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

Attention: Patrick Wruck, Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) - Application for Approval of a Rate Setting Framework for 2025 through 2027

We enclose for filing in the above proceeding the Reply Submission of FortisBC, dated January 15, 2025.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

Chris Bystrom*
*Law Corporation

Encl.

cc (email only): Registered Interveners

BRITISH COLUMBIA UTILITIES COMMISSION

FORTISBC ENERGY INC. AND FORTISBC INC.
2025 TO 2027 RATE SETTING FRAMEWORK

REPLY SUBMISSION
OF
FORTISBC ENERGY INC. AND FORTISBC INC.

JANUARY 15, 2025

Fasken Martineau DuMoulin LLP
Chris Bystrom and Niall Rand

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PART ONE: INTRODUCTION AND OVERVIEW

A. Introduction

1. FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (together, FortisBC, the Companies or the Utilities) filed their Application for the proposed Rate Setting Framework for 2025 through 2027 (Application) on April 8, 2024. The evidentiary phase of the Rate Setting Framework for 2025 through 2027 (Rate Framework) proceeding included the filing of supplemental information requested by the British Columbia Utilities Commission (BCUC), an errata to FortisBC's Application and two rounds of information requests (IRs) to FortisBC. Following the close of the evidentiary phase, FortisBC filed its Final Submission on November 27, 2024.

2. In this Reply Submission, FortisBC responds to the seven interveners who filed arguments in the proceeding. These interveners are the Residential Consumer Intervener Association (RCIA), the Commercial Energy Consumers Association of British Columbia (CEC), BC Sustainable Energy Association (BCSEA), the Movement of United Professionals (MoveUP), Air Products,[1] the BC Public Interest Advocacy Centre representing the 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), and the Industrial Customers Group (ICG).[2]

3. Five of the interveners generally support, or do not oppose, approval of the Rate Framework subject to certain modifications:

- RCIA considered each of FortisBC's Rate Framework proposals and does not object to the Rate Framework, subject to its recommendations with respect to lengthening the term, continuation of the discount factor currently applied to FortisBC's formula O&M growth factor (Growth Factor), changes to the collection and funding of the Clean Growth Innovation Fund (CGIF) as well as an additional governance requirement, increased incremental funding to reduce the risk of gas

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1 Per the BCUC's letter of July 26, 2024, Air Products' intervention is limited to matters pertaining to the hydrogen market only (Exhibit A-5).

2 ICG is comprised of members who are industrial customers of FBC only (Exhibit C6-1).

line contacts, and the approval of several additional service quality indicators (SQIs).

- CEC supports approval of most of the key components of the proposed Rate Framework, but recommends changes to some items, including using 5 years of data for the X-Factor and for FEI's base Unit Cost Growth Capital (UCGC), maintaining the discount on FortisBC's formula O&M Growth Factor, reporting Climate Change Operational Adaptation (CCOA) costs separately in the Annual Reviews, improving performance of FEI's Public Contact with Gas Lines SQI, maintaining the Meter Reading Accuracy SQI, developing a customer emissions SQI, and a recommendation that FortisBC explore targeted incentives.

- BCSEA considered each of FortisBC's Rate Framework proposals, and supports approval of the proposed Rate Framework with modifications to the formula for FEI's Growth capital, the addition of a further energy transition informational indicator, maintaining the existing scope of the CGIF, and not scoping Annual Reviews.

- MoveUP supports FortisBC's proposed Rate Framework, but without the scoping of Annual Reviews.

- Air Products does not oppose the approvals sought but submits that the only hydrogen production development costs included in O&M or the CGIF that are recoverable are those required by the *Greenhouse Gas Reduction (Clean Energy) Regulation* (GGRR) or those supported by documented efforts to provide customers with the lowest-cost reliable supply in the near term, including assessing competitiveness of third-party supply.

4. Two interveners expressed more opposition to the Rate Framework:

- BCOAPO's recommendations are primarily focused on rate mitigation and, to a lesser extent on the energy transition. BCOAPO recommends capping increases to O&M, reductions to the proposed X-Factors, maintaining the discount factor currently applied to FortisBC's formula O&M Growth Factor, not scoping the Annual Reviews, the development of targets to measure the energy transition, the development of proactive rate mitigation strategies, and a conceptual review of the appropriate rate setting framework and Annual Review process.

- ICG argues that FBC's rates should only be approved for 2025 and that further rate-setting should be put on hold pending an inquiry by the BCUC regarding the difference between FBC's and BC Hydro's rates. In the alternative, ICG recommends changes to the Rate Framework, including maintaining the current X-Factor and discount on the formula O&M Growth Factor with no or limited increases to O&M and capital expenditures.

5. Overall, while interveners propose specific modifications to the Rate Framework, they do not propose wholesale changes or alternative rate making frameworks, with the exception of the ICG. FEI has carefully considered intervener recommendations and explained in this Reply Submission below why their proposed modifications are not fair, reasonable or otherwise appropriate for the Rate Framework. FortisBC submits that the Rate Framework represents the most appropriate ratemaking approach at this time and FortisBC submits that it is just and reasonable and should be approved.

6. FortisBC's reply to interveners' submissions below follows the organization of its Final Submission. FortisBC has sought to reasonably confine its submission to material points, and FortisBC's silence on a particular intervener statement should not be interpreted as agreement. Further, interveners have often attempted to summarize the Companies' evidence in their final arguments in ways that misrepresent FortisBC's evidence and position in this proceeding. FortisBC has not sought to correct every statement in this Reply Submission and requests that the BCUC not rely on intervener summaries but instead refer to FortisBC's evidence and submissions filed in this proceeding.

PART TWO: RATE FRAMEWORK WILL WORK WELL IN THE CONTEXT OF THE ENERGY TRANSITION

8. As set out in Part Two of its Final Submission, FortisBC submits that it has demonstrated that the proposed Rate Framework is designed such that it will work well over the next three years in the context of the energy transition. In the subsections below, FortisBC responds to the submissions of CEC, MoveUP, BCOAPO and ICG related to the suitability of the Rate Framework at this time. This includes responding to CEC's evaluation of the Current MRP,[3] BCOAPO's high-level assessment of the Rate Framework,[4] MoveUP's proposal for a regulatory transition project,[5] CEC's recommendation for targeted incentives,[6] and ICG's recommended inquiry into the differential between FBC's and BC Hydro's rates.[7]

A. The Current MRP Has Performed Well in a Rapidly Changing Environment

9. Interveners generally do not take issue with FortisBC's assessment of the Current MRP in Section B2 of the Application.[8] However, CEC's argument that the Current MRP has underperformed because it has resulted in over-inflationary rate impacts[9] is inaccurate and misleading. FortisBC submits that its evaluation of the Current MRP, as set out in Section B2 of the Application, remains accurate and demonstrates that the Current MRP has performed well. FortisBC highlights four points in response to CEC.

10. First, CEC's hypothetical price-cap model illustrated at paragraphs 72 and 73 of its Final Argument is not representative of the Ontario Energy Board (OEB) price cap formula and is therefore misleading. CEC's price cap model consists of simply inflating FEI's delivery rates/FBC's rates by an I-X formula. However, other features of the OEB's price-cap model allow for the recovery of additional costs above I-X, including:[10]

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3 CEC Final Argument, pp. 8 to 13.

4 BCOAPO Final Argument, pp. 4 to 11 and 15.

5 MoveUp Final Argument, pp. 3 and 6.

6 CEC Final Argument, paras. 289 to 290.

7 ICG Final Argument, para. 18.

8 Exhibit B-1-2.

9 CEC Final Argument, pp. 8 to 13.

10 Exhibit B-1, Application, Appendix B2-2, pp. 18 to 20.

- Z-Factor treatment (i.e., recovery in rates) of the cost of unforeseen events;
- Y-Factor treatment (i.e., deferral and variance accounts) for specific commodity and non-commodity costs; and
- A mechanism for recovery of additional incremental capital costs outside the formula.

CEC's model does not account for the above features, which are similar to features of the Current MRP that allow FortisBC to recover the costs of unforeseen events, costs outside its control, and its prudent capital expenditures, including the costs of CPCN projects. In addition, FortisBC's approved cost of capital changed during the Current MRP term, which would need to be implemented even under a price-cap model, and is not reflected in CEC's model.

11. Second, CEC's observations regarding the divergence between the I-Factor and changes in FEI's delivery rates/FBC's rates are based on the flawed and overly simplistic premise that delivery rate/rate increases above the I-Factor are indicative of under-performance of the Current MRP. The CEC's analysis does not recognize that there are many costs that are approved for recovery in rates outside the Current MRP or that many of these costs experienced increases above inflation due to factors outside of FortisBC's control. These costs would be incorporated into rates *under any form of rate regulation*. For example, the main drivers of FEI delivery rate or FBC rate increases over the Current MRP term include the impact of CPCN projects approved by the BCUC, the cost of capital approved by the BCUC, the increase in FEI's demand-side management (DSM) expenditures accepted by the BCUC, FBC's increase in power supply costs due to significant changes in market conditions, income tax increases beyond FEI's control, and FEI's loss of revenue from its contract with BC Hydro's Island Generation facility.[11] All of these cost increases would have occurred and been recovered in rates under virtually any form of rate regulation, not just the Current MRP. Therefore, the impact of these costs on rates over the term of the Current MRP is not indicative of any under-performance of the Current MRP as CEC alleges.

12. Third, FortisBC's evaluation of the Current MRP in the Application appropriately accounts for the key drivers of costs, as well as what is approved under the Current MRP and what is

[11] Exhibit B-1-2, Updated Application, pp. B-19 to B-25.

separately approved under other processes. Notably, when excluding just three types of costs approved outside the Current MRP,[12] FEI's and FBC's cost increases were well-below inflation, which indicates that the Current MRP performed well.[13] Specifically, the cumulative increase in FEI's delivery rates is approximately two-thirds of cumulative inflation at 19.3 percent, and FBC's cumulative rate increase is approximately half of the cumulative inflation at 20.0 percent.[14]

13. Fourth, when looking at bill impacts, which CEC says customers are most concerned about, FEI's total bill increase and FBC total rate increase over the Current MRP term were generally in line with the cumulative increase in inflation over the same period.[15]

14. CEC submits that the Current MRP has been successful in providing the necessary flexibility to navigate the energy transition, but also argues that FortisBC's energy transition efforts have contributed to over-inflationary rate impacts, although a lack of performance indicators and incentive targets tied to specific energy transition targets render its assessment of the rate impact and success of FortisBC's energy transition efforts ineffective.[16] In reply, FortisBC has been transparent with respect to the reality that the energy transition has resulted in increased costs, and CEC was free in this proceeding to ask IRs assessing the impacts of those costs on rates. In any case, all of these costs have been subject to the BCUC's review and approval,[17] and are accounted for in the analysis of FEI's delivery rates and FBC's rates in Section B2 of the Application and as discussed above. With respect to the assessment of the success of FortisBC's energy transition efforts, FortisBC's efforts have been subject to continuous review by the BCUC in the Annual Reviews, in the Utilities' long-term resource plans, and in other

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[12] The impacts of CPCNs, cost of capital increases, and the elimination of a flow-through credit from the 2014-2019 PBR Plan.

[13] Exhibit B-1-2, Updated Application, Tables B2-3 and B2-5.

[14] Exhibit B-1-2, Updated Application, pp. B-22 and B-25.

[15] Exhibit B-7, BCOAPO IR1 6.2; Exhibit B-1-2, Updated Application, pp. B-19 and B-22. For FEI, for the average residential customer with 90 GJ of annual consumption, the total bill increase was approximately 20.7 percent over the term of the Current MRP and the cumulative increase in the Inflation Factor over the same period was 19.3 percent. The cumulative increase in FBC's rates for 2020 through 2024 is approximately 19.5 percent, while the cumulative increase in the Inflation Factor during the same period is approximately 20.0 percent.

[16] CEC Final Argument, paras. 83 to 85.

[17] For example, FortisBC has forecast its costs related to its Clean Growth Initiatives each year in the Annual Reviews.

proceedings. FortisBC also publishes an annual Sustainability Report[18] documenting its progress. Consistent with these reports, FortisBC has proposed appropriate energy transition informational indicators as part of the proposed Rate Framework, which should further aid in assessment of the success of FortisBC's energy transition efforts.[19] The proposed energy transition informational indicators are addressed in Part Seven of this Reply Submission.

B. Rate Framework Positions FortisBC to Respond to the Energy Transition and Balances Interests

15. In this section, FortisBC responds to BCOAPO's high-level evaluation of the Rate Framework, including that it does not respond to the energy transition,[20] lacks transparency and accountability,[21] is "skewed" to FortisBC's interests,[22] and its concerns with respect to affordability.[23] FortisBC submits that BCOAPO does not present an accurate picture of the Rate Framework. FortisBC's reply is organized around the following points:

- The Rate Framework positions FortisBC to respond to the energy transition.
- The Rate Framework is part of the BCUC's comprehensive oversight over FortisBC.
- The Rate Framework reflects a reasonable balance of interests.
- FortisBC is taking actions to mitigate rate increases and is open to rate mitigation strategies to be considered in the Annual Review processes.

(a) The Rate Framework Positions FortisBC to Respond to the Energy Transition

16. One theme of BCOAPO's argument is that FortisBC has not sufficiently responded to the energy transition.[24] BCOAPO's argument appears to reflect the view that the energy transition is a simple concept with an identifiable solution that can be achieved without rate impacts, and that it is easy to assign accountability and evaluate progress. FortisBC submits that the reality is

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18 Exhibit B-8, BCSEA IR1 3.2, Attachment 3.2.

19 Exhibit B-1-2, Updated Application, p. C-186.

20 BCOAPO Final Argument, p. 4.

21 BCOAPO Final Argument, p. 4.

22 BCOAPO Final Argument, pp. 4 to 8 and 15.

23 BCOAPO Final Argument, pp. 8 to 11.

24 BCOAPO Final Argument, p. 4.

much more complicated and that the path of the energy transition and how to respond to it is far from certain. FortisBC responds to BCOAPO's various comments on this topic below.

17. BCOAPO suggests that FortisBC has expressed urgency with respect to the energy transition in its Application, but then minimized the urgency in response to IRs where FortisBC has indicated that the energy transition is ongoing and will take place over a period much longer than the three-year term of the Rate Framework.[25] Contrary to BCOAPO, there is no discrepancy between FortisBC's description of the energy transition in the Application and the views expressed in response to IRs. The phrases in FortisBC's Application that BCOAPO selects,[26] including "uncertainty", "pivotal shift", "complex and multifaceted process", are part of a description of the energy transition which is consistent with the energy transition being an ongoing event that will take place over many years beyond the proposed Rate Framework term. In FortisBC's view, it is uncontroversial that the energy transition is an ongoing process that will take place over many years and that there is inherent uncertainty. Given the uncertainty and timeframe of the energy transition, changes will necessarily take place *over time*, which is a process that FortisBC has been proactively engaged in for many years, including through the evolution of its rate frameworks.[27]

18. BCOAPO characterizes FortisBC's ongoing use of multi-year rate frameworks as a failure to acknowledge the significance of the impacts of the energy transition,[28] saying that FortisBC's Rate Framework continues to focus on productivity and incentives as the means to reduce costs, and fails to provide design elements that are "novel or transformational."[29] However, BCOAPO's analysis is again simplistic and misunderstands the relationship between rate frameworks and the energy transition. Contrary to BCOAPO, FortisBC is in fact dealing with the energy transition as set out in numerous applications to the BCUC, such as FEI's 2022 Long-Term Gas Resource Plan (LTGRP). The purpose of a rate framework is not to describe FortisBC's response to the energy

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25 BCOAPO Final Argument, pp. 5 to 6.

26 BCOAPO Final Argument, p. 6.

27 Exhibit B-7, BCOAPO IR1 2.1; Exhibit B-14, BCOAPO IR2 14.1.

28 BCOAPO Final Argument, pp. 6 to 7.

29 BCOAPO Final Argument, p. 6.

transition, but to put in place a method of setting FortisBC's revenue requirements and rates that works well in the context of the energy transition. In this regard, FortisBC has been successfully evolving its rate framework in response to changes in its operating environment, including the energy transition, as discussed in detail in Section B of its Application, its responses to the BCUC Panel Supplemental IRs, and Part Two of its Final Submission.[30]

19. Further, FortisBC submits that maintaining a productivity focus continues to be reasonable, appropriate and in the interest of customers, as it helps with affordability. However, the focus of the Current MRP and the Rate Framework has not solely been productivity, but also to respond to changes in the Utilities' operating environment, such as by providing a flexible approach that allows FortisBC to innovate and adapt in response to the energy transition.[31] Furthermore, FortisBC has, in fact, evolved its rate frameworks in novel ways, such as the flow-through treatment of Clean Growth Initiatives and the CGIF. FortisBC submits that evolutionary changes such as these – which respond to known challenges – are more reasonable and likely to succeed than "transformational" changes, as discussed in more detail in Part Two, Section C of this Reply Submission below. It is notable that neither the BCOAPO nor any other intervener in this proceeding has provided any concrete examples of transformational rate frameworks that FortisBC should have proposed. The only alternative that BCOAPO refers to is cost of service regulation,[32] which is a more traditional approach than FortisBC's hybrid approach that incorporates elements of both cost of service and performance-based ratemaking (PBR).

