FORTIS BC™

Sarah Walsh
Director, Regulatory Affairs

Gas Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (778) 578-3861
Cell: (604) 230-7874
Fax: (604) 576-7074
www.fortisbc.com

November 14, 2024

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

Attention: Patrick Wruck, Commission Secretary

Dear Patrick Wruck:

Re: FortisBC Energy Inc. (FEI)

Disposition of Prince George Customer Service Facility Application (Application)

Response to the British Columbia Utilities Commission (BCUC) Information Request (IR) No. 1

On October 7, 2024, FEI filed the Application referenced above. In accordance with the regulatory timetable established in BCUC Order G-273-24 for the review of the Application, FEI respectfully submits the attached response to BCUC IR No. 1.

FEI has filed a portion of the responses to BCUC IR1 1.2 and 1.4 on a confidential basis at this time, as identified in those responses and has provided redacted versions for the public record of this proceeding.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Sarah Walsh

Attachments

1.0 Reference: GENERAL

Exhibit B-1, pp. 1–2, 5

Prince George Customer Service Centre Office property (PGO Property) Disposition

On page 1 of the Application, FEI states:

> However, the environment around the PGO Property location has deteriorated over the past years and the crime and social disorganization in the area has become a risk to the facility and to the mental and physical well-being of FEI employees, as well as to FEI's ability to continue to provide quality service to customers. FEI therefore determined that it was necessary to relocate the customer service centre […]

On pages 1 and 2 of the Application, FEI states that "[f]ollowing a search for a suitable alternate location in Prince George, FEI entered into a lease for a new customer service centre facility in September 2022, and moved into the new facility in March 2024."

On page 5 of the Application, FEI states that "[i]n order to determine a reasonable asking price for the PGO Property, FEI engaged A-Tech Appraisals to complete an appraisal of the building and property in January 2024."

1.1 Given that FEI has entered into a lease for a new customer service centre facility in September 2022, please explain (i) why FEI did not move into the new facility until March 2024; and (ii) why an appraisal of the PGO Property was not completed until January 2024.

<u>Response:</u>

Although FEI entered into the lease in September 2022, FEI did not commence making lease payments on the new facility until it moved into the new facility in March 2024. The landlord of the new lease facility commenced construction of the office building in 2022 and the construction of the lease facility was not complete and not ready for FEI to move in until March 2024.

FEI aligned the appraisal date close to the relocation timeline to ensure the report represented the current market value of the property.

1.2 Please clarify the approximate date (month and year) that FEI began investigating the potential sale of the PGO Property. If this was before January 2024, please discuss whether the fair market value of the PGO Property was higher or lower than the 2024 appraised value and provide the fair market value at that time.

Response:

For a portion of this response, FEI has redacted certain information for which FEI is requesting that this information be filed on a confidential basis and be held confidential by the BCUC at this time, pursuant to Section 18 of the BCUC's Rules of Practice and Procedure regarding confidential documents as set out in Order G-72-23. The redacted information contains commercially sensitive and market competitive information which, if disclosed publicly, could prejudice or influence future negotiations related to the sale of the PGO Property. If approval of this Application is granted and upon completion and closing of all transactions, the confidential portions of the Application, Appendices and these IR responses may be made public.

FEI began investigating the potential sale of the PGO Property in 2021. Specifically, in March 2021, FEI engaged with CBRE, a commercial real estate service firm, to investigate the Prince George commercial real estate market. FEI engaged CBRE to provide a lease market survey for available office space and to complete a valuation analysis for the PGO Property. The market valuation for the PGO Property, at that time, was determined to be in the range of [redacted]

1.3 Please provide the length of the lease FEI entered into for the new customer service facility and whether FEI anticipates staying at this location long-term.

Response:

The lease agreement has a 10-year term with four 5-year renewal options (i.e., FEI has the option to renew the lease for 5-year intervals up to four times), for a total of 30 years. FEI anticipates staying at this location long term.

