of interveners' feedback at the November workshop, including comments regarding FEI's Growth capital formula and its flexibility in a declining customer base scenario, as well as how FortisBC has addressed the particular feedback received. FortisBC also notes that while some feedback was received from stakeholders on the formulaic elements of the Rate Framework, generally the feedback was high level and focused on key themes such as the energy transition and affordability.
- **Performing a Jurisdictional Review:** As described in Section B2.3 of the Application, FortisBC performed a jurisdictional review of other Canadian utilities that are operating under a multi-year rate-setting plan. FortisBC used the information gathered from this review to inform its decisions around the appropriateness of utilizing a formulaic approach

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1 to O&M, whether the X-Factors for FEI and FBC should be reviewed and whether it would
2 be appropriate to undertake a productivity study to support the X-Factor determinations,
3 the reasonableness of including a discount on the growth factor, and the approach to
4 calculating the I-Factor.
5
6

7
8 21.2 Please explain how FortisBC used the CEC feedback captured in CEC IR 20.1 to
9 inform its proposed Rate Setting Framework.
10

11 **Response:**

12 Please refer to the response to CEC IR2 20.1.
13
14

15
16 21.3 Please comment on the thoroughness of the Companies' summary of intervener
17 feedback received after the 2020-2024 MRP Decision, which FortisBC provided in
18 response to CEC IR 3.1 Series, on account of the CEC submissions captured in
19 CEC IR 20.1.
20

21 **Response:**

22 FortisBC maintains that a sufficient and thorough summary of intervener submissions from FEI's
23 and FBC's Annual Reviews since 2020 was provided on the topics requested by the CEC in IR1
24 3.1 (i.e., the forecasting of the average number of customers and the related true-up mechanism).
25 Please also refer to the response to CEC IR2 20.1 which specifically discusses the intervener
26 feedback highlighted by the CEC in that question in relation to the summary provided in CEC IR1
27 3.1, and why this feedback was not incorporated into the proposed Rate Framework.
28

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1 **22. Reference: Exhibit B-9, CEC IR 7.1.3 (excerpt below) and CEC IR 7 Series**

6 **Response:**

7 The inflationary pressures faced by FEI are not unique. Similar pressures have been experienced
8 by other North American gas utilities. As noted in Section C3.3.1.1.1 of the Application, as well
9 as in FEI's Annual Review for 2023 Delivery Rates,⁹ gas utilities across North America saw an
0 average escalation of 31.2 percent in capital costs between 2020 and 2022, which is comparable
1 to the 31.6 percent increase in net UCGC for 2022 shown in Table 1 in the response to CEC IR1
2 7.1.

3 22.1 Please provide the average escalation of gas utility capital costs over the four-year
4 period between 2020 and 2023 (inclusive), and if amenable please provide it
5 separately for Canadian peers versus U.S. peers.

7 **Response:**

8 As stated in the response to CEC IR1 7.1.3, FEI provided evidence during the Annual Review for
9 2023 Delivery Rates proceeding showing that gas utilities across North America saw an average
10 escalation of 31.2 percent in capital costs between 2020 and 2022. This was based on a market
11 report completed by Wood Mackenzie Supply Chain Consulting (Wood Mackenzie) and was
12 included as Appendix C-1 to FEI's 2023 Annual Review application.⁴ The report was completed
13 in May 2022. FEI is unable to engage Wood Mackenzie to complete another market report in the
14 time required to provide data up to 2024 for these IR responses; however, as noted in the
15 response to CEC IR1 7.1.3, the average escalation of 31.2 percent seen by gas utilities across
16 North America from 2020 to 2022 is comparable to the 31.6 percent increase in FEI's net unit cost
17 of growth capital (UCGC) experienced from 2021 to 2022 (or the 33.5 percent increase from 2020
18 to 2022).⁵

19 As the Wood Mackenzie Report does not separate out Canadian and US utilities, FEI is also
20 unable to provide the average escalation separately for Canadian utilities from US utilities.
21 However, as noted in the Wood Mackenzie Report, the model incorporated over 150 indices, and
22 where appropriate, it included indices specific to BC, particularly around trades and other labour
23 in the province.

24
25
26
27 22.2 Please identify FEI peers who experienced a capital cost escalation of equal to or
28 higher than the 67.8% experienced by FEI's between 2020 and 2023 inclusive
29 (CEC calculation using UCGC from \$4,423 to \$7,422; Source: Table C3-3 of the
30 Application).

4 https://docs.bccuc.com/documents/proceedings/2022/doc_67323_b-2-fei-annualreview-2023-delivery-rates-application.pdf.

5 From Table 1 of the response to CEC IR1 7.1. The 2022 Actual UCGC excluding system improvements (SI) is \$5,484 and the 2020 Actual UCGC excluding SI is \$4,106. $(\$5,484 / \$4,106) - 1 = 33.5$ percent.