20. BCOAPO submits that FortisBC downplays the risks of the energy transition "by focusing on the short time frame of the proposed RSF [Rate Framework] rather than a more strategic mid-term to longer-term view".[33] This characterization is baseless and again reflects a poor understanding of the purpose of a rate framework. FortisBC has specifically proposed a limited three-year term for the Rate Framework given the uncertainty of the energy transition.[34] It is

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30 FortisBC Final Submission, Part Two.

31 Exhibit B-14, BCOAPO IR2 13.1.

32 BCOAPO Final Argument, p. 15.

33 BCOAPO Final Argument, p. 7, citing Exhibit B-14, BCOAPO IR2 17.1 and 17.2.

34 Exhibit B-1-2, Updated Application, p. B-45.

appropriate for FEI to ensure that the Rate Framework works over this proposed three-year term. However, the Rate Framework is flexible enough to incorporate the impacts of the Utilities' longer-term strategic direction, as reflected in FEI and FBC's other applications, including FEI's 2022 LTGRP, which sets out FEI's diversified energy planning scenario in which gas continues to play an important role over the planning horizon.

(b) The Rate Framework is Part of the BCUC's Comprehensive Oversight Over FortisBC

21. BCOAPO suggests that the Rate Framework subjects FortisBC to less regulatory scrutiny, at a time when more scrutiny is required,[35] and submits that there is a need for sufficient regulatory process to protect the public interest by ensuring the utilities respond appropriately to changes now and to come.[36] FortisBC submits BCOAPO's concerns are unfounded. The BCUC is overseeing FortisBC's provision of public utility services in accordance with the *Utilities Commission Act* (UCA), and the proposed Rate Framework fits within a complex array of BCUC regulatory processes that subjects FortisBC to sufficient regulatory scrutiny. FortisBC highlights the following points in reply to BCOAPO:

- BCOAPO has not identified any area in which the BCUC has failed to exercise oversight over FEI or FBC in accordance with its mandate under the UCA and other applicable legislation.
- All of FEI's and FBC's costs and revenues are reviewed and approved by the BCUC in this and other proceedings before they are recovered in rates. There are long-standing and well-established processes that ensure that this is the case.
- This Rate Framework proceeding provides the opportunity to review FEI's and FBC's Base O&M, FEI's Unit Cost Growth Capital, and FEI's and FBC's regular forecast capital expenditures, while future Annual Review proceedings provide the opportunity to review FortisBC's forecast revenue requirements and resulting rate impacts.
- The formulaic elements of the Rate Framework only apply to FEI's and FBC's controllable O&M and FEI's Growth capital. While FEI's Growth capital has been underfunded, the formulaic approach to O&M is working well and generating savings for customers.

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35 BCOAPO Final Argument, p. 4.

36 BCOAPO Final Argument, p. 8.

- The Annual Review process provides an important annual touchpoint for the BCUC and interveners that would not be available under a three-year cost of service approach. In the context of the uncertainty of the energy transition, having more frequent, efficient Annual Review processes is more effective than larger, less frequent reviews.

- The Rate Framework and Annual Review processes fit within an array of BCUC processes through which the BCUC oversees FEI and FBC. These include CPCNs, long-term resource plans, DSM expenditure schedules, energy acquisitions, rate design and other proceedings under the UCA. It is through the full spectrum of these processes that the BCUC regulates FortisBC, which FortisBC submits is a sufficient level of regulatory scrutiny.

22. BCOAPO also submits that FortisBC's evaluation of the proposed Rate Framework in the context of the current energy transition is inadequate because of "over compartmentalization"[37] and is concerned that there is no effective means for an "outcome" driven assessment of FortisBC's overall management of O&M expenses and capital expenditures.[38] FortisBC submits that there is no basis for BCOAPO's position. FortisBC's evaluation of the Current MRP in Section B2 of the Application, responses to BCUC Panel Supplemental IRs,[39] and Part Two of FortisBC's Final Submission are examples of overall evaluations of the Current MRP and the proposed Rate Framework. Further, the Annual Reviews will provide the opportunity for review of all components of FEI's delivery rates and FBC's rates together.

23. While overall evaluations are important, it is also equally necessary to address individual issues that together make up the Rate Framework. For example, with respect to the components of the I-X formula, Dr. Kaufmann confirmed:[40]

> … it is standard practice for regulators to review the technical evidence underpinning the "inflation minus X" rate adjustment formula by examining each element of the formula (e.g., the inflation factor, productivity factor, and stretch factor) objectively and independently.

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37 BCOAPO Final Argument, p. 4.

38 BCOAPO Final Argument, p. 15.

39 Exhibit B-2.

40 Exhibit B-10, ICG IR1 4.6.

Similarly, cost-of-service reviews typically proceed by way of examination of individual funding requests. This is necessary given the breadth of utility operations and the particular evidence underpinning each aspect of the utility's revenue requirements. Contrary to BCOAPO, examining each individual component of the Rate Framework is not a flaw in FortisBC's evaluation, but a necessary part of the rate-setting process.

(c) The Rate Framework Reflects a Reasonable Balance of Interests

24. BCOAPO submits that FortisBC's evaluation of the Rate Framework skews "entirely too far to the benefit of the Utilities".[41] FortisBC disagrees. FortisBC considers that when evaluated as a whole, the proposed Rate Framework strikes a reasonable balance between the Companies' and customers' interests.

25. First, FortisBC's focus on designing a framework with an appropriate length of term, sufficient funding to address emerging requirements and challenges, flexibility to adapt to the energy transition, and an efficient annual rate-setting process,[42] positively contribute to the overall balance of the Rate Framework. The proposed three-year term with the potential for further extension creates an appropriate balance between a long enough time frame to find some efficiencies in the regulatory process (a benefit to both the Companies and customers) and provide certainty on the rate mechanisms in place (a benefit to both the Companies and customers), while recognizing that the timing and quantum of the energy transition impacts are uncertain. Further, providing sufficient funding and flexibility to adapt to the energy transition to manage costs through an efficient annual rate-setting process enables the Companies to make timely and important investments in support of the energy transition to support the Companies' financial health and long-term viability which, as recognized by the BCUC in the Stage 1 Generic Cost of Capital Decision,[43] are to the mutual benefit of the Companies and customers.

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41 BCOAPO Final Argument, p. 4.

42 Exhibit B-1-2, Updated Application, Section B3.2, p. B-45.

43 Decision and Order G-236-23, BCUC Generical Cost of Capital Proceeding (Stage 1), p. 30. Online: https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/521862/1/document.do.

26. Second, a key way to evaluate the Rate Framework is through the five guiding principles that the BCUC reviewed and endorsed in the MRP Decision, as set out in the table below.[44] The Rate Framework should reflect all of these principles, albeit in varying degrees. Whether the Rate Framework actually achieves all of these objectives will not be known until the end of the term; however, from a design perspective, the Rate Framework as a whole reflects these general principles.

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

[44] Exhibit B-7, BCOAPO IR1 7.1.

Rate Plan Principles	Elements of Proposed Rate Framework
Principle 2: The Rate Framework must provide the utility with a reasonable opportunity to recover its prudently incurred costs including a fair rate of return.	The proposed Rate Framework has been designed to achieve a proper balance of risks and rewards between the Companies and customers, and reflects the current operational circumstances. The proposed Rate Framework includes incentive to maximize the efficiency of capital and O&M spending through: • A unit cost approach to O&M and FEI Growth capital spending; and • A three-year forecast for FBC Growth and FEI/FBC Sustainment and Other capital spending. Further, FortisBC is proposing to continue the flow-through treatment for Clean Growth Initiatives and to forecast the cost of these initiatives each year in the Annual Review process. Because the timing of the investments can be difficult to forecast, as has been seen with biomethane projects, treating the costs as flow-through ensures that customers pay only the actual costs.
Principle 3: The Rate Framework should recognize the unique circumstances of FortisBC that are relevant to the Rate Framework design.	The proposed Rate Framework is designed to provide FortisBC the flexibility and incentive to address challenges and pursue opportunities presented by changes in its operating and policy environments. The Rate Framework incorporates features such as the CGIF, the new category of Clean Growth Initiatives related to methane emission mitigation and the newly proposed energy transition related informational indicators to reflect FEI's specific operating and policy circumstances.

Rate Plan Principles	Elements of Proposed Rate Framework
Principle 4: The Rate Framework should maintain FortisBC's focus on maintaining, safe, reliable service and customer service quality while creating the efficiency incentives to continue with its productivity improvement culture.	As discussed in Section B1.6 of the Application, the proposed Rate Framework will continue to maintain FortisBC's focus on providing safe, reliable service by supporting the Companies' investments in physical and cyber security, climate change operational adaptation and sustainability. Both FEI's and FBC's Sustainment capital spending will support the continued maintenance of the Companies' aging infrastructure. FEI has carefully considered and scoped projects that are driven by capacity to ensure they meet the needs of the shorter-term system demand forecast, and FEI's annual Growth capital spending envelope is directly correlated to the number of new connections. For FBC, the proposed three-year Growth capital expenditures forecast will provide the required funding to meet the growing load over the term of the Rate Framework. FortisBC also proposes a suite of SQIs for FEI and FBC that will monitor each utility's performance to ensure that any efficiencies and cost reductions do not result in a degradation of service quality. The traditional incentives embedded within the proposed Rate Framework provide a continued focus on efficient operations.
Principle 5: The Rate Framework should be easy to understand, implement and administer and should reduce the regulatory burden over time.	The proposed Rate Framework builds on the success of the Current MRP, continuing with many of the same features that are well understood. The Annual Review process, with some adjustments to the scope to improve regulatory efficiency, will be continued, providing an efficient forum and opportunity for the BCUC and interveners to review the Companies' performance.

27. BCOAPO submits that affordability is "conspicuously absent" from the five guiding principles for designing the Rate Framework.[45] The five principles discussed above are the principles typically used by regulators when evaluating a multi-year rate framework and were endorsed by the BCUC in the MRP Decision.[46] While affordability is not explicitly referred to, the guiding principles do include aligning interests, recovery of prudent costs, and maintaining a

[45] BCOAPO Final Argument, p. 8.

[46] Decision and Orders G-165-20 and G-166-20 (MRP Decision), p. 168. Online: https://docs.bcuc.com/documents/decisions/2020/doc_58466_2020-06-22-fortisbc-mrp-2020-2024-decision.pdf.

productivity improvement culture. These principles align with the concept of affordability and are met by the proposed Rate Framework.[47]

28. BCOAPO and CEC[48] also seek to assess the affordability of the Rate Framework based on whether changes to individual elements of the Rate Framework compared to the Current MRP, such as the X-Factor, will result in higher costs compared to the Current MRP. FortisBC does not agree with this approach. For example, regardless of whether the X-Factor is higher or lower than under the Current MRP, the function of the X-Factor in both the Current MRP and the Rate Framework is to constrain the formula spending envelope of the Companies below the level of inflation based on an industry productivity value and a stretch factor value. The X-Factor therefore contributes to rate affordability and balances customer and utility interests.[49] Periodic adjustments to the I-X formula elements need to be evaluated with the goal of "getting it right" based on the evidence, not whether the directional change compared to the Current MRP goes one way or another. Therefore, the proper assessment of the inclusion of an I-X formula is that it will help balance customer and utility interests, as it will result in an incentive for FEI and FBC to contain spending within the net inflation factor.[50]

29. Finally, as shown in the response to BCOAPO IR2 19.1,[51] the directional impact of FortisBC's proposals compared to the parameters in the Current MRP is minimal, at one tenth of a percent. This minor impact is not evidence of a Rate Framework that is skewed to FortisBC's interests. As discussed further in Parts Three to Five of this Reply Submission, FortisBC's proposals with respect to the elements of the Rate Framework, Base O&M and capital expenditures focus on "getting it right" and reflect a balanced approach that is in the interest of both customers and the Utilities.

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47 Exhibit B-7, BCOAPO IR1 7.1.

48 BCOAPO Final Argument, p. 25; CEC Final Argument, paras. 266 to 267.

49 Exhibit B-16, CEC IR2 18.1.

50 Exhibit B-16, CEC IR2 18.1.

51 Exhibit B-14.

(d) FortisBC Is Taking Actions to Mitigate Rate Increases

30. BCOAPO recommends that FortisBC develop proactive rate mitigation strategies for both FEI and FBC to be filed for regulatory review in 2026, with subsequent studies and implementation requirements developed for review in 2027.[52] FortisBC recognizes and shares BCOAPO's concern[53] with affordability. FortisBC is taking reasonable actions to reduce costs and mitigate rate increases and is open to consideration of rate mitigation strategies; however, FortisBC continues to believe that the Annual Reviews remain the best time at which to consider and implement such rate strategies. FortisBC does not consider that a separate proceeding to consider proactive rate mitigations would add any value to the suite of activities that FortisBC is already undertaking.

31. First, rate mitigation strategies include actions to reduce costs and increase revenues to reduce rates. In this regard, FortisBC is taking numerous actions to mitigate rate increases both through the design of the Rate Framework and by seeking to manage costs, increase revenues, and invest in the most affordable ways. To reiterate, FortisBC's actions include:[54]

- Continuing with an indexed-based formula approach for the majority of O&M costs and for FEI Growth capital, limiting spending in these areas and maintaining a cost-control focus;
- Increasing investment in energy efficiency programs aimed at reducing customers' energy consumption;
- Optimizing energy supply portfolios to reduce customer costs;
- Pursuing a diversified approach to long-term planning to manage affordability and optimize the use of gas and electric infrastructure;
- Carefully considering the need for capital investments and available project alternatives, including considering whether there are smaller incremental investments to increase future optionality as the energy transition evolves;
- Balancing the need to be proactive in building capacity with the expected timing of demand on the system; and

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52 BCOAPO Final Argument, pp. 11 to 12 and 28.

53 BCOAPO Final Argument, p. 11.

54 Exhibit B-1-2, Updated Application, Section B1-5; Exhibit B-7, BCOAPO IR1 8.1.

- Adding new sources of revenue through serving non-traditional markets, like transportation end uses.

32. FortisBC is also taking steps to help customers manage their bills and reduce rates through other means, such as:

- 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;[55]

- Continuing to work with the provincial government to assist with the affordability of the energy transition, whether through managing the pace of the energy transition or by assisting utilities or customers directly;[56] and

- Continuing to explore and develop other avenues to mitigate rate increases.[57]

33. While BCOAPO dismisses these actions as merely a "list" and not a strategy,[58] this collection of actions is in fact substantial and strategic, and represents the reasonable and desirable rate mitigation actions that it can take to help customers. Many of these actions represent significant long-term investments and efforts on behalf of the Utilities, such as FEI's efforts to develop new sources of revenue in transportation end uses.

34. FortisBC notes that the only action that BCOAPO has suggested is to arbitrarily reduce its revenue requirements. However, restricting the Utilities' resources such that they are unable to maintain safe and reliable service for customers and respond to the challenges of the energy transition is not a prudent approach to affordability. Cutting back on needed investments in the gas and electrical systems will only result in lower service quality with higher costs for customers in the future.

35. Second, rate mitigation strategies can also mean actions to smooth rates or defer costs to manage rate changes over time. This type of rate mitigation is an ongoing process that can be

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55 Exhibit B-16, CEC IR2 17.1.

56 Exhibit B-7, BCOAPO IR1 8.1.

57 Exhibit B-7, BCOAPO IR1 8.1.

58 BCOAPO Final Argument, p. 11.

considered whenever rates are being set. FortisBC is open to the use of such strategies and considers that Annual Reviews continue to be the most appropriate forum to formulate such rate mitigation strategies. All aspects of FEI's and FBC's revenue requirement are identifiable as part of Annual Reviews, including all available offsetting benefits, making it the ideal time to determine if a rate mitigation strategy is required. Given that the level and pace of rate impacts is uncertain at this time, Annual Reviews provide the necessary flexibility to address rate impacts each year as they occur.[59]

36. FortisBC submits that it is unclear what a proactive rate mitigation strategy as proposed by BCOAPO is expected to add to the rate mitigation actions that FortisBC is already taking and the consideration of rate mitigation strategies during the Annual Reviews. FortisBC is already being proactive in taking actions to manage its costs and grow revenues, and attempting to proactively form rate smoothing strategies in advance of known rate impacts is challenging. What is helpful in advance of knowing actual rate impacts is the proactive use of strategies and mechanisms to control costs, incent productivity improvements, optimize energy portfolios, and reduce rates through investment in growth opportunities, all of which FortisBC has proposed to do.[60]

37. BCOAPO also criticizes FortisBC for being unable to provide a measure by which to assess affordability and for not demonstrating that the "absolute rate increases from the Proposed RSF [Rate Framework] are sustainable for customers in the long run".[61] FortisBC submits that BCOAPO's position is overly simplistic and unrealistic in the context of the uncertainties of the energy transition. The focus of the Companies in the upcoming three years will be on investing in activities that support the clean energy transition, maintaining safe, reliable and resilient service, and managing rate impacts and affordability for customers.[62] However, affordability is a relative measure that is defined differently by different customer segments and there is no specific level of increase that can be used to measure affordability or affordable rates in either

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59 Exhibit B-2, BCUC Panel Supplemental IR 2; Exhibit B-16, CEC IR2 18.6.