1.4 Please provide the 2022 and 2023 BC Assessment value of the PGO property.

Response:

For a portion of this response, FEI has redacted certain information for which FEI is requesting that this information be filed on a confidential basis and be held confidential by the BCUC at this time, pursuant to Section 18 of the BCUC's Rules of Practice and Procedure regarding confidential documents as set out in Order G-72-23. The redacted information contains commercially sensitive and market competitive information which, if disclosed publicly, could prejudice or influence future negotiations related to the sale of the PGO Property. If approval of this Application is granted and upon completion and closing of all transactions, the confidential portions of the Application, Appendices and these IR responses may be made public.

The 2022, 2023 and 2024 BC Assessment values for the PGO Property are provided in the table below, which show that the total assessed value is decreasing.

Year	Gross Assessment	Exemptions	Taxable Value	Valuation Date
2024	$5,416,000	$10,000	$5,406,000	1-Jul-23
2023	$5,455,000	$10,000	$5,445,000	1-Jul-22
2022	$5,456,000	$10,000	$5,446,000	1-Jul-21

[redacted]

FEI considers the difference between the market and assessed values is reasonable and likely results from the following:

- BC Assessment Authority assessed values are based on mass appraisal techniques which provide a broad-based valuation system that is inherently less reliable than a narrative appraisal report, such as the one FEI obtained from A-Tech Appraisals. It is possible that the BC Assessment Authority has not physically viewed the properties for 14 or more years.
- The 2024 BC Assessment of $5,406,000 is based on the value of the properties as of July 1, 2023, based on sales from 6 to 12 month prior to July 1, 2023.
- BC Assessment Authority values can vary in their reliability or accuracy depending on the nature and location of the property. For example, an assessed value may be highly reliable (as of July 1st of the appropriate year) for a homogenous property in a market with many sales, such as a single-family dwelling in a new neighborhood. Conversely, in a market with limited sales such as Prince George, and for a commercial property that has many characteristics and variables, the assessed value may be much higher or lower than the property’s true market value.

2.0 Reference: DEFERRAL ACCOUNT REQUESTS

Exhibit B-1, p. 7

Deferral Account Requests

On page 7 of the Application, FEI states:

> FEI proposes to establish a non-rate base deferral account, titled the Prince George Customer Service Centre Disposition deferral account, attracting WACC [weighted average cost of capital], to record the net book value of the PGO Property at the time of the sale less the net proceeds of the sale. The balance in the non-rate base deferral account (estimated to be **[REDACTED]**) would then be transferred to rate base on January 1, 2026. Once transferred to rate base in 2026, FEI proposes to amortize the balance in the deferral account over one year.

2.1 Please explain the rationale for requesting a non-rate base deferral account initially and the implications of transferring the balance to rate base rather than amortizing the balance directly from the non-rate base deferral account.

<u>Response:</u>

While FEI would normally just seek approval of a rate base deferral account, the primary rationale for requesting an initial non-rate base deferral account in this instance is due to timing, as it facilitates a transfer to rate base on January 1, 2026. Since the decision on this Application is not expected until December 31, 2024 at the earliest, and the final sale and closing of the PGO Property disposition is not expected to occur until Q1 of 2025, FEI anticipated not being able to include a forecast change in its 2025 rate base due to the PGO Property disposition in its 2025 delivery rates (including disposition of assets from plant as well as the additions to the deferral account). This expectation was based on the assumption that 2025 delivery rates would already be set prior to receiving a decision on this Application. Consequently, for rate making purposes, the earliest FEI would be able to record the balance in rate base would be January 1, 2026, which would be reflected in the rate setting proceeding for 2026 delivery rates. Therefore, between the time when the sale is closed and January 1, 2026, FEI would have been unable to capture and recover any amount for the financing of the deferral account unless a non-rate base deferral account, attracting FEI's weighted average cost of capital (WACC), was established. The transfer to rate base on January 1, 2026 would then ensure the deferral account follows the accepted and consistent rate base treatment of past deferral accounts. This approach and treatment is consistent with other past BCUC approved deferral accounts, including the deferral account treatment approved as part of the recent FortisBC Inc. (FBC) disposition application for the Princeton Office Properties.[1]