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Response:

As discussed in the response to CEC IR1 7.1, a significant portion of the increase in the UCGC is due to the high number of system improvements (both customer-driven and distribution plant requirements) and therefore are not a result of inflationary pressures. Table 1 of the response to CEC IR1 7.1 showed that if the costs related to system improvements are excluded, the increase in net UCGC for 2021, 2022, and 2023 would reduce to 1.5 percent, 31.6 percent, and 7.3 percent, respectively. Cumulatively from 2020 to 2023, the increase would have been 43.3 percent⁶ as opposed to the 67.8 percent calculated by the CEC in this question.

FEI does not have market data that include the full year of 2023 for comparison, as discussed in the response to CEC IR2 22.1. However, between 2020 and 2022, the inflationary increase of 33.5 percent⁷ experienced by FEI for its UCGC is comparable to the 31.2 percent inflationary increase experienced by gas utilities in North America.

⁶ From Table 1 of the response to CEC IR1 7.1. 2023 Actual UCGC excluding SI is \$5,884 and 2020 Actual UCGC excluding SI is \$4,106. $(\$5,884 / \$4,106) - 1 = 43.3$ percent.

⁷ From Table 1 of the response to CEC IR1 7.1. 2022 Actual UCGC excluding SI is \$5,484 and 2020 Actual UCGC excluding SI is \$4,106. $(\$5,484 / \$4,106) - 1 = 33.5$ percent.

1 **23. Reference: Exhibit B-9, CEC IR 7.2.1.1**

4 **Response:**

5 FEI continues to consider the approach of using the UCGC and GCA to be the best method to
6 estimate and set FEI's Growth capital spending envelope over the proposed Rate Framework
7 term.

8 FEI expects a more stable inflationary environment during the proposed Rate Framework term,
9 which will help avoid some of the issues encountered with the UCGC during the Current MRP
10 term. While FEI continues to expect a high level of complexity in each installation due to evolving
11 government policy and the continued market shift towards high density dwellings in place of
12 single-family dwellings, as well as the increasing requirement for system improvements, FEI's
13 Growth capital is still heavily dependent on the number of customers seeking to connect to FEI's
14 system. Therefore, the formulaic unit cost approach to Growth capital is still the most reasonable
15 approach for determining Growth capital annually as the annual spending envelope is directly tied
16 to gross customer additions, and the method is transparent and easy to track and understand.
17 The formulaic approach also incents FEI to continue to look for areas of efficiency and cost
18 savings.

2
3 23.1 In response to CEC IR 7.2.1.1, FortisBC states that it expects a more stable
4 inflationary environment (emphasis added) during the proposed Rate Framework
5 term. Technically and quantitatively, what level of annual escalation, in UCGC,
6 would constitute a more stable environment?

7
8 **Response:**

9 FEI's statement in the response to CEC IR1 7.2.1.1 is based on its current expectation that
10 inflationary pressures will be lower and more stable compared to what the market has
11 experienced in recent years. For instance, the Bank of Canada is currently projecting inflation to
12 remain close to 2 percent for 2025 and 2026 in its latest Monetary Policy Report,⁸ which is
13 significantly lower than the inflation level experienced in recent years and more consistent with
14 historical averages.

15 However, as FEI noted in the response to CEC IR1 7.1, inflationary pressures are only one of the
16 many factors that has contributed to the escalation of the unit cost growth capital (UCGC). For
17 instance, a more stable inflationary environment would not prevent cost pressures driven by
18 increasing installation complexity, government restrictions or permitting requirements, or the need
19 for system improvements (both customer-driven and distribution-plant driven). FEI will continue
20 to seek out cost-effective solutions to minimize cost increases, but these pressures are not fully
21 within the control of FEI.

22
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⁸ <https://www.bankofcanada.ca/publications/mpr/mpr-2024-10-23/projections/>.

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23.2 Please clarify what customer and business developments or cost escalation circumstances would render FortisBC to propose to do away with the formulaic unit cost approach to Growth capital.

Response:

FEI has not identified any customer and business developments or cost escalation circumstances that would necessitate moving away from the existing formulaic unit cost method of setting and estimating FEI's Growth capital envelope. As noted in the preamble, FEI considers the method to be the best and most reasonable approach due to its flexibility, transparency and ease of understanding. Further, FEI has not identified an alternative method that would meaningfully address the hypothetical circumstances raised in the question. In particular, as discussed in the response to CEC IR1 7.2.1.1, the alternative method of forecasting total Growth capital expenditures annually would not offer any improvement over the formulaic approach given the inherent lag in the trend of costs as well as the type of projects (i.e., only actuals from two years prior would be available when setting the Growth capital spending envelope on a forecast basis).