60 Exhibit B-1-2, Updated Application, pp. B-10 to B-12.

61 BCOAPO Final Argument, p. 8.

62 Exhibit B-12, RCIA IR1 8.1.

the short or long term.[63] As discussed in the Application, 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 therefore 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.[64] The Rate Framework facilitates this by incorporating mechanisms designed to enable FortisBC to invest in clean energy and emissions reduction activities, while also providing incentives to find efficiencies and cost savings in other areas of the Companies' operations, with an overall focus on FortisBC's ability to provide safe, reliable and resilient service to customers.[65]

C. Continued Evolution of Rate Frameworks is the Best Path Forward

38. FortisBC submits that the continued evolution of its Rate Framework represents the best path forward to adapting to change. MoveUP supports the evolution of FortisBC's Rate Framework and suggests that the BCUC, interveners and utilities embark on a "regulatory transition project".[66] BCOAPO claims, however, that the Rate Framework is a "relic of the before times,"[67] that FortisBC timed the filing of the Application to prevent consideration of alternatives, and recommends that the BCUC direct FortisBC to complete a conceptual review of the appropriate rate setting framework and annual review processes.[68] The CEC has recommended the addition of targeted incentives.[69] Below, FortisBC responds to these intervener submissions, organized around the following points:

- FortisBC filed its application in a timely manner and did not prevent consideration of alternatives.
- Cost-of-service and performance-based ratemaking (PBR) continue to be widely used and have demonstrated their flexibility to work in changing times.

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63 Exhibit B-7, BCOAPO IR1 6.1.

64 Exhibit B-12, RCIA IR1 3.1.

65 Exhibit B-12, RCIA IR1 3.1.

66 MoveUP Final Argument, pp. 3 and 6.

67 BCOAPO Final Argument, p. 27.

68 BCOAPO Final Argument, p. 28.

69 CEC Final Argument, para. 15.

- An additional process to consider rate-setting alternatives would be unlikely to result in benefits and would be inefficient.
- The continued evolution of FortisBC's rate-setting frameworks in response to changes in the operating environment is consistent with industry practice and the best path forward.
- Targeted incentives would be a challenging evolution of the Rate Framework.

(a) The Timing of the Application Did Not Prohibit Consideration of Alternatives

39. BCOAPO asserts that "FortisBC did not seriously consider any alternatives other than updates and modifications to the Current RSF" and timed the filing of the Application to "ensure that no realistic alternatives to the Proposed RSF could be considered in time for rate setting for 2025".[70] FortisBC objects to these statements. First, the timing of the filing was in part due to FortisBC spending close to a year developing the Application, which included consulting with BCUC Staff and interveners, engaging with external experts, undertaking jurisdictional reviews of other utilities' rate-setting approaches, and ensuring that any BCUC Panel findings or directives resulting from the FEI and FBC 2024 Annual Review Decisions (which were issued in December of 2023) were considered and addressed in the Rate Framework Application.[71] Second, FortisBC seriously considered alternatives to the Rate Framework, as demonstrated by its response to the BCUC Panel Supplemental IRs,[72] and its Application was filed in a timely manner in April of 2024, which did not forestall consideration of alternatives. In fact, the BCUC Panel Supplemental IRs were issued shortly after FortisBC filed its Application, which explored in depth the merits of the Rate Framework and potential alternatives. After reviewing FortisBC's responses,[73] the Panel established the regulatory process, which could have included any process required to explore alternatives to the Rate Framework. While it is desirable to have permanent rates in place by January 1, interim rates can be approved to facilitate the regulatory process extending into the test period, as is the case now. Ultimately, FortisBC submits that its responses to the BCUC Panel Supplemental IRs and other evidence developed in this proceeding has demonstrated that the

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70 BCOAPO Final Argument, p. 23.

71 Exhibit B-2, BCUC Panel Supplemental IR 4.

72 Exhibit B-2, BCUC Panel Supplemental IR 4 and 8.

73 Exhibit B-2.

Rate Framework is suitable for the current operating environment and that there is no better alternative at this time.

(b) Cost of Service and PBR Regimes Continue to be Widely Used

40. BCOAPO claims that the Rate Framework is a "relic of the before times"[74] while MoveUP submits that cost-of-service regulation fails as a candidate for a "regulatory regime for our times" and PBR "fares only slightly better".[75] However, MoveUP and BCOAPO have not demonstrated any deficiency in either cost of service or PBR regimes. The BCUC can take notice of the fact that both forms of rate regulation have been in use for decades and continue to persist not only in BC, but across North America and beyond. Multi-year rate frameworks such as that proposed by FortisBC are not a relic of the past, but are widely used across Canada[76] and in other countries, and are growing in use in the US.[77] FortisBC submits that both cost of service and PBR regimes have demonstrated over the decades that they are flexible forms of rate regulation that can be adjusted to accommodate changes in circumstances. This has been exhibited in BC and in FortisBC's own rate-setting processes. FortisBC has also provided detailed evidence and argument as to why the Rate Framework can function well over the coming years, as set out in Part Two of its Final Submission.

41. Given their wide-spread and long-standing use, substantive evidence and analysis would be needed to demonstrate that cost of service and PBR regimes are no longer viable. Neither MoveUP nor BCOAPO have provided such evidence or analysis. For example, MoveUP submits that the "relentless search for efficiencies" through PBR does not address absorbing the actual loss of operating revenue or realizing spending reductions in response to a reduced customer base.[78] First, the Rate Framework is designed to reduce costs in response to a reduction in the

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74 BCOAPO Final Argument, p. 27.

75 MoveUP Final Argument, p. 3.

76 Exhibit B-1-2, Updated Application, Appendix C.

77 Paul Joskow, "The Expansion of Incentive (Performance Based) Regulation of Electricity Distribution and Transmission in the United States", January 2024 (Massachusetts Institute of Technology, Center for Energy and Environmental Policy Research). Online: https://ceepr.mit.edu/wp-content/uploads/2024/01/MIT-CEEPR-WP-2024-01.pdf.

78 MoveUP Final Argument, p. 9.

number of customers.[79] Second, if in the future the impact of the loss of customers began to have more challenging impacts on costs, as MoveUP foresees, then that is a challenge that is best addressed when the actual scope of the problem is known and understood to be a sustained trend. The ability of a form of PBR (or cost of service) regulation to function in that context, such as through adjustment to the formula or some other mechanism, cannot be pre-determined in the abstract.

(c) An Additional Proceeding is Unlikely to Identify Alternatives and Would Be Inefficient

42. A proceeding to consider rate-setting alternatives is unlikely to be beneficial. The existing utility rate-setting paradigm has been developed and evolved over 100 years and is based on sound legal and regulatory standards, which are reflected in the UCA and case law. The spectrum of rate-setting approaches that have developed over this time generally ranges from a traditional cost-of-service based approach to a pure PBR approach, with options within this spectrum that utilize components of both approaches. FortisBC is not aware of any other alternatives outside this spectrum that can satisfy the relevant legal and regulatory standards, such as the Fair Return Standard and Regulatory Compact.[80] FortisBC is also not aware of any analyses or experimentation that could fundamentally change the regulatory model which, to a large extent, is solidified in legislation and case law.[81] No other alternatives have emerged through this regulatory proceeding and, in FortisBC's view, no other alternatives are likely to emerge through another proceeding.

43. Further, adding an additional process during the proposed Rate Framework term would be inefficient. A second proceeding would undermine the benefits of the length of the Rate Framework, which is meant to provide time in between major rate setting applications for the Companies to focus on utility operations and managing and responding to challenges, including

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[79] The formula for FEI's and FBC's controllable operating costs is tied to the number of customers and would therefore result in a reduction in costs in response to a smaller customer base. Similarly, FEI's Growth capital formula is tied to gross customer additions, meaning that FEI's Growth capital will reduce commensurate with any reduction to the number of gross customer additions each year.

[80] Exhibit B-11, MoveUP IR1 1.2.

[81] Exhibit B-11, MoveUP IR1 1.3.

the impacts of climate change and the energy transition.[82] FortisBC, therefore, submits that another proceeding to consider alternative rate setting models is not warranted.

(d) Ongoing Evolution of Rate-Setting Plans is the Best Path Forward

44. Rather than an abstract proceeding to search for rate-setting alternatives, the most reasonable and promising path forward is for the utilities and the BCUC to continue to evolve rate-setting frameworks in response to known challenges and changes in the operating environment.

45. Continued evolution in response to understood problems is more likely to succeed than attempts at dramatic revolutions. As recognized by the OEB,[83] while identifying new or modified approaches to utility regulation may be needed to adapt to the demands of the energy transition, this would be a lengthy and complex process. However, by addressing the most narrowly scoped issue at hand to facilitate near-term progress, changes are likely to be carried out as part of a small but regular set of evolutions rather than a revolution.[84]

46. The history of the regulatory model demonstrates that there have been successful innovations to adapt the model to desired policies and the changing operating environment. For example, in the 1980s, utilities were given additional responsibilities for energy efficiency and conservation programs that would not have been aligned with the incentives inherent in the rate of return regulation. The utility remuneration model, therefore, evolved to remove these disincentives by either allowing the utilities to treat their energy efficiency and conservation related costs as part of the rate base, or to allow utilities to use Performance Incentive Mechanisms (PIMs) to be remunerated for these activities in the form of return premiums or other incentives.[85] More recently, there has been a push by regulators and other stakeholders to evolve the utility remuneration model to remove disincentives for utilities to include Distributed Energy Resources (DER) or Non-Wire and Non-Pipe Alternatives in their integrated distribution

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82 Exhibit B-11, MoveUP IR1 1.4.

83 Exhibit B-11, MoveUP IR1 1.3.

84 Exhibit B-11, MoveUP IR1 1.3.

85 Exhibit B-11, MoveUP IR1 1.3.

planning. However, as discussed by Paul Joskow, Professor of Economics at the Massachusetts Institute of Technology (MIT) and former Director of the MIT Center for Energy and Environmental Policy Research, even the most ambitious initiatives are best seen as incremental changes to the rate of return regulation and rely on regulatory tools such as PIMs to incent utilities to pursue certain desired outcomes.[86]

47. Overall, FortisBC submits that the best approach is for the existing regulatory model to continue to evolve in response to known challenges and changes in the operating environment, thereby adapting to the needs of the energy transition over time. MoveUP's submission endorses this approach, supporting FortisBC's concept of an evergreen rate plan.[87] Ultimately, any changes to the regulatory model should provide the Utilities with the flexibility to adapt and respond to the uncertainties and evolving requirements created by the energy transition.[88] FortisBC submits that its Rate Framework accomplishes this goal.

(e) Targeted Incentives Would Be Challenging, But Could Be Explored

48. CEC considers that targeted incentives ought to form part of a "well-considered" rate framework and recommends that the BCUC direct FortisBC to proceed with the work required to explore and develop targeted incentives.[89] FortisBC addressed the topic of targeted incentives at paragraphs 317 to 321 of its Final Submission. As discussed there, FortisBC submits that its proposed suite of energy transition informational indicators for FEI is preferrable to targeted incentives at this time. The CEC's submission that targeted incentives are part of a "well-considered" rate framework does not address the challenges with developing targeted incentives or explain why informational indicators are not sufficient at this time.

49. However, as stated in paragraph 321 of its Final Submission, if the BCUC is interested in exploring targeted incentives, FortisBC could file a proposed set of incentives in a standalone application or as part of a second phase to this proceeding. Specifically, FortisBC would explore

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86 Exhibit B-11, MoveUP IR1 1.3.

87 MoveUP Final Argument, pp. 5 to 6.

88 Exhibit B-11, MoveUP IR1 1.3.

89 CEC Final Argument, paras. 289 to 290.

and develop potential incentives and, based on the results of this assessment process, determine which incentives – and whether for FEI or FBC or both – to bring forward to the BCUC.[90] The Companies would require a minimum of four months to develop a proposal.[91]

D. Combining FEI and FBC Filings is Efficient and Allows for Unique Treatment of Each Utility

50. MoveUP submits that this should be the last time there is "a single rate-setting framework" for both FEI and FBC given the differing impacts of the energy transition on the gas and electric utilities. FortisBC submits that MoveUP's position misunderstands the nature of rate-making plans and FEI's and FBC's joint filings.

51. While FEI and FBC have filed the Application together, they remain separate utilities, each with their own rates. Filing together leads to efficiencies, such as by removing the need to duplicate evidence common to both utilities in two different proceedings and instead facilitating the review of elements of the Rate Framework common to both Utilities together in one proceeding by the same BCUC Panel. However, filing a single application does not mean "one-size-fits-both" as MoveUP alleges. The choices and strategies for rate making are limited and a single application does not inhibit those choice being made appropriately for each of FEI and FBC. Rather, the Rate Framework can be tailored to fit each of the Utilities. For example, FEI's Growth capital is subject to a formula, but FBC's is not. FEI has the CGIF, but FBC does not. Some SQIs are the same for both Utilities, while others are unique to each utility. Each Utility has its own Base O&M and separate forecast capital expenditures, and so on. To the extent that further variations between the Utilities need to be developed, this can continue to be done within the context of a single application.

52. While a separate application may be needed at some point in the future, there is no evidence that it is needed now and FortisBC therefore submits that it is premature to give up on the efficiencies and other benefits of a single application.

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90 Exhibit B-4, BCUC IR1 44.5.

91 Exhibit B-2, BCUC Panel Supplemental IR 5.

E. Inquiry into Difference between FBC's and BC Hydro's Rates is Not Needed

53. ICG submits that, given the difference between FBC's and BC Hydro's rates, the BCUC should not establish a multi-year mechanism or an automatic indexing formula,[92] that the "consequences of the structural cost differences between BC Hydro and FBC should be borne by FBC,"[93] that the BCUC should shrink FBC's service area,[94] that FBC's rates should only be approved for 2025,[95] and that further rate-setting should be put on hold pending an inquiry by the BCUC regarding the rate differential between BC Hydro and FBC.[96] FBC submits that ICG's recommendations are not reasonable and must be rejected. FBC has structured its reply below around the following points:

- The differential between FBC's and BC Hydro's rates is variable across rate schedules and consumption levels of customers.
- The difference between FBC's and BC Hydro's rates is attributable to both structural and policy reasons and does not warrant an inquiry.
- It would be unfair and unlawful to force FBC's shareholder to bear the cost differences between BC Hydro and FBC.
- FBC does not have a financial viability problem.
- ICG's proposal to shrink FBC's service area would be unlawful.
- The incentives and multi-year features of the Rate Framework promote productivity and efficiencies and are beneficial for customers.

(a) Differential Between FBC's and BC Hydro's Rates is Variable Across Rate Schedules and Consumption Levels

54. ICG's characterization of the differential between FBC's and BC Hydro's rates as 44 percent is misleading.[97] The differential between what an FBC customer pays versus a similar BC Hydro customer will depend on their rate class, rate design (including whether they are a time-

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92 ICG Final Argument, para. 13.

93 ICG Final Argument, para. 7.

94 ICG Final Argument, para. 5 and fn. 5.

95 ICG Final Argument, para. 13.

96 ICG Final Argument, para. 18.

97 ICG Final Argument, para. 2.

of-use customer), and their consumption levels. In some cases, a customer will pay less under FBC's rates than under BC Hydro's rates.[98] Thus, while an FBC residential customer consuming 700 kWh per month pays approximately 44 percent more than a BC Hydro customer as ICG emphasizes, this differential decreases at higher consumption levels. For instance, for residential customers with an average consumption of 1,000 kWh per month, the difference is approximately 30 percent. In addition, the approval of BC Hydro's proposal to gradually move towards a flat rate structure similar to FBC's residential rates, all else equal, would gradually reduce the differential to a lower amount.[99] With respect to ICG's particular interest as a representative of FBC's industrial customers, FBC's rates for industrial customers are reasonably aligned with those of BC Hydro and, in some cases, industrial customers will pay less under FBC's rates than under BC Hydro's rates.[100] For instance, an average industrial customer with demand of 1,500 kVa and consuming 575,000 kWh per month pays 2 percent less under FBC's rates than BC Hydro's (not including RS 1901 and 1904).[101] Thus, contrary to ICG's submission,[102] FBC does not expect that its rates will discourage industrial customers from locating in FBC's service territory or hinder economic development. Therefore, FortisBC submits that ICG has exaggerated the nature and effect of the differential between FBC and BC Hydro's rates.