However, since the filing of this Application, FEI has filed a request to set 2025 delivery rates on an interim basis (this interim rates application was filed concurrently with FEI's IR2 responses in the FortisBC 2025-2027 Rate Framework application proceeding on November 5, 2024). Given

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[1] Order G-14-23, Directive 2.

that FEI will not be seeking to set permanent 2025 rates until after a decision on the FortisBC 2025-2027 Rate Framework application (i.e., sometime in mid-2025), FEI would also be amenable to modifying the request in this Application to establish and record the balance in a rate base deferral account in 2025, with amortization occurring over a one-year period, either in 2025 or 2026.

2.2 Please clarify whether FEI is requesting approval of a rate base deferral account, with a one-year amortization, commencing January 1, 2026. If not, please explain why FEI is not requesting approval at this time.

Response:

FEI clarifies that it is requesting approval of the following in this Application:

- Approval to establish a non-rate base deferral account attracting a WACC rate of return to capture the net proceeds less the book value of the sale after the execution of the Purchase Agreement in 2025;
- Approval to transfer the balance in the non-rate base deferral account to a rate base deferral account on January 1, 2026; and
- Approval to amortize the rate base deferral account over a one-year period beginning January 1, 2026.

Please refer to the response to BCUC IR1 2.1 for further explanation on why the establishment of the non-rate base deferral account and subsequent transfer to rate base was requested, including a discussion of an alternative option given FEI's recent filing for interim 2025 delivery rates.

2.3 Please provide the reason(s) why an amortization period of one-year is appropriate for the recovery of the balance in the proposed rate base deferral account.

Response:

FEI considered amortization periods ranging from one year to three years, but ultimately determined that one year was the most reasonable.

This is mainly because, as shown in Table 1 below, the estimated delivery rate impact in 2026 (the first year that amortization commences) is already small at approximately 0.12 percent when compared to FEI's 2024 approved delivery rates (or equivalent to approximately 90 cents annually for an average residential customer). As such, FEI considered that a longer amortization period such as two or three years would be unnecessary.

Table 1: Delivery Rate Impact for One- to Three-Year Amortization Periods for Deferral Costs

	1 Year	2 Years	3 Years
Cost of Service related to Deferral (incl. Amortization, Earned Return, and Income Tax)	2.313	1.227	0.864
Savings from O&M, Property Tax, Depreciation, Earned Return, and Income Tax (from Disposition)	(0.935)	(0.935)	(0.935)
Total Incremental Delivery Margin in 2026 ($ millions)	1.379	0.292	(0.070)
Delivery Rate Impact in 2026, compared to 2024 Approved (%)	0.12%	0.03%	-0.01%

2.4 Please provide, with supporting calculations, the expected average annual bill impact, in dollars and percent, to FEI's customers should the BCUC approve the proposed deferral accounts and amortization period.

Response:

Please refer to Table 1 below for the expected average annual bill impact, in dollars and percent, to FEI's customers in rate schedules (RS) 1 to 7 if the proposed deferral account and one-year amortization period is approved by the BCUC as part of this Application. FEI has excluded transportation customers as FEI does not have insight into their commodity charges and therefore is unable to calculate the impact on their total bills.

Table 1: Average Annual Bill Impact to RS 1 to 7 for One-Year Amortization ($ and %)

	Annual Average Volume (GJ)	Average Annual Bill @ 2024 Approved Rates ($)	Average Annual Bill Impact ($)	Average Annual Bill Impact - Compared to 2024 Approved (%)
RS 1	90	978	0.9	0.09%
RS 2	328	2,824	2.4	0.09%
RS 3	3,733	26,881	21.2	0.08%
RS 4	10,453	51,473	33.6	0.07%
RS 5	17,533	99,248	70.6	0.07%
RS 6	1,006	7,301	5.2	0.07%
RS 7	147,813	664,445	350.9	0.05%