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1 **24. Reference: Exhibit B-9, CEC IR 15 Series (see excerpt below from CEC IR 15.1)**

18 Further, this metric also provides limited insight when viewed in isolation. Rather, it is more
19 appropriate for periodic use as a secondary metric in benchmarking studies, along with other key
20 metrics such as O&M per customer, to compare utilities against each other where they are
21 experiencing similar regulatory and compliance requirements. For example, in the Benchmarking
22 Studies filed as part of the 2020-2024 MRP Application (Appendices C2-1 and C2-2) to inform
23 the Companies' proposed X-factor values,¹² Concentric used this metric, as well as the energy
24 delivered per employee, to better understand FEI's and FBC's O&M unit cost performance against
25 their peers.

24.1 Given that benchmarking studies are initiated by the Companies at certain
infrequent intervals, please discuss the merits of adopting some of the metrics that
are periodically used in benchmarking studies as informational metrics for
purposes of Annual Review processes, including: employees per thousand
customers; energy delivered per employee; O&M per customer; and capital
spending per customer.

Response:

FortisBC notes that, other than the number of employees, either the suggested metrics (such as
O&M per customer) or the components of the metrics in the question, such as energy delivered
per rate schedule, are already provided or can be calculated using the information contained in
the Financial Schedules filed as part of the Annual Review applications. Regarding the number
of employees per thousand customers, FortisBC does not see any merit in reporting on this within
the Annual Reviews.

As explained in the response to the CEC IR1 15.1, while metrics such as energy delivered per
employee or employee per thousand customers are relatively easy to calculate, they are only
useful as secondary metrics in benchmarking studies and provide limited insight into a company's
efforts to manage its workforce efficiently when viewed in isolation. In addition, the reporting of
the service quality indicators as well as the proposed energy transition-related informational
indicators in the Annual Review process are intended to ensure that the potential cost savings
during the term of the Rate Framework are not negatively impacting the level of service quality or
lack of investment/progress in key areas (such as the energy transition). Requiring FEI and FBC
to report on the types of secondary metrics suggested in the question would create additional
work for the Companies without providing additional value to the Annual Reviews.

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1 **25. Reference: Exhibit B-9, CEC IR 16.1 Series**

33 Please refer to the response to BCUC IR1 33.5 for the total customer GHG emissions from 2020
34 to 2023. For the reasons discussed in the response to BCUC IR1 33.5.1, FEI does not recommend
35 adding an informational indicator for these emissions.

36 Further, FEI does not consider that adding carbon taxes paid by its customers would be useful
37 for providing context on how FEI is addressing the energy transition. Carbon taxes are outside of

25.1 Please provide the present share (in percentage terms) of FEI's venting emissions
to its overall Scope 1 GHG emissions.

Response:

FEI's venting emissions, as defined and in accordance with BC's *Greenhouse Gas Industrial Reporting and Control Act*, represented approximately 6 percent of its overall reportable Scope 1 GHG emissions in 2023 (the most-recent year of results).

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1 **26. Reference: Exhibit B-9, CEC IR 16.6 and Exhibit B-1-2, Section 6.1.4**

33 Please refer to the response to BCUC IR1 33.5 for the total customer GHG emissions from 2020
34 to 2023. For the reasons discussed in the response to BCUC IR1 33.5.1, FEI does not recommend
35 adding an informational indicator for these emissions.

36 Further, FEI does not consider that adding carbon taxes paid by its customers would be useful
37 for providing context on how FEI is addressing the energy transition. Carbon taxes are outside of

1 FEI's control, as they are set by government and are subject to change based on government
2 policy.

29 **6.1.4 Informational Indicators**

30 Some SQIs do not have benchmarks or thresholds and are classified as informational indicators.
31 An SQI works well as an informational indicator when there are factors outside of the Companies'
32 control that may influence the metric's performance. For example, the Customer Satisfaction

26.1 Understanding that carbon taxes are set by government and are thus outside of
the Companies' control, please discuss the merits of adopting informational
indicators with respect to carbon taxes paid by FEI's customers in total and broken
down by customer segment (residential, commercial and industrial) and
particularly the potential of customer understanding of the needs for low carbon
alternatives.

Response:

FEI does not see any merit in adopting an informational indicator setting out how much carbon
tax is paid, including as a means for customers to understand the need for lower carbon
alternatives. First, FEI's customers generally do not directly participate in Annual Reviews, and
would be unaware of the informational indicator. Second, the aggregated amount of carbon tax
that FEI collects and remits, whether in total or by segment, does not provide useful information
to an individual customer that they could use to make energy choice decisions. Rather, the carbon
tax paid, as set out on the customer's bill, is the best way for that customer to understand the
impact that carbon tax has on their energy costs, which may precipitate them considering lower
carbon alternatives.