(b) The Difference Between FBC's and BC Hydro's Rates is Attributable to Both Structural and Policy Reasons and Does Not Warrant an Inquiry

55. ICG's proposed inquiry into the difference between FBC's and BC Hydro's rates is not warranted.[103] At root, it is not reasonable or appropriate to assess the fairness of FBC's rates by comparing FBC's rates to BC Hydro's and only BC Hydro's. Further, there are many obvious differences between FBC and BC Hydro that readily explain the bulk of the differences in rates. Notably, FBC is a much smaller electric utility compared to BC Hydro, which means that BC Hydro

98 Exhibit B-17, ICG IR2 6.1 and 6.2.

99 Exhibit B-17, ICG IR2 6.1 and 6.2.

100 Exhibit B-17, ICG IR2 6.1 and 6.2.

101 Exhibit B-17, ICG IR2 6.1.

102 ICG Final Argument, para. 16.

103 ICG Final Argument, para. 18.

enjoys greater economies of scale, and changes in FBC's revenue requirement will have a greater impact on rates than changes of a similar scale to BC Hydro's revenue requirement.[104]

56. ICG states that FBC previously attributed higher rates to political decisions related to BC Hydro's rates.[105] In fact, political decisions have lowered BC Hydro's rates in ways that are not available to FBC. For example, it is a matter of public record that, as a result of the Comprehensive Review, BC Hydro wrote off the balance in the Rate Smoothing Regulatory Account, which was over $1 billion.[106]

57. There are other differences between FBC and BC Hydro that can explain the differences in rates, including BC Hydro's large heritage generation resources. Ultimately, FBC submits that there is no benefit to enumerating all the differences between FBC and BC Hydro to explain the differences in rates between the two utilities as this will ultimately have no bearing on the setting of FBC's rates. FBC submits that ICG's proposed inquiry would be a waste of resources and should be rejected. Consequently, ICG's request that the BCUC hold off on approving the Rate Framework should also be rejected.

(c) It Would be Unfair and Unlawful to Force FBC's Shareholder to Bear the Cost Differences between BC Hydro and FBC

58. ICG's submission that the consequences of the difference between FBC's and BC Hydro's rates should be borne by FBC,[107] by which is presumably meant FBC's shareholder, is unreasonable, unlawful and must be rejected. In accordance with the Fair Return Standard, FBC's rates must be set to provide it with a reasonable opportunity to recover its prudently incurred costs and its allowed return on investment. Forcing FBC's shareholder to bear any differential

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104 Exhibit B-17, ICG IR2 6.4.

105 ICG Final Argument, para. 2.

106 Comprehensive Review of BC Hydro: Phase 1 Final Report, p. 14. Online: https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/electricity-alternative-energy/electricity/bc-hydro-review/final_report_desktop_bc_hydro_review_v04_feb12_237pm-r2.pdf.

107 ICG Final Argument, para. 7.

between FBC's and BC Hydro's rates would clearly violate the Fair Return Standard and would be unlawful under the UCA.[108]

(d) FBC Does Not Have a Financial Viability Problem

59. ICG repeatedly states that FBC has a "financial viability problem".[109] While this may be a rhetorical point, FBC considers it important to be clear that it does not, in fact, have a financial viability problem. For instance, FBC is able to raise capital, its revenues continue to be sufficient to cover its costs, and its customer base is forecast to continue to grow.

(e) ICG's Proposal to Shrink FBC's Service Area Is Unlawful

60. ICG submits that FBC's service area is not exclusive and that the BCUC should direct customers on the fringes of FBC's service area to take service from BC Hydro, so that FBC's service area shrinks.[110] ICG's suggestion is unlawful and must be rejected. FBC has a deemed CPCN to operate its system pursuant to section 45 of the UCA, meaning that its operations have been determined to be in the public interest. Further, FBC has a duty to serve existing and new customers, as enshrined in the UCA and case law.[111] A direction from the BCUC designed to divert customers away from FBC and shrink FBC's service area would violate FBC's duty to serve and lead to two electric utilities serving the same areas, which would be inconsistent with FBC's CPCN for its assets and not be in the public interest. Further, reducing FBC's customer base would reduce revenues for FBC, increase its rates, and therefore exacerbate any instances where FBC's rates are already higher than BC Hydro's.

(f) Incentives and the Multi-Year Nature of the Rate Framework Help Control Costs and Continue to be Appropriate

61. ICG's attempt to link the differential between FBC's and BC Hydro's rates to the multi-year nature and O&M formula in the Rate Framework is without merit.[112] As the BCUC has

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108 Exhibit B-17, ICG IR2 6.4.

109 ICG Final Argument, at para. 3.

110 ICG Final Argument, para. 5 and fn. 5.

111 Please refer to Part Three, Section D(b) of this Reply Submission regarding the duty to serve.

112 ICG Final Argument, para. 13.

previously determined, FBC's multi-year frameworks have been successful.[113] The lengths of FBC's Current MRP and the proposed Rate Framework promote regulatory efficiency and provide an incentive for FBC to continue to achieve productivity improvements. Furthermore, the only component of FBC's revenue requirement subject to a formula is its O&M (excluding flow-through O&M). FBC's formula O&M has increased at levels below inflation over the Current MRP term.[114] Further, Dr. Kaufmann's O&M cost benchmarking study shows that, when compared to the US electric industry, FBC is a superior cost performer. Dr. Kaufmann concludes on page 25 of his report in Appendix C1-1 of the Application:

> Overall, FBC's benchmarking studies provide strong evidence that it is registering superior cost performance in all the non-generation activities covered by its ratemaking frameworks. It should also be remembered that FBC's own "internal" O&M PFP growth averaged 3.68% over the 2014-2022 period. This rate of O&M PFP growth greatly exceeds the O&M PFP trend typical of small utilities (-0.42% per annum), as well as the O&M PFP trend of the electric utility industry. FBC has therefore outperformed the industry's O&M PFP performance since the implementation of its incentive plans in 2014. This exceptional performance has almost certainly generated cost savings that have since been rebased into rates and thereby benefited customers.

62. FBC ranks 20th among the US sample of 81 electricity distributors with respect to average O&M unit costs, which is consistent with the first quartile and superior cost performance. Accordingly, FBC submits that its multi-year terms and formula O&M are successful and beneficial features of the Rate Framework that help to reduce rates, all else equal, for customers.

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[113] E.g., Decision and Order G-73-24, p. 7. Online: https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/522179/1/document.do.

[114] Exhibit B-1-2, Updated Application, Section B2.

PART THREE: RATE FRAMEWORK DESIGN

64. In this Part, FortisBC responds to intervener submissions related to the components of the Rate Framework. Intervener submissions focused on the term of the Rate Framework, the I-Factor, the X-Factor, the discount on the Growth Factor, and the scoping of Annual Reviews. Overall, FortisBC submits that the intervener arguments on these topics are not supported by the evidence in this proceeding and, with respect to the X-Factor and Growth Factor, should be given significantly less weight than the expert evidence of Dr. Kaufmann, whose evidence on these complex matters is clear, compelling and unchallenged by any other evidence in this proceeding.

A. A Three-Year Rate Framework Term with Potential for Extension is Reasonable in the Context of the Energy Transition

65. Most interveners either support, or do not object to FortisBC's, proposed three-year term, with the potential to extend the term beyond 2027, subject to review and approval by the BCUC. However, RCIA prefers a five-year term, and RCIA and BCOAPO express concern about the option to extend the Rate Framework. ICG requests that FBC's rates be set for only 2025 due to the differential between FBC's and BC Hydro's rates.[115] FortisBC replies to RCIA, BCOAPO and ICG below.

(a) Three-Year Term Preferrable to Five-Year Term

66. RCIA prefers a five-year term to incentivize FortisBC to seek the "longer- and shorter- term cost efficiencies inherent in 4 and 5-year plans".[116] In reply, FortisBC recognizes the incentive and efficiency benefits of a five-year term and considers that the Rate Framework is flexible enough that the term could be set for five years for both utilities.[117] However, as discussed in detail in Part Three, Section B of its Final Submission, FortisBC submits that its proposed three-year term, with the potential to extend, is preferrable given the uncertainties posed by the energy transition.

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[115] ICG Final Argument, para. 13.

[116] RCIA Final Argument, pp. 7 to 8.

[117] Exhibit B-10, ICG IR1 3.1.

(b) BCUC Would Decide on Whether to Extend the Rate Framework

67. RCIA and BCOAPO suggest that the decision whether to extend the Rate Framework term is unlikely to be favourable to ratepayers as FortisBC will only seek to extend if the Rate Framework is favourable to it.[118] FortisBC disagrees with RCIA's and BCOAPO's contention, which appears to discount any role of the BCUC. FortisBC does not have the power to extend the Rate Framework based simply on its own self interest, nor would FortisBC attempt to do so. Rather, FortisBC would need to justify its proposal to the BCUC based on objective evidence and reasoning. The purpose of limiting the term to 3 years is to provide an opportunity to evaluate whether a change to the Rate Framework is needed once policy has had time to develop related to the energy transition.[119] FortisBC, therefore, expects that a review of policy or other changes related to the energy transition would be the primary factors considered in whether to apply to extend the Rate Framework. Ultimately, the decision to extend or not will be made by the BCUC.

68. RCIA and BCOAPO also suggest that FortisBC could "run out the clock" to force an extension.[120] RCIA proposes that the BCUC establish a deadline for an extension filing and that any consideration of an extension filing involve a public process with interveners having an opportunity to make submissions.[121] FortisBC submits that RCIA's and BCOAPO's concerns are unfounded. Assuming that the Rate Framework is approved as applied for, FortisBC has stated that it would likely commence consultation with BCUC staff and interveners regarding the next rate-setting process in mid 2026.[122] While it is desirable to have permanent rates in place prior to the rate-setting year (2028 in this case), it is not necessary as interim rates can be approved in the meantime. Thus, FortisBC has indicated that, 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.[123] Therefore, FortisBC submits that a filing deadline is not required. FortisBC will already be

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118 RCIA Final Argument, p. 8; BCOAPO Final Argument, para. 24.

119 Exhibit B-4, BCUC IR1 5.1.

120 RCIA Final Argument, p. 8; BCOAPO Final Argument, pp. 23 to 24.

121 RCIA Final Argument, p. 8.

122 Exhibit B-14, BCOAPO IR2 18.1.

123 Exhibit B-14, BCOAPO IR2 18.1.

motivated to time its proposal to facilitate timely approval of rates and may require flexibility in timing to take into account events at the time and the results of consultation.

(c) One-Year Term Would be Unreasonable and Inefficient

69. ICG's request that FBC's rates be set for only 2025 pending an inquiry into the differential between FBC's and BC Hydro's rates is not reasonable.[124] As set out in Part Two, Section E of this Reply Submission, there is no need to undertake an inquiry into the differential between FBC's and BC Hydro's rates. In addition, a one-year term would provide no opportunity or incentive to improve productivity and would be inefficient, as FBC would need to prepare its next application immediately after receiving the BCUC's decision on the present Application.

B. Proposed I-Factor Is Reasonable and Appropriate for the Rate Framework

(a) Fixed Labour and Non-Labour Weightings are Reasonable

70. Only CEC opposes FortisBC proposal to revert to a fixed labour and non-labour weighting for the I-Factor.[125] CEC argues that the proposed fixed I-Factor based on the average of 2019 to 2023 labour and non-labour weightings would introduce a "significant backward-looking bias" covering a span of 10 years in the calculation due to the two-year lag in actual O&M results (i.e., 2017-2027).[126] However, there is no applicable two-year lag in actual O&M results in this context; rather, FortisBC has the actual O&M results for 2019 to 2023 on which the fixed weighting would be based. While there would be an 8-year difference between the first year of data in 2019 and the last year of the Rate Framework in 2027, the data indicates there is little material difference over the years. For example, the five-year average from 2015 to 2019 is one percentage point different than the 2019 to 2023 average for FEI and is the same for FBC.[127] As such, FortisBC does not expect the change in I-Factor approach to result in significant variations compared to the approach of using the latest actual year results. If the BCUC would like to use the latest information available, FortisBC could set the fixed I-Factor based on the actual labour/non-labour

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[124] ICG Final Argument, para. 13.

[125] CEC Final Argument, paras. 101 to 106.

[126] CEC Final Argument, para. 102.

[127] Exhibit B-4, BCUC IR1 6.1 and 6.2.

weightings from 2020 to 2024, although FortisBC does not expect this to be materially different than 2019 to 2023.

71. CEC also argues that the fixed I-Factor weightings would "constrain the ability of the Commission and interveners to ascertain the most recently-available data trends in labour and non-labour" and "preclude the gathering of valuable up-to-date insights with regard to the impacts of [the] energy transition".[128] In reply, FortisBC does not agree that this data would provide any insights regarding the impacts of the energy transition. As indicated in Table C1-2 of the Application, the labour/non-labour weightings have fluctuated within a few percentage points over the years with no discernable trend.[129] FortisBC does not see any value in reporting such fluctuations, although the fixed I-Factor proposal would not constrain the ability of the BCUC to request the data if needed.

(b) AWE:BC and CPI:BC Remain Appropriate Measures of Labour and Non-Labour Inflation

72. While BCOAPO does not recommend different measures of inflation, BCOAPO considers AWE:BC and CPI:BC to be relatively generous in favour of FortisBC.[130] FortisBC disagrees and submits that there is no evidence that either AWE:BC or CPI:BC are generous to FortisBC. While the AWE:BC includes volume factors related to hours worked as well as rate factors regarding wages, the volume factor could have the effect of increasing or decreasing AWE:BC which could be favourable or unfavourable to FortisBC. There is also no scenario in which it double counts other factors as BCOAPO suggests. Overall, AWE:BC provides a well-rounded view of wage employment in British Columbia and, therefore, a reasonable overall reflection of labour price changes facing FEI and FBC. Similarly, CPI:BC is a broad measure of inflation for the overall BC economy that represents the rate of price changes for finished goods and services across all of BC, and it is, therefore, an appropriate measure of non-labour inflation.[131] As a broad measure, CPI:BC may include some factors that are less applicable to FortisBC; however, this could be favourable or unfavourable to FortisBC. Ultimately, the breadth of both measures is beneficial,

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128 CEC Final Argument, para. 103.

129 Exhibit B-1-2, Updated Application, p. C-4.

130 BCOAPO Final Argument, pp. 18 to 19.

131 Exhibit B-7, BCOAPO IR1 7.6.

as it ensures that they are well-rounded and representative of the inflationary factors in the economy. AWE:BC and CPI:BC have been repeatedly reviewed and approved by the BCUC,[132] and other regulators,[133] and remain appropriate for the Rate Framework.

C. Expert Evidence Regarding the Proposed Productivity Factor (X-Factor) is Unchallenged by Other Evidence on the Record

73. FortisBC submits that its proposed X-Factors are reasonable and well justified based on the expert evidence of Dr. Kaufmann, which is unchallenged by any evidence in this proceeding. As discussed below, the positions taken by BCOAPO, CEC and ICG amount to ignoring all the evidence in favour of the exercise of judgement without any grounding in theory or evidence. FortisBC submits that this is an unacceptable approach that cannot be justified based on the evidentiary record.

(a) Directional Impact is Not a Sound Basis for Rejection of X-Factor

74. BCOAPO recommends that the BCUC reject FortisBC's requested reductions to the X-Factor compared to the Current MRP. BCOAPO offers no explicit rationale for its recommendation, but states that FortisBC's proposed adjustment to the X-Factor compared to the X-Factor in the Current MRP allows "higher approved O&M costs included in rates".[134] BCOAPO's apparent position that the BCUC should approve the X-Factors from the Current MRP for the Rate Framework simply because this would not increase O&M costs is not a fair or reasonable approach.

75. First, it is important to clarify that FortisBC is not, in fact, requesting a reduction to the X-Factors approved in the Current MRP. While that may be the effect when one compares FortisBC's requested X-Factors to the X-Factors in the Current MRP, what FortisBC is requesting approval of are new X-Factors for the Rate Framework based on the expert evidence of Dr. Kaufmann in this proceeding. This is an important distinction.

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[132] Exhibit B-1-2, Updated Application, p. C-4.

[133] Ontario electric utilities use Ontario AWE and Energir uses Quebec AWE; Alberta utilities use Alberta CPI and Energir uses Quebec CPI. Exhibit B-1-2, Updated Application, p. B-33.

[134] BCOAPO Final Argument, pp. 25 and 29.

76. Second, it is important to emphasize that the BCUC must make its decision on the X-Factor based on the evidentiary record in this proceeding. The BCUC determined the X-Factors for the Current MRP based on the evidentiary record before it in 2020, which relied heavily on judgement due to the lack of a productivity study.[135] BCOAPO offers no argument or rationale for why those X-Factors are justified now based on the evidentiary record before the BCUC Panel in this proceeding.

77. Finally, standard industry practice is to use index-based methods to establish X-Factors, just as Dr. Kaufmann has recommended in his productivity studies.[136] In response to the BCUC's findings in the MRP Decision,[137] Dr. Kaufmann's productivity study uses an O&M PFP factor, which focuses on the industry O&M productivity growth, to calibrate FEI's and FBC's formulas since FortisBC's indexing formulas overwhelmingly apply to O&M costs. BCOAPO has offered no cogent rationale why standard practice and the expert opinion of Dr. Kaufmann should not be followed by the BCUC. BCOAPO's position, that a new X-Factor should not be approved because the direction of the change compared to the Current MRP is not agreeable to it, is not a reasonable evidentiary conclusion.

78. Overall, FortisBC submits that it would be unfair and arbitrary to simply maintain the X-Factors from the Current MRP, as there is no evidentiary justification for such a result. Instead, the BCUC must base its decision on the evidentiary record in this proceeding, including the expert evidence of Dr. Kaufmann whose credentials and opinion is unchallenged.

(b) Dr. Kaufmann Has Provided His Independent Expert Opinion

79. ICG states that the results of Dr. Kaufmann's opinion evidence are "not surprising" because Dr. Kaufmann was retained by Fasken and that the BCUC should protect the interest of customers.[138] FortisBC objects to ICG's insinuations. Dr. Kaufmann was retained to provide his

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[135] In the 2020-2024 MRP Application, FortisBC did not conduct a productivity study to support its proposed X-Factor. In the MRP Decision (page 49), the BCUC stated that the lack of a productivity study "requires the Panel to rely more heavily on its judgement in determining the appropriate X-Factor."

[136] Exhibit B-10, ICG IR1 4.5.

[137] MRP Decision, p. 59.

[138] ICG Final Argument, para. 28.

independent expert opinion and Dr. Kaufmann confirmed his report was prepared in conformance with his duty to provide objective evidence and not be an advocate for any party:[139]

> LKC confirms that it has a duty to provide objective evidence to the regulator and not to be an advocate for any party. LKC has prepared this report, and all of its written and oral testimony in this proceeding will be submitted, in conformance with this duty.

FortisBC submits that the basis of all of Dr. Kaufmann's conclusions are clearly explained and set out in his report and that there is no evidence or suggestion of any bias in Dr. Kaufmann's work. To the contrary, Dr. Kaufmann's evidence is thorough and professional and beyond reproach. FortisBC submits that ICG's submission must be rejected.

(c) Explicitly Articulating Stretch Factors Provides Several Benefits

80. CEC submits that that the BCUC should not explicitly articulate stretch factors "[g]iven the degree of judgment involved in the determination of stretch factors, including LKC's significant reliance on prior regulatory precedent".[140] FortisBC does not agree with CEC's position. The exercise of judgement in determining the stretch factor does not mean that the BCUC can or should disregard relevant empirical evidence on the record or refrain from informing its judgement with a conceptual framework that would make its decision more transparent and understandable. Dr. Kaufmann's approach of starting with the existing stretch factors and then considering the results of the O&M per customer benchmarking analysis and the fact that this is their third consecutive multi-year rate-setting framework is reasonable and provides a coherent structure for the determination of the stretch factor.

81. There are number of benefits associated with explicitly-articulated stretch factors, including:

- The productivity factor and stretch factor play separate roles in a well-designed incentive regulation plan. The productivity factor is grounded in the "competitive market paradigm," which establishes a link between long-run industry-wide

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[139] Exhibit B-1, Application, Appendix C1-1, p. 2.

[140] CEC Final Argument, para. 138.

productivity trends and the appropriate "offset" that is applied to the industry-wide inflation factor. The stretch factor, in contrast, is a company-specific metric, informed by some form of cost benchmarking as well as the history of incentive regulation in each jurisdiction. It can and should vary depending on the company's cost performance, and therefore its potential to achieve incremental cost savings under an incentive regulation plan. Together, these metrics lead to changes in utility revenues that are consistent with industry-wide growth in unit costs.

- It is important for the Companies, customers, and the BCUC to understand and recognize the separate roles of the productivity factor and stretch factor in the overall X-Factor. Having separate productivity and stretch factors enhances transparency and promotes understanding for all interested parties.

- Explicit stretch factor goals can also strengthen regulatory oversight. Stretch factors will provide an important, overall target for improving performance and regulators can use stretch factor metrics to hold companies accountable.

82. In sum, FortisBC submits that an explicitly articulated stretch factor is an important part of the Rate Framework.

(d) X-Factor and Incentive to Achieve Savings Are Separate Considerations

83. ICG argues that the BCUC should maintain FBC's existing 0.5 X-Factor as ICG does not expect a lower target will result in a change in incentives.[141] ICG's submission misunderstands the evidence and should be rejected. As confirmed by Dr. Kaufmann and the Alberta Utilities Commission (AUC), the X-Factor does not incent savings, but ensures that the benefit of the industry's long-run productivity trend is passed to customers regardless of the actual performance of the utility. Instead, the incentive to achieve savings is derived from the decoupling between revenues and costs, the length of the term of the plan, the share of costs that are subject to the incentive framework, and the inclusion of an ESM.[142] Therefore, the fact that the level of incentive has not changed under the Rate Framework has no bearing on the quantum of the X-Factor. In short, ICG has not identified any rational basis on which the BCUC could approve FBC's X-Factor under the Current MRP for the Rate Framework.

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[141] ICG Final Argument, para. 21.

[142] Exhibit B-10, ICG IR1 4.9.

(e) US Data Has Consistently Been Relied on by the BCUC and Other Canadian Regulators

84. ICG argues that the X-Factor analysis prepared by Dr. Kaufmann for FBC should be given very little weight as it is based on a survey of US utilities and should have been compared to Canadian utilities, or at least BC Hydro.[143] ICG's position is incorrect and should be disregarded.

85. First, the productivity factor is not based on comparisons to other utilities as ICG assumes. Rather, standard industry practice is to use index-based methods to establish the long-run industry-wide productivity growth.[144] As explained by Dr. Kaufmann:[145]

> The productivity factor is not "based on comparisons" to any particular utility or set of utilities. Instead, the productivity factor is derived using industry-wide productivity trends over a multi-year period. The cross-section and time series data necessary to compute long-term productivity trends for the gas distribution or electricity distribution industries are not available in Canada.

86. Second, it is misleading for ICG to suggest that Dr. Kaufmann "should" have used Canadian data, when it was simply not possible. As stated in FortisBC's Final Submission, Dr. Kaufmann could not have used Canadian data due to the lack of uniform and standardized data sets for Canadian electric and gas utilities.[146]

87. Third, as also stated in FortisBC's Final Submission, the BCUC and other regulators have approved the use and applicability of US data for calculating the industry productivity trends for Canadian utilities. The BCUC approved X-Factors in the 2014-2019 PBR Plan Decisions for FEI and FBC based on average industry productivity growth in the US.[147] The AUC has also concluded that the use of a US data set is acceptable.[148] ICG provides no evidence or argument why using US data is not acceptable.

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143 ICG Final Argument, para. 22.

144 Exhibit B-10, ICG IR1 4.5.

145 Exhibit B-10, ICG IR1 4.11.

146 Exhibit B-12, RCIA IR1 12.3.

147 Exhibit B-12, RCIA IR1 12.3.

148 Exhibit B-12, RCIA IR1 12.3.

88. FortisBC submits that Dr. Kaufmann's recommended X-Factors based on US data are consistent with industry practice and that the use of US data poses no challenge to their applicability to FEI and FBC.

(f) PFP Factor is Based on Industry Trends, Not Peer Comparison

89. CEC "submits that peer selection is a very important determinant for productivity factors" and CEC recommends that the BCUC give little weight to the partial factor productivity (PFP) component of the X-Factors calculated by Dr. Kaufmann[149] because there is no convincing comparative "peer evidence" regarding effective competition impacting FortisBC on the record.[150] FortisBC submits that CEC's arguments are unsupported by any evidence or theory, contrary to industry standard practice and the expert evidence of Dr. Kaufmann, and must be rejected.

90. Contrary to the CEC's position, the productivity factor is determined by industry-wide productivity trends, not peer comparisons. This is key to the competitive market paradigm central to the formulation of I-X regulation. For example, Dr. Kaufmann states in his report:[151]

> …The aim of incentive regulation is to replicate the behavior and outcome of competitive markets, so the formulas used to adjust utility rates in index-based regulation are designed to be consistent with how prices change in competitive markets.
>
> Competitive market prices depend <u>on industry-wide conditions</u>, not the costs or circumstances of any particular firm. Incentive rate-setting replicates this outcome by using <u>industry-wide measures</u> to calibrate rate adjustment formulas. Relying on industry-wide data, rather than the utility's own performance, is important for ensuring that formula-based rate adjustments depend on external metrics rather than the utility's own costs. [Emphasis added.]

91. Therefore, for both the gas distribution and electricity distribution industries, Dr. Kaufmann did not conduct a peer comparison, but instead his focus was on collecting as much

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149 CEC Final Argument, para. 137.

150 CEC Final Argument, para. 132.

151 Exhibit B-1, Application, Appendix C1-1, p. 5.

data as possible to reflect the entirety and diversity of the utility industry to estimate the industry productivity trends.[152] As stated by Dr. Kaufmann:[153]

> Dr. Kaufmann's main task was to estimate the industry O&M PFP trends for FEI's and FBC's Rate Framework. To estimate O&M PFP trends, it is necessary to compile and utilize industry-wide datasets for both the gas distribution and electric distribution industries. Industry-wide datasets require the compilation of extensive cross-sectional data (i.e., data on utilities across the entire US) and extensive time series data (i.e., long series of data across time for each selected utility). His criteria for selecting the companies in each of these samples were:
>
> 1. To select companies with sufficient, high-quality data, across multiple years, for estimating productivity trends;
> 2. To develop industry samples that reflect the economic and geographic diversity across the US; and
> 3. Simultaneously, to develop industry samples that reflect the diversity in company size across each of the respective utility industries.

92. The large cross-section also increases the accuracy of the analysis. As Dr. Kaufmann explained: "In general, industry productivity studies become more accurate when they sample a large cross section of utilities across the industry."[154]

93. Dr. Kaufmann's use of as broad a sample of utilities as possible to calculate gas and electric industry O&M PFP growth trends is also supported by the BCUC and other regulators. For instance, the X-Factors approved by the BCUC in the 2014-2019 PBR Plan Decisions for FEI and FBC were calculated based on Dr. Lowry's productivity studies which were computed for samples of 64 and 75 utilities for the gas and electric industry, respectively.[155] Further, the AUC has consistently stated that "it is preferable to use broad samples that will embody variation in more of the characteristics that influence productivity, as would be found in a competitive market."[156]

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[152] Exhibit B-1, Application, Appendix C1-1, p. 3.

[153] Exhibit B-4, BCUC IR1 7.5.

[154] Exhibit B-13, BCUC IR2 45.3.

[155] MRP Decision, p. 58.

[156] AUC Decision 27388-D01-2023, para. 134. Online: https://efiling-webapi.auc.ab.ca/Document/Get/794425.

94. FortisBC notes that Dr. Kaufmann did calculate a productivity factor for FBC based on a smaller sample of 20 "peer" companies. The results were a negative productivity factor of -0.42 percent, which Dr. Kaufmann concluded was consistent with the challenging conditions facing many small US electric utilities.[157] Notably, the CEC does not recommend this result.

95. Dr. Kaufmann is a highly qualified expert in productivity studies and his indexing approach reflects industry standard practice. In contrast, CEC's views regarding peer selection are not supported by any authority or any evidence in this proceeding. FortisBC submits that the BCUC should give little to no weight to the CEC's submission in comparison to the opinion of Dr. Kaufmann.

(g) 15-Year Period to Estimate Productivity Trends is Consistent with Industry Practice and Strikes an Appropriate Balance

96. CEC submits that the results from the utilities sampled by Dr. Kaufmann over the last five years are more indicative of "things to come" than the proposed 15-year period to estimate productivity trends, and adds that it is not aware of "economic prognostications" suggesting that BC businesses will return to their pre-pandemic realities.[158] ICG similarly recommends a five-year period so that the PFP is based on "current data".[159] A five-year period would be contrary to standard industry practice and an unprecedently short period of time on which to determine a productivity trend. FortisBC submits that five years is clearly too short a period on which to derive a reliable long-term productivity trend and would not be more indicative of things to come. As discussed in Part Three, Section D(b) of FortisBC's Final Submission, Dr. Kaufmann used a 15-year sample period for the productivity studies which is consistent with industry practice, and reasonably balances the needs to minimize the impact of volatility in O&M productivity from year to year while still reflecting current experience. The CEC and ICG do not address any of Dr. Kaufmann's points and their arguments are not supported by any authority or evidence.

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157 Exhibit B-1, Application, Appendix C1-1, p. 18.

158 CEC Final Argument, para. 136.

159 ICG Final Argument, para. 23.

97. First, Dr. Kaufmann has explained that a 15-year sample period for estimating productivity has become the industry standard and can now be considered industry best practice:[160]

> Using a 15-year period to estimate productivity trends has become widespread in incentive regulation. This period is long enough to average out the annual "ebbs and flows" in utility expenditures and thereby minimize the impact of year-to-year volatility and the experience of a small number of years on estimated productivity growth. At the same time, this period is recent enough to reflect the industry's current, long-run conditions rather than dated, obsolete experience. By balancing these objectives, a 15- year sample period is likely to provide a reliable measure of long-run productivity trends.

98. On average, the productivity factors approved in Massachusetts, Ontario, and Alberta used 17.7 years of data to measure productivity trends. None of those plans used a sample period of less than 14 years to measure productivity trends. These industry precedents show that 5 years would be an unprecedently short time frame over which to estimate long-run productivity trends that would be contrary to industry standard practice.[161] Neither ICG nor CEC provide any authority to support that a five-year period is a reasonable practice for producing a productivity trend.

99. Second, Dr. Kaufmann explains that to produce a reliable long-term trend, a relatively long period is necessary to balance out the volatility of costs and other factors in utility industries. He writes:[162]

> The data also show that O&M PFP measures can be volatile. This is evident in the divergent estimates of O&M PFP growth for the 2014-2022 and 2007-2022 periods, for both companies. This is an important finding, because it supports the view that changes in O&M PFP can be affected by a wide range of factors, including the timing of relatively large O&M expenditures, changes in inflationary pressures, and other exogenous factors that impact output growth, O&M growth, or both. As discussed above, these ebbs, flows, and transitory developments in business operations tend to balance out over longer sample periods. Longer-term measures of O&M PFP growth therefore provide more reliable estimates of underlying O&M PFP trends for utility industries. This, in turn, implies that longer-term measures of O&M PFP are generally a more appropriate basis for

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160 Exhibit B-1, Application, Appendix C1-1, p. 10.

161 Exhibit B-4, BCUC IR1 7.6.

162 Exhibit B-1, Application, Appendix C1-1, p. 12.

> productivity factors in index-based incentive regulation plans than O&M PFP measured over relatively short intervals.

100. Therefore, contrary to CEC's and ICG's submissions, using only a five-year period would be unlikely to be representative as the results would be reflective of volatility in the data and, therefore, cannot be relied on as a long-term trend.

101. Third, the issue of volatility in the data and, therefore, lack of reliability is especially heightened given the events over the last five years. As stated by Dr. Kaufmann:[163]

> However, the 2017-2022 period is clearly not representative of conditions going forward. The 2017-2022 period included a worldwide pandemic, which in short order initiated a worldwide recession. When the pandemic abated in late 2021, it sparked the worst worldwide price inflation in more than 40 years. Therefore, it would not be reasonable to calculate the PFP for FEI and FBC based on the most recent five years of data.

Given the conditions over the last five years, the data from these years alone simply cannot be relied upon to produce – by themselves – a reliable long-term productivity trend.

102. Fourth, Dr. Kaufmann's opinion is supported by the BCUC's determination in the 2014-2019 PBR Plan Decision that using a short sample period, such as a 5-year period, is not appropriate:[164]

> Since, by definition it is impossible to accurately predict the future, there is no way to ensure that one can pick the appropriate five-year study window to match the economic conditions that a utility will face in the next five years. **The Panel finds that a short study period is not appropriate.**
>
> A long-term study period is superior to a short-term study period because a long term doesn't accentuate any short-term trends. **Accordingly, the Panel finds that a study period should at least be long enough to smooth out any significant short-term economic trends.** … The Panel notes that this finding that a longer study period is more appropriate is consistent with the finding of the AUC that "using the longest time period for which data are available is theoretically sound and represents the most objective basis for the TFP calculation."

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[163] Exhibit B-13, BCUC IR2 45.6.

[164] Decision and Order G-138-14, pp. 54 to 55. Online: https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/111623/1/document.do.

103. CEC's submission that the five years is more likely to represent "things to come" and ICG's submission that it reflects "current conditions" is plainly false. The BCUC can take notice of the fact that the pandemic has ended, mask mandates and lock-downs have ended, supply chain disruptions are easing and inflation has come down. While not impossible, it is highly unlikely that the next three years will see the type of world-wide pandemic, supply change disruptions, and extreme inflation experienced in the past few years.

104. In this regard, CEC's comments regarding specific "economic prognostications by the Business Council of B.C. or the B.C. Chamber of commerce" (or lack thereof)[165] is not evidence on the record in this proceeding and should not be considered by the BCUC.

105. Finally, to illustrate the above points, the measured change in productivity over the five-year, 2018-2022 period for both the gas distribution and electricity distribution industries are reproduced below, showing that there was a substantial amount of volatility within those five years for both industries.

Year	% Change Gas Distribution O&M PFP	% Change Electricity Distribution O&M PFP
2018	-4.52%	-1.47%
2019	2.07%	6.86%
2020	3.07%	-3.83%
2021	-0.84%	5.94%
2022	3.79%	-0.45%
Average	0.72%	1.41%

106. As indicated above, for the gas distribution industry, annual O&M PFP growth ranged from 3.79 to -4.52 percent within this short, five-year period. O&M PFP data was even more volatile for the electricity distribution industry, with industry PFP expanding by 6.86 percent in 2019, followed by a rapid 3.83 percent decline in 2020, followed by a 5.94 percent increase in 2021.

107. When samples used to estimate productivity are relatively short, and the productivity data are volatile, the average measure of productivity growth can change dramatically from year

[165] CEC Final Argument, para. 135.

to year. For example, a single year of -4.52 percent productivity change can negate four years of productivity growth and turn what appeared to be four years of steady, sustained, productivity growth into measured productivity decline.

108. This pattern of productivity change is not consistent with "long-run" productivity behavior. Long-run productivity trends will almost always change relatively slowly, rather than rapidly, over time. Sudden changes in productivity trends are, by definition, evidence of short-term volatility and not "long term" productivity trends.[166]

109. The combination of extensive volatility and short terms used to measure productivity trends supports Dr. Kaufmann's conclusion that five years is far too short to estimate reliable, long-run trends for O&M PFP growth. This is why experts typically select sample periods for measuring productivity growth that are three to four times greater than a five-year period.[167]

110. FortisBC emphasizes that there is no evidence of any regulator approving a rate adjustment formula using five years of data to measure productivity trends or any other authority supporting such a practice. Using five years of productivity growth as the basis for a productivity factor would be unprecedented and would replace expert judgement with an arbitrary time span. FortisBC strongly recommends that the BCUC give no weight to the CEC and ICG recommendations.

D. Proposed Growth Factor is Fair and Reasonable Without Discounting

111. As set out in Part Three, Section E(d) of FortisBC's Final Submission, FortisBC submits that there is no evidence or rational foundation to justify the imposition of a discount on the Growth Factor and, as such, no discount factor should be included in the Rate Framework. In this section, FortisBC replies to interveners that have taken a contrary view. FortisBC first replies to the submissions of BCOAPO, CEC, RCIA and ICG, and then responds to BCSEA's more unique argument that a discount should be applied to the Growth Factor for FEI's Growth capital to discourage customer attachments, which would be an error of law.

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166 Exhibit B-13, BCUC IR2 45.3.

167 Exhibit B-4, BCUC IR1 7.6.

(a) Weight of Evidence Overwhelmingly Supports No Discount on Growth Factor

112. BCOAPO, CEC, RCIA and ICG recommend that the BCUC direct FortisBC to maintain the 0.75 percent discount factor currently applied to its formula O&M indexing.[168] BCOAPO does not support eliminating the discount factor because it, along with other proposed elements of the Rate Framework, "appear[s] to be to the benefit of FortisBC in the form of increased flexibility, increased costs included in rates and higher rates for ratepayers."[169] CEC argues that FortisBC has not sufficiently justified the elimination of the discount factor and that the funding provided with the discount factor has been sufficient.[170] RCIA supports the continuation of the existing discount factor because the BCUC's rationale for imposing the discount factor largely remains valid in the context of the Rate Framework.[171] ICG suggests that the decision to remove the 0.75 percent discount factor for FBC is merely based on the opinion of Dr. Kaufmann, rather than any operational changes.[172]

113. The position of the interveners on this topic is directly contradicted by the expert opinion of Dr. Kaufmann, the academic authority cited by Dr. Kaufmann, and the jurisdictional review of other rate frameworks, all of which support the conclusion that a 0.75 percent discount on the Growth Factor has no grounding in theory or evidence and cannot be justified.

114. The evidentiary question before the Panel on this issue is whether to accept the expert opinion of Dr. Kaufmann, academic authority cited by Dr. Kaufmann, and implications of the jurisdictional review, or the submissions of interveners. FortisBC submits that there is no question that the BCUC must put significantly more weight on the expert opinion of Dr. Kaufmann in this case and that there is no reasonable basis in the evidence to prefer the position of interveners.

115. The topic of the appropriateness of a discount on the Growth Factor is a complex matter of economic theory involving indexing logic and cost theory that is properly the subject of expert

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168 BCOAPO Final Argument, pp. 25 to 26 and 29; CEC Final Argument, para. 159; RCIA Final Argument, p. 11; ICG Final Argument, para. 28.

169 BCOAPO Final Argument, pp. 25 to 26.

170 CEC Final Argument, para. 155.

171 RCIA Final Argument, p. 11.

172 ICG Final Argument, para. 28.

opinion evidence. For that reason, FortisBC retained Dr. Kaufmann to provide his expert opinion on this matter. Dr. Kaufmann's credentials to opine on this matter are beyond doubt. Dr. Kaufmann's extensive resume is included in Appendix Four to his Report. Some highlights include:[173]

- Dr. Kaufmann has a Ph.D in Economics from the University of Wisconsin-Madison.
- Dr. Kaufmann has participated in 233 consulting projects addressing incentive regulation and other energy policy issues in 15 countries.
- He has provided expert witness testimony on 58 occasions in 12 North American jurisdictions, Australia and New Zealand.
- Dr. Kaufmann has published 32 articles including "The Past and Future of the X Factor in Performance-Based Regulation," *The Electricity Journal*, April 2019.
- Dr. Kaufmann has made 80 presentations at seminars and professional meetings.
- Over the last 20 years, his clients have been almost evenly divided between utility companies and regulatory agencies, including past, multi-year consulting relationships with the Ontario Energy Board and the Essential Services Commission of Victoria, Australia.

FortisBC submits that Dr. Kaufmann's resume demonstrates deep technical expertise in the matters he has opined on in this proceeding. No intervener questions the credentials of Dr. Kaufmann.

116. Dr. Kaufmann has carefully and clearly set out his opinion in his Report that a discount on the Growth Factor has no basis in indexing logic or cost theory and double-counts the impact of the X-Factor. Dr. Kaufmann also cites the work of Lowry and Hovde's, "Escalating Power Distributor O&M Revenue," *Electricity Journal*, 34 (2021), which confirms Dr. Kaufmann's opinion. Consistent with this expert advice, FortisBC's Current MRP is an outlier on this point, with no other jurisdiction in Canada including both a productivity factor and a discount on the Growth Factor.

117. No party has filed expert evidence in this proceeding questioning Dr. Kaufmann's opinion.

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[173] Exhibit B-1, Application, Appendix C1-1.

118. Moreover, no intervener cites any academic article, regulatory decision or any authority of any kind questioning or casting doubt on Dr. Kaufmann's evidence in this proceeding. Instead, intervener submissions reflect thin arguments based on layperson perspectives on a complex area of economic theory, which should be dismissed, as discussed below.

119. BCOAPO's position that the discount should remain because it would reduce O&M spending makes no attempt to deal with the evidence and is unprincipled. It is not fair or reasonable to ground a decision on a matter of economic theory based on the preference of an intervener to reduce O&M costs with no rationale.

120. ICG's submission that FortisBC's position is "merely based on the opinion of Dr. Kaufmann, rather than any operational changes" is also unreasonable. Given the complex nature of the issue, FortisBC reasonably and justifiably relies on the expert opinion of Dr. Kaufmann. Operational changes have no bearing on whether a discount to the Growth Factor should be applied.[174] ICG provides no argument or explanation why it should.

121. RCIA's position that the BCUC's previous determination still applies fails to deal with the evidentiary issue before the Panel in this proceeding. When the BCUC approved the discount factor for the Current MRP, the BCUC had no expert evidence on the record in that proceeding and determined the X-Factor and discount on the Growth Factor based on judgement. This proceeding is now informed by expert evidence on the productivity factor and the Growth Factor which has clarified beyond any doubt that the productivity factor already includes the impacts of economies of scale which a discount on the Growth Factor double counts. Unlike the evidence before the Panel that approved the Current MRP, the Companies' proposed indexing formula for the Rate Framework uses properly constructed O&M productivity indices. This change is responsive to BCUC concerns in the MRP Decision regarding the lack of relevance of TFP metrics. Because the O&M productivity indices recommended by Dr. Kaufmann are conceptually appropriate for the Rate Framework, they also better align the Rate Framework formulas with the costs recovered by the formulas. In light of this more rigorous and carefully focused

[174] Exhibit B-4, BCUC IR1 8.1.

framework, it is also more important for other elements of the indexing formula – including the Growth Factor – to be properly aligned.

122. CEC's argument that past productivity is embedded in the overall base O&M, but the current year growth of scale is not,[175] fails to understand how the productivity factor works. The productivity factor reflects the trend in industry productivity taking into account all sources of productivity, including economies of scale.[176] Further, the productivity factor indicates the productivity *trend* that the electric industry can be expected to achieve over the term of the Rate Framework, taking into account all of these factors. Importantly, the productivity factor is applied to every unit cost, such that the unit cost for every existing customer and every new customer is adjusted by the I-X formula. The unit cost for new customers should not be further discounted because the productivity factor is already predicting the impacts of economies of scale and all other sources of productivity over the term of the Rate Framework. Adding a discount on the Growth Factor suggests that the productivity trend will increase with the addition of each customer over and above the trend predicted by the productivity factor. However, there is no basis to make such a conclusion, as the productivity factor already takes into account all the available evidence, including the opportunities for economies of scale.

123. The CEC's alternative argument that a discount factor be directed based on last year's actual correlation between formula O&M and net customer additions[177] makes the same mistake, suggesting that there is some source of productivity that is not already taken into account in the productivity factor. Mathematically speaking, there is no relationship between the discount factor and the correlation coefficient between the Growth Factor and the formula O&M. This is because as the Growth Factor increases or decreases so too does the O&M formula results. This would be the case regardless of which discount factor is applied. Further, FEI's and FBC's formula O&M is based on average customer count, not net customer additions. FortisBC has

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175 CEC Final Argument, para. 146.

176 Exhibit B-1, Application, Appendix C1-1.

177 CEC Final Argument, at para. 160.

shown that the correlation between FEI's and FBC's average customer count and formula O&M is 0.99 and 0.98 percent, respectively.[178]

124. Finally, the CEC's submission that inclusion of the discount on the Growth Factor in the Current MRP did not result in insufficient funding has no merit.[179] This simply shows that FortisBC managed its O&M and achieved sufficient productivity improvements to achieve savings despite the discount. This has no logical bearing on whether the discount on the Growth Factor is reasonable or justified.

125. In summary, Dr. Kaufmann's opinion is that indexing logic, basic cost theory, and common sense all support the conclusion that economies of scale are captured in the O&M PFP trend and not the customer Growth Factor. For all components of the Companies' Rate Framework to be consistent with this reality, and for all indexing formulas to be internally consistent, no discounts of the customer Growth Factor should be applied to the Companies' allowed O&M adjustment formulas. 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.

126. The Panel must make its decision based on the evidence in this proceeding and, in FortisBC's submission, must give intervener submissions significantly less weight than Dr. Kaufmann's evidence. Accordingly, FortisBC submits that the weight of the evidence is overwhelming that no discounts should be applied to the customer Growth Factors for FEI's and FBC's proposed Rate Framework.

(b) Applying a Discount Factor to Discourage Customer Additions Would Be an Error of Law

127. BCSEA suggests that the BCUC apply a discount factor to FEI's Gross Customer Additions as the Growth Factor for FEI's Growth capital formula "to reduce the perverse incentive for FEI to grow the gas delivery system over the term of the Rate Framework".[180] FortisBC submits that

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178 Exhibit B-4, BCUC IR1 8.4.

179 CEC Final Argument, para. 158.

180 BCSEA Final Argument, paras. 8 and 49 to 51.

adding a discount factor to discourage adding customers would violate the Fair Return Standard and otherwise exceed the BCUC's jurisdiction and, as such, would be an error of law.

128. Contrary to BCSEA's characterization, FEI's Growth capital funding is not an incentive to grow the gas system, but is necessary to provide FEI with a reasonable opportunity to recover its prudently incurred costs of providing utility service, including complying with its legislative obligation to serve customers. The obligation to provide service to all persons that request it, and to do so without undue discrimination or undue delay is reflected in sections 28, 38 and 39 of the UCA and is part and parcel of the regulatory compact that is fundamental to utility regulation. As the Supreme Court of Canada noted in *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)*, 2006 SCC 4 at paragraph 63, "In return for this right of exclusivity, utilities assume a duty to adequately and reliably serve all customers in their determined territories, and are required to have their rates and certain operations regulated."

129. The duty to serve exists to prevent monopoly utilities from denying access to an essential service to persons that desire it. In *Princeton Light & Power Co. Ltd. v. MacDonald*, 2005 BCCA 296, the BC Court of Appeal considered sections 38 and 39 of the UCA (the duty to serve provisions), and Justice Huddart stated (at para. 47):

> That provision [section 38], together with s. 39 (as did ss. 23 and 26 of the predecessor *Energy Act*, S.B.C. 1973, c. 29), affirms the common law obligation of a body "having a practical monopoly on the supply of a particular commodity or service of fundamental importance to the public . . . to supply its product to all who seek it for a reasonable price and without unreasonable discrimination between those who are similarly situated or who fall into one class of consumers": *Chastain et al. v. British Columbia Hydro and Power Authority* (1972), 1972 CanLII 985 (BC SC), 32 D.L.R. (3d) 443, (B.C.S.C.) per McIntyre J. at 454. [Emphasis added.]

FEI's BCUC-approved tariff abides by this obligation to serve, allowing potential customers to connect, and to do so in a non-discriminatory manner.

130. BCSEA's proposal to apply a discount to FEI's Growth capital formula would have the explicit and intentional effect of underfunding FEI's prudent Growth capital costs that FEI is

obligated to incur pursuant to its duty to serve. FEI submits that this would be unjust and unreasonable, and a clear error of law.

131. BCSEA's position that "the time has come" "to limit the incentive for FEI to grow the gas delivery system in order to foster the clean energy transition"[181] would also be asking the BCUC to take on a policy function that is not within its jurisdiction. The British Columbia Court of Appeal's decision in *British Columbia Hydro and Power Authority vs. British Columbia (Utilities Commission)*, (1996), 20 B.C.L.R. (3d) 106 confirmed (at paragraph 52) that the BCUC is not charged with a policy-making function:

> I have already described the reason for the existence of the tribunal. The expertise or skills of its members vary. Experience has demonstrated skills associated with accounting, economics, finance and engineering have been frequently utilized. Unlike labour relations tribunals where past experience in the field of labour relations is a virtual prerequisite, past experience in the regulatory field is not necessary. A similar observation may be made with respect to securities commissions. Both labour relations tribunals and securities commissions are expressly conferred with policy making powers. None such are conferred on the Commission. [Emphasis added]

132. In BC Hydro's 2015 Rate Design proceeding, the BCUC similarly recognized that there was no evidence of legislative intent to provide the BCUC with jurisdiction to set low-income rates.[182] The Court of Appeal denied leave to appeal in that case.[183]

133. There is no statute, regulation or provincial policy that would support BCSEA's position that the BCUC should be approving financial disincentives to add gas customers. To the contrary, FEI submits that the UCA evinces a clear legislative intent to allow British Columbians to continue receiving, and choose to take, gas service. For instance:

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[181] BCSEA Final Argument, para. 50.

[182] BC Hydro 2015 Rate Design Application, Decision and Order G-5-17 dated January 20, 2017, p. 67. On June 2, 2017, by way of Order G-87-17 the BCUC denied the reconsideration request finding the errors claimed had not been substantiated on a *prima facie* basis.

[183] *British Columbia Old Age Pensioners' Organization v. British Columbia Utilities Commission*, 2017 BCCA 400.

- The UCA continues to refer throughout to the production, generation, storage, transmission, sale, delivery or provision of natural gas;[184] and

- The Legislature has not provided any signal that natural gas service should cease, including in amendments to the *British Columbia's Energy Objectives Regulation* earlier this year. This stands in stark contrast to the prohibition of nuclear energy set out in BC energy objective (o) "to achieve British Columbia's energy objectives without the use of nuclear power".[185]

134. Existing enactments envision additional gas connections in the coming years. Customers can use gas for space and water heating in new buildings (i.e., through new gas connections) under the Zero Carbon Step Code throughout the term of the Rate Framework. And even after the Zero Carbon Step Code is fully applied in 2030, not all end uses for gas are precluded (e.g., cooking, restaurants and industrial uses). Thus, the Zero Carbon Step Code does not bar new gas connections or limit the use of gas for existing customers.[186]

135. BCSEA's position would be disruptive to customers, and runs contrary to the transition timeline established by the Zero Carbon Step Code. The provincial government clearly contemplated the need for an orderly transition in the Zero Carbon Step Code. It turned its mind to the duration of the transition to implement restrictions on gas use for space and water heating in new buildings and selected 2030. It is not within the BCUC's mandate, or its jurisdiction, to accelerate that timeline, including through the use of a discount factor applied to customer growth in FEI's Growth capital formula.

136. Further, the recent BC Clean Energy Strategy explicitly recognizes the role of the gas system for BC's energy system, particularly in meeting peak demand and in colder climates like the Okanagan:[187]

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[184] For example, sections 1, 61(4), 65, 66, 67 and 121 of the UCA.

[185] *Clean Energy Act*, S.B.C. 2010, c. 22, s. 2.

[186] See e.g., BC Building Code 2018-Revision 5, effective May 1, 2023. Online: https://energystepcode.ca/app/uploads/sites/257/2023/02/BCBC-2018-Revision-5-Convenience-Copy.pdf; see also BC Government, Information Bulletin re British Columbia Building Code 2018 - Revision 5. Online: https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/construction-industry/building-codes-and-standards/bulletins/20_better_ee__zcsc.pdf.

[187] BC Government, Powering Our Future: BC's Clean Energy Strategy (2024). Online: https://www2.gov.bc.ca/gov/content/industry/electricity-alternative-energy/powering-our-future.

Not all energy needs can be met through electricity and utility-scale batteries. Liquid and gas fuels will remain essential for the foreseeable future, especially in areas like longhaul transportation, certain industrial processes, and in remote communities not connected to the electricity grid. BC's gas system will also continue to play an important role for many years to come in order to maintain system resiliency, meet peak energy demand, and provide home heating in colder climates. And when it comes to transportation fuel, we are still largely dependent on imports from other jurisdictions, with the exception of Burnaby's Parkland Refinery and Prince George's Tidewater Renewable facility, both of which are leaders in producing renewable and low-carbon fuels.

….

Planning for a resilient future

Part of what makes BC's energy system resilient is the diversity of its energy sources. For example, a record-breaking cold snap in January 2024 drove BC's hourly peak demand to new highs. BC Hydro was able not only to meet that peak demand at home in BC, but also to export much-needed power to our neighbours in Alberta. Natural gas was also critical in meeting peak demand, delivering about twice as much energy for home heating as the electricity system during this time – highlighting the importance of BC's existing gas system.

…

Electricity and gas can be complementary energy sources, for example where the gas system's role in heating acts as a back-up for clean electricity, but currently their futures are planned independently through separate resource planning processes. …
…

A key focus of BC's net zero pathway assessment will be the impacts of electrification of home heating on electricity and natural gas planning and identifying the role of a decarbonized gas system – with increasing amounts of renewable natural gas and hydrogen – in BC's future energy system. For example, in colder climates, dual fuel systems may make the most sense where low-carbon gases serve as back-up during colder temperatures where electric heat pumps are less efficient and the electricity system is unable to meet peak demand annually.

[Emphasis added.]

As such, BCSEA is advocating for a vision that is at odds with the stated policy of the provincial government. The BCUC would err in interpreting its public interest powers to give effect to BCSEA's non-existent policy objectives.

E. Scoping of Annual Reviews is a Reasonable Improvement in Regulatory Efficiency

137. BCOAPO, BCSEA, MoveUP and CEC oppose FortisBC's proposal to more clearly define the scope of the Annual Reviews. FortisBC addresses the specific concerns raised in these interveners' final arguments below. However, as a general matter, FortisBC submits that these interveners mischaracterize the issue as FortisBC attempting to unduly restrict the scope of Annual Reviews, when FortisBC's proposal is merely to more clearly scope the Annual Reviews to exclude matters that have already been approved. The BCUC has previously defined the scope of Annual Reviews,[188] has clarified several times that Annual Reviews are not the forum to attempt to unwind the underlying rate framework,[189] and has indicated in its Regulatory Efficiencies Initiative that it is seeking to increase the use of issue scoping.[190] In this context, FortisBC submits that the onus should be on parties opposing its proposal to justify why they should be permitted to explore and debate matters in the Annual Reviews that have already been approved by the BCUC and that are not up for reconsideration. FortisBC submits that BCOAPO, BCSEA and MoveUP have offered no such justification.

(a) FortisBC's Proposed Scoping of Annual Reviews Improves Regulatory Efficiency Without Any Detriment to Regulatory Effectiveness

138. BCOAPO expresses concern that FortisBC is placing too much emphasis on regulatory efficiency at the expense of regulatory effectiveness.[191] FortisBC submits that there is no

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188 MRP Decision, p. 175.

189 Decision and Order G-42-21, p. 14. Online: https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/492971/1/document.do; Decision and Order G-374-21, pp. 20-21. Online: https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/518244/1/document.do; Decision and Order G-382-22, p. 9. Online: https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/521448/1/document.do.

190 BCUC Letter re BCUC – Regulatory Efficiency Initiative – Project No. 1599581 – Final List of Efficiencies, December 22, 2023. Online: https://docs.bcuc.com/documents/other/2023/doc_75555_bcuc-regulatory-efficiency-initiative-final.pdf.

191 BCOAPO Final Argument, p. 17.

regulatory effectiveness in interveners pursuing issues in the Annual Review process that have already been approved by the BCUC and are not up for reconsideration in the Annual Review. For example, it is not an effective use of regulatory process to require FortisBC to re-justify the I-Factor in every Annual Review process when it has already been reviewed and approved as part of the Rate Framework. Therefore, in FortisBC's view, its proposal improves regulatory efficiency without any impact on regulatory effectiveness.

(b) BCUC Decisions Confirm that Scoping Would be Beneficial

139. MoveUP suggests that the scoping of Annual Reviews should not be adopted as FortisBC has not demonstrated a problem "that needs fixing".[192] In reply, BCUC panels in FortisBC's Annual Review processes have been compelled on multiple occasions to explain to parties that the Annual Review process is not the forum in which to seek to unwind the approved rate framework.[193] FortisBC submits that this is sufficient evidence to support the need to scope the Annual Reviews in this proceeding to exclude matters that the BCUC has already approved.

(c) Scoping of Annual Reviews Should Help Minimize Need for Objections to IRs

140. BCSEA considers that FortisBC should object to IRs that it considers to be out of scope, thus leaving it to the BCUC to determine whether an IR is within the proceeding's scope on a case-by-case basis.[194] FortisBC submits that its option to object or respond to an out-of-scope IR is often a Hobson's choice. That is, without advance clarity on the scope of the Annual Reviews, objecting to an IR can lead to further regulatory process that is more onerous than responding to the IR and extends well beyond the deadline for responding to IRs. The opposition to the scoping proposal in this proceeding exemplifies the resistance FortisBC can expect to receive whenever it refuses to respond to an IR. As such, FortisBC typically chooses to respond to IRs.[195] Further, even if FortisBC objects to IRs or indicates in its response that it considers the topic out of scope, interveners can continue to pursue issues in their arguments, requiring FortisBC to

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[192] MoveUP Final Argument, pp. 11 to 12.

[193] Decision and Order G-42-21, p. 14; Decision and Order G-374-21, pp. 20 to 21; Decision and Order G-382-22, p. 9.

[194] BCSEA Final Argument, paras. 11 and 60 to 61.

[195] Exhibit B-11, MoveUP IR1 4.3.

respond in reply argument and the BCUC to deal with such issues in its decisions. However, with advance determination in this proceeding on the scope of the Annual Reviews, FortisBC expects that it would receive fewer out-of-scope IRs and would be able to object to out-of-scope IRs with confidence that clear cases would not result in the need for further regulatory process. FortisBC also expects that it would have to deal with fewer out-of-scope issues in reply argument, which would also narrow the scope of issues that the BCUC panel needs to consider.

(d) Scoping Will Continue to be Governed by the BCUC in the Usual Manner

141. CEC is concerned about how the proposed scope change will be governed and where the lines will be drawn.[196] In reply, the scope of the Annual Reviews will need to continue to be governed by the BCUC panel assigned to the proceeding in the same manner that scope is governed in any BCUC proceeding. In short, in the case of disagreement amongst the parties, the BCUC panel will need to continue to determine whether a particular IR or argument is in scope.[197] The purpose of the BCUC more clearly defining the scope for Annual Reviews in advance is to guide interveners away from asking IRs or pursuing arguments on matters that are not up for debate in the proceeding and to provide a clear basis on which FortisBC can object to IRs, minimizing the need to extend the regulatory process to determine whether the IR is in scope.

(e) Forecast Methodology Should be Reviewed in this Proceeding, Not in Every Annual Review

142. CEC sets out four sets of what it considers "valid questions pertaining to Proposed Out-of-Scope IRs", all of which relate to FortisBC's forecast methodology.[198] FortisBC submits that it is quite clear whether the CEC's questions would be in or out of scope. FortisBC responds below to each topic raised by the CEC:

- Questions regarding the regression period used by FBC to forecast the residential customer counts should be out of scope of the Annual Review as this is part of FBC's forecast method. As explained on page 5 of Appendix C4-2 of the Application, FBC uses a least squares regression model using population data

196 CEC Final Argument, para. 259.

197 Exhibit B-11, MoveUP IR1 4.7.

198 CEC Final Argument, p. 37, CEC Table 5.

supplied by BC Stats to forecast customer counts. FBC's proposal is that this methodology be reviewed and approved in this proceeding for the term of the Rate Framework, so that questions about the regression model do not need to be asked every year.

- Questions about the *performance* of the forecast would be in scope under FortisBC's proposal. FortisBC is only requesting that the forecast *methodology* be out of scope.

- Questions about the historical trend used by FBC to forecast residential UPC values should be out of scope as this is part of FBC's forecast method. As explained on page 5 of Appendix C4-2 of the Application, the before-savings UPC is based on an historical trend of annual UPC values using a regression period based on statistical criteria and other information available, such as the year-to-date actual customer count. FBC's proposal is that this methodology be reviewed and approved in this proceeding for the term of the Rate Framework, so that questions about the regression model do not need to be asked every year.

- Questions examining trends affecting FEI's customer retainment and gross customer additions, such as how gross customer additions are impacted by seasonal connects/discounts, would be in scope under FortisBC's proposal. FortisBC is only requesting that the forecast *methodology* be out of scope.

143. While all of CEC's questions relate to FortisBC's forecasts, neither the CEC nor any other intervener takes issue with FortisBC's forecasting methods. Given FortisBC's forecast performance and lack of any opposition to its forecasting methods, FortisBC submits that it is reasonable to approve the forecasting methods for the term of the Rate Framework.

(f) CEC Recommendation Regarding "Effectiveness of Regulatory Oversight" Is Unclear

144. CEC recommends that "if the Commission directs FortisBC to implement the proposed Annual Review scoping proposed by FortisBC, that the Commission enable the effectiveness of regulatory oversight including intervener processes on behalf of respective ratepayer interests, where justified in regard to the savings from related efficiencies".[199] FortisBC cannot understand the CEC's recommendation and submits that it should be disregarded as it has not been clearly articulated, making it impossible for FortisBC to consider and respond to it.

[199] CEC Final Argument, para. 262.

145. Regarding "saving from efficiencies," any efficiencies gained from the proposed Annual Review scope would not be material enough to free up regulatory resources for redeployment, and efficiencies gained in other departments would simply enable those resources to focus more fully on their responsibilities which, in many cases, includes working towards meeting the challenges of the energy transition.[200]

146. FortisBC also notes in reply to CEC that it is not requesting a *direction* to implement the Annual Review scoping. Rather, FortisBC is requesting that the BCUC Panel make a determination in this proceeding regarding the scope of the Annual Review process, which can serve as a guide for interveners and on which FortisBC can rely to object to IRs and arguments that venture into out-of-scope areas.

[200] Exhibit B-4, BCUC IR1 10.4.

PART FOUR: PROPOSED FORMULA AND FORECAST O&M

148. ICG, BCOAPO and Air Products are the only interveners to take issue with FortisBC's proposed formula and forecast O&M for the Rate Framework. As set out below, FortisBC submits that the evidence demonstrates that its 2024 Base O&M is reasonable and justified, and that BCOAPO, ICG and Air Products' submissions should be rejected.

A. BCOAPO's Analysis of FortisBC's O&M is Misleading

149. BCOAPO grounds its recommendations regarding FortisBC's O&M on a misleading analysis of the Companies' O&M under the Current MRP. Specifically, BCOAPO submits that "from 2019 to 2024, FortisBC was unable to contain actual and requested O&M expense within the cumulative AWE:CPI increase over that same time frame, despite the I-factor being relatively generous and that the total O&M inflation adjustments and incremental funding are well in excess of inflation under the Proposed RSF".[201] FortisBC submits that this conclusion is misleading for a number of reasons:[202]

- As discussed in Part Three, Section B of this Reply Submission, there is no evidence that the I-Factor is generous. The I-Factor is reasonable and was approved by the BCUC for the Current MRP and re-affirmed each year through the Annual Review process.

- The four-year period from 2019 to 2023 does not reflect the term of the Current MRP, which is from 2020 to 2024. Moreover, including changes from 2019 to 2020 is misleading as this was a re-basing year, adjusting for a number of accounting and other changes at the end of the 2014-2019 PBR Plan.[203]

- The O&M expense used by BCOAPO includes both formula O&M and flow-through O&M. Flow-through O&M (i.e., non-controllable items and Clean Growth Initiatives) is driven by factors other than inflation. Many flow-through expenses that increased at a rate higher than inflation in 2024 are outside of FortisBC's control, such as insurance premiums, integrity O&M (primarily integrity dig costs), and BCUC levies. Another flow-through item is Clean Growth Initiative O&M which is beneficial and required in response to the energy transition.[204] Each of these expenses were reviewed and approved by the BCUC through the Annual Review

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201 BCOAPO Final Argument, p. 22.

202 Exhibit B-7, BCOAPO IR1 5.1.

203 Exhibit B-7, BCOAPO IR1 5.1.

204 Exhibit B-7, BCOAPO IR1 5.1.

process, in which the BCOAPO has participated. It is not reasonable to expect that these costs should necessarily be constrained to increases in inflation each year, as BCOAPO's analysis assumes.

- FEI's and FBC's formula O&M is influenced by the change in the average customer count each year, which has grown year over year (YoY) 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, which BCOAPO's analysis fails to consider. To account for the changes in the number of customers, the analysis should be based on O&M per customer or the unit cost O&M (UCOM).[205]

- Accordingly, the more accurate assessment of FEI's and FBC's YoY increase in O&M during the Current MRP term is the YoY increases from 2020 to 2024 in FEI's and FBC's formula O&M based on the changes in the unit costs each year, as well as the YoY increases in CPI/AWE for FEI and FBC, with actuals from 2020 to 2023 and projected for 2024.[206]

150. FortisBC provided a more accurate assessment of its formula O&M compared to inflation over the Current MRP in the Application, and in Tables 1 and Table 2 in response to BCOAPO IR1 5.1, which indicates that both Companies' total formula UCOM grew at a rate that was less than inflation. Specifically, the cumulative increase in UCOM from 2020 to 2024 is projected to be 13.5 percent and 13.3 percent for FEI and FBC, respectively. For FEI, the average annual growth rate (AAGR) in formula UCOM is approximately 3.4 percent, while the AAGR for inflation was 4.1 percent over the same period. For FBC, the AAGR in formula UCOM is approximately 3.3 percent, while the AAGR for inflation was 4.3 percent. This is evidence of strong cost containment by both Companies.[207]

151. FortisBC also provided a broader assessment of FEI's and FBC's rates over the Current MRP, including overall bill impacts, which FortisBC summarized as follows:[208]

> For FEI, as discussed in Section B2.2.1.1 of the Application, the annual delivery rate increases from 2020 to 2024 exceed the average inflation over the same period; however, as the delivery rate is only a component of the total customer bill, the

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205 Exhibit B-7, BCOAPO IR1 5.1.

206 Exhibit B-7, BCOAPO IR1 5.1.

207 Exhibit B-1-2, Updated Application, Section B2.2; Exhibit B-7, BCOAPO IR1 5.1.

208 Exhibit B-7, BCOAPO IR1 6.2.

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

Therefore, FortisBC submits that BCOAPO's analysis of its O&M is misleading and should not be relied on.

B. Incremental Funding for New Positions is Prudent and Required for FortisBC's Operations over the Rate Framework Term

152. BCOAPO identifies expenditures to fund new positions totalling $1.715 million and $1.140 million for FEI and FBC, respectively, which it considers to be "more discretionary in nature" and submits should not be approved.[209] FortisBC has provided a robust and detailed justification for all of these positions, which BCOAPO has not refuted with any evidence or cogent argument. FortisBC has summarized its evidence supporting the need for these costs in its Final Submission. As highlighted below, these funding needs are prudent and required for FortisBC's operations over the Rate Framework term:

- FEI's need for the three Community Relations/Public Policy Manager positions reflects the increasing complexity of FEI's operating environment which FEI must be adequately staffed to manage. For example, FEI is facing significantly increased complexity in municipal climate policy, the need to negotiate 14 new operating agreements from 2025 to 2027 and an increasing need to coordinate with municipalities and resolve issues with respect to high-risk operations and sustainment work.[210]

- FEI's and FBC's incremental funding for new Community & Indigenous/Initiatives Relations Manager positions is required to respond to changes in the public policy landscape regarding Indigenous rights and reconciliation and to enable FEI and FBC to focus on strengthening its relationships with Indigenous peoples,

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[209] BCOAPO Final Argument, pp. 21 and 29.

[210] FortisBC Final Submission, para. 171.

communities and First Nations. There have been significant policy changes, legal decisions, and discoveries in communities in recent years which have all increased the need for and expectations around engagement with Indigenous Nations. FBC must be able to respond to the unique consultation and engagement challenges associated with its system, including resolving historical grievances, to move new projects forward.[211]

- FEI needs a new Sustainability Program Manager to support increased sustainability reporting due to increasing environmental and archaeological regulatory requirements, under legislation such as the *Fisheries Act*, *Species at Risk Act*, *Water Sustainability Act*, *Environmental Management Act*, *Declaration on the Rights of Indigenous Peoples Act* (DRIPA), and *Heritage Conservation Act* (HCA).[212]

- FEI's and FBC's need for increases to the Community Investment Program is driven by the increased cost of these activities and increased requests from communities for support in the areas of safety, education, Indigenous initiatives, and the environment. The Community Investment Program is a crucial and beneficial initiative that enhances community welfare and customer satisfaction and increases the effectiveness of FortisBC's operations, and is funded 50/50 with FortisBC's shareholder.[213]

- FEI requires an Events and Outreach position and a Digital Content Designer to support FEI's digital and in-person event communications to meet growing customer expectations for new and more prominent community channels and the increasing need for in-language and in-person communications due to the increasing linguistic diversity of the population in BC.[214]

- FBC requires an additional Communications Manager in response to growing daily communications needs, including managing media relations, customer and public communications related to issues management (i.e., wildfires, public safety, vegetation management, etc.), as well as increased communications support for community and Indigenous relations initiatives.[215]

- FBC requires two additional positions for recruitment and employee training, support for employment contracts with Indigenous Nations, and support for the continued increases in retirements and staffing for projects, as well as the volume

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[211] FortisBC Final Submission, paras. 178 and 195; Exhibit B-1-2, Updated Application, pp. C-36 to C-38 and C-52 to C-55.

[212] FortisBC Final Submission, paras. 180 to 181; Exhibit B-1-2, Updated Application, pp. C-39 to C-42; Exhibit B-12, RCIA IR1 26.1.

[213] FortisBC Final Submission, paras. 172 to 177.

[214] FortisBC Final Submission, para. 179; Exhibit B-1-2, Updated Application, p. C-39; Exhibit B-12, RCIA IR1 25.1.

[215] FortisBC Final Submission, para. 195; Exhibit B-1-2, Updated Application, p. C-55.

> of recruitment and employee movements.[216] FBC's metrics and industry trends show a sustained increase in the volume of retirements and turnover that require additional incremental resources.[217]

FortisBC submits that these funding needs are reasonable and required for FEI and FBC to carry on effective utility operations in the current operating environment.

153. BCOAPO also contends that "FortisBC has not provided any evidence with respect to its span of management" to justify the increases.[218] FortisBC submits that BCOAPO's submission is unclear and should, therefore, be given no weight. It is unclear what "span of management" is or why it is required to justify the increases. FortisBC submits that its evidence for the referenced increases is sufficient to justify the expenditures.

154. Finally, BCOAPO recommends that the BCUC direct FortisBC to find cost reductions in other parts of its operations if it wishes to proceed with these expenditures.[219] FortisBC has been clear that it has no further cost reductions to make.[220] FortisBC has been under a form of PBR for its formula O&M with an incentive to find cost reductions in its operations since 2014. The results of FortisBC's cost reduction efforts over the past 10-year period have been shared with customers and are reflected in the 2023 Actual O&M which is the starting point for FEI's and FBC's proposed 2024 Base O&M. In short, if FortisBC had known cost reduction opportunities, then they would have already been made. As such, FortisBC submits that BCOAPO's requests should be denied.

C. Timing of Addition of Resources Coincides with Setting of Base O&M

155. BCOAPO expresses concern that FortisBC is timing the addition of resources to respond to the energy transition and other business challenges around the parameters and rebasing of the formula O&M under the Rate Framework instead of managing its resources and challenges based on business and customer needs that are outside of the parameters of the Rate

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216 Exhibit B-1-2, Updated Application, p. C-61.

217 Exhibit B-4, BCUC IR1 15.10.

218 BCOAPO Final Argument, p. 21.

219 BCOAPO Final Argument, pp. 21 and 29.

220 Exhibit B-7, BCOAPO IR1 9.1.

Framework.[221] There is no basis for BCOAPO's concerns. FEI and FBC have been adding resources as needed to respond to challenges over the course of the Current MRP, as indicated by FEI's and FBC's increased headcount.[222] The timing of FortisBC's incremental O&M needs identified in this Application reflects the way the 2024 Base O&M is set and the need to ensure that the 2024 Base O&M is reasonable for the Rate Framework term. As FortisBC has explained in detail, the 2024 Base O&M begins with 2023 Actual O&M, which means that the incremental funding it has identified is needed for any incremental costs identified for 2024 or over the term of the Rate Framework. Without such adjustments, the 2024 Base O&M would be insufficient to cover FortisBC's reasonable operating costs over the Rate Framework term.

D. Limiting the Total Forecast and Formula O&M Increase for FEI and FBC to 5 Percent is Arbitrary and Without Foundation

156. BCOAPO recommends that the total increase of all components of O&M (formula and forecast) should be limited to 5 percent for both FEI and FBC.[223] While FEI is not requesting an increase in O&M over 5 percent in this proceeding, BCOAPO's recommendation is ambiguous, unreasonable, potentially unlawful and arbitrary.

157. BCOAPO's request is ambiguous because it is unclear if it is meant to apply to incremental increases above 2023 Actual O&M, the change from 2024 Approved to 2025, to each year of the Rate Framework term, or the entire term of the Rate Framework. Each interpretation brings different challenges and concerns which FortisBC addresses in a general way below.

158. BCOAPO's recommendation is unreasonable as it would limit FEI's and FBC's formula O&M even if increases were prudent and necessary due to inflation (the I-Factor) and/or customer growth (Growth Factor). Inflation has been significant in recent years and FEI and FBC both have a growing customer base.[224] Inflation and growth in number of customers both result

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221 BCOAPO Final Argument, p. 22.

222 Exhibit B-1, Application, Appendices A1-2 and A1-3.

223 BCOAPO Final Argument, pp. 22 and 29.

224 Exhibit B-1, Application, Appendices A1-2 and A1-3.

in increases in O&M costs for the Utilities. FEI and FBC must be able to recover their prudent operating costs to serve a growing number of customers.

159. BCOAPO's recommendation is also unreasonable, and potentially unlawful, as it would apply to FEI's and FBC's forecast/flow-through O&M, which is not set out in this Application but rather is forecast each year in Annual Reviews. Forecast/flow-through O&M is not subject to the O&M formula generally because it is not controllable in nature or it relates to FortisBC's Clean Growth Initiatives, many of which are prescribed undertakings, the cost of which FEI and FBC must be able to recover under the *Clean Energy Act*. BCOAPO's recommendation, therefore, unreasonably seeks to limit increases in costs on which there is no evidence in this proceeding, over which FEI and FBC have no reasonable level of control, or which the BCUC has no jurisdiction to deny recovery of.

160. Finally, BCOAPO's recommendation is arbitrary as it provides no basis in reason or evidence for the limit of 5 percent. Imposing an arbitrary cap cannot be reconciled with FortisBC's right to a reasonable opportunity to recover its prudent O&M costs and earn a fair return and, therefore, cannot be just and reasonable under the UCA.

161. For all these reasons, FortisBC submits that BCOAPO's recommendation is not reasonable and must be rejected.

E. FBC Has Demonstrated the Need for Incremental O&M Funding to be Included in 2024 Base O&M

162. In the alternative to ICG's primary request that FBC's rates be set only for 2025 (to which FBC has responded in Parts Two and Three of this Reply Submission), ICG supports FBC's proposed 2024 Base O&M except for the addition of new incremental funding of "$5.681 million".[225] In the further alternative, ICG proposes that the effective date for FBC's incremental funding adjustment be delayed to January 1, 2026.[226] FBC assumes that ICG intended to reference the $5.556 million in net incremental funding set out in the Updated Application.[227] ICG's

[225] ICG Final Argument, para. 29.

[226] ICG Final Argument, para. 29.

[227] Exhibit B-1-2, Updated Application, Table C2-10 (p. C-49).

argument lacks merit and should be rejected. ICG provides no cogent rationale for why FBC's incremental funding is not prudently required for FBC's operations and incorporated into the 2024 Base O&M.

163. ICG's primary rationale for its request is that FBC should not be hiring because its rates are higher than its "closest competitor", BC Hydro.[228] FortisBC submits that the differential between FBC's and BC Hydro's rates is not a reasonable basis on which to deny FBC's funding needs. As discussed in Part Two, Section E of this Reply Submission, FBC and BC Hydro are significantly different entities, each with their own assets, operational needs, and operating environment, making it unreasonable to expect that BC Hydro's and FBC's rates should be equal. Further, the evidence is that FBC is a strong cost performer with respect to its O&M costs.[229] Therefore, it would be arbitrary and unreasonable to limit FBC's O&M expenses based on a rate comparison to BC Hydro.

164. Further, now is a particularly inopportune time for FBC to implement a hiring freeze given FBC's growing customer base and demand for electricity, challenges posed by climate change and the energy transition, and an increasingly complex operating environment. Expanding FBC's infrastructure to keep up with demand, while also investing in climate adaptation and resilience, will require significant resources.[230] In this context, FBC has reasonably identified and justified the need for incremental funding to meet both new and incremental requirements during the Rate Framework, including: (1) government, Indigenous and community engagement in response to substantial shifts within the policy environment and increasingly complex Indigenous engagement activities; (2) environment and sustainability to respond to increasing regulatory requirements; (3) corporate security to manage increasing and evolving risks; (4) technology to fund the year-over-year increases expected in its software licensing fees and an increased cadence for security patching; and (5) system operations and adaptation to improve processes that promote efficiency and effectiveness within the Utility and ensure continued regulatory

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228 ICG Final Argument, para. 35.

229 Exhibit B-1, Application, Appendix C1-1, p. 25.

230 Exhibit B-1-2, Updated Application, p. B-9.

compliance.[231] FBC submits that denying these incremental funding needs based on a comparison to the rates of a significantly different utility would be arbitrary and unfair to both FBC and its customers.

165. ICG's only other argument is that spending more money on FBC's power supply function will not change the challenging market conditions and that FBC has not done a cost-benefit analysis to justify the positions in this area.[232] First, FBC's added resources for Power Supply and Development of Supply Resource Options in 2024[233] and these costs are not part of the new incremental funding that ICG indicates it opposes. Nonetheless, ICG's suggestion that FBC not attempt to address the increasingly challenging market conditions is an imprudent approach. As summarized at paragraph 192 of FortisBC's Final Submission, these resources are needed and have already been added due to the increased complexity in managing and optimizing FBC's power supply portfolio and to support the development of new supply side resources in response to increasing demand for power. These resources have been hired and the work they are undertaking is critical to identify and further explore the best resource options, develop the new framework under which FBC's operations will be coordinated with BC Hydro and, ultimately, ensure that FBC is responding to the changing environment driven by electrification to continue reliably serving customers as cost-effectively as possible.[234] FortisBC submits that the identified need is reasonable and justified in the current operating environment.

F. Hydrogen Development Costs are Prudent and Should be Approved

166. Air Products submits that the only hydrogen production development costs that are recoverable are those required by the GGRR or those that have "documented efforts" to provide customers with the lowest-cost reliable supply in the near term.[235] FEI's reply is three-fold.

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231 FortisBC Final Submission, paras. 193 to 200.

232 ICG Final Argument, para. 32.

233 Exhibit B-1-2, Updated Application, pp. C-51 to C-52; Exhibit B-4, BCUC IR1 14.1 and 14.3.

234 Exhibit B-1-2, Updated Application, pp. C-51 to C-52; Exhibit B-4, BCUC IR1 11.5, 14.1 and 14.3; Exhibit B-13, BCUC IR2 46.2. See also Exhibit B-13, BCUC IR2 46.1 which describes the specific duties and responsibilities of each role.

235 Air Products Final Argument, p. 3.

167. First, Air Products' position has no direct bearing on FEI's costs because FEI intends to develop any hydrogen production and make any hydrogen purchases as prescribed undertakings under the *Clean Energy Act*. Thus, any of FEI's Clean Growth Initiatives for the production of hydrogen are anticipated to be prescribed undertakings.[236]

168. Second, Air Products' position that any non-GGRR hydrogen development would need to be the "lowest-cost reliable supply in the near term" is unduly narrow and does not reflect any applicable legal standard in the UCA. In FEI's submission, the BCUC would ordinarily consider all relevant factors when determining whether a particular source of supply is in the public interest, not just whether it is the "lowest-cost reliable supply in the near term". For example, a higher cost supply of hydrogen with a lower carbon intensity or other favourable attributes could be in the public interest. Further, a hydrogen supply that is a lower cost in the long-term, rather than just the short-term, could also be in the public interest. FEI, therefore, submits that the BCUC should not agree to Air Products' proposed standard for the development of non-GGRR hydrogen supply, which goes beyond the scope of this proceeding in any case.

169. Third, Air Products' concern with FEI's incremental O&M for decarbonization and sustainability, which it claims are linked to resource planning to integrate hydrogen,[237] is misguided. FEI's incremental costs for decarbonization and sustainability are not linked to hydrogen development.[238] Air Products may have meant to refer to FEI's incremental costs for long-term resource planning, which include incremental resources to help ensure that the analyses and activities needed to plan for future renewable and low carbon gases over the long-term are included in the Companies' Long Term Resource Plans. FEI submits that these activities are reasonable and necessary to reduce GHG emissions and required for FEI to implement any prescribed undertaking for the acquisition of hydrogen. Further, all of FEI's costs related to the integration of hydrogen[239] are required whether FEI is the producer of the hydrogen or FEI

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[236] FEI notes that in the second bullet of paragraph 9 of Air Products' Final Argument, Air Products conflates Clean Growth Initiatives with the CGIF. For clarity, the CGIF is not a Clean Growth Initiative, but a separate program.

[237] Air Products Final Argument, p.2.

[238] Exhibit B-1-2, Updated Application, pp. C-31 to C-32; Exhibit B-5, Air Products IR1 1.2 to 1.4.

[239] E.g., Exhibit B-4, BCUC IR1 18.2; Exhibit B-13, BCUC IR2 47.1.

purchases the hydrogen from a third party, such as Air Products. Moreover, FEI's efforts are beneficial for potential producers of hydrogen such as Air Products, as they will position FEI to purchase hydrogen supply. In this regard, FEI in fact encourages the development of low-cost hydrogen supply by producers such as Air Products so that it can deliver that energy to its customers. Therefore, Air Products' concerns with these or related costs are misguided and should not be given weight.

PART FIVE: FORMULA, FORECAST AND FLOW-THROUGH CAPITAL

171. The only interveners to make submissions opposing any aspect of FortisBC's formula, forecast or flow-through capital are CEC and ICG. As set out below, FortisBC submits that CEC's and ICG's arguments are without merit.

A. Unit Cost Growth Capital (UCGC) Should be Set Using a Three-Year Regression

172. CEC does not oppose FEI's linear regression approach to setting the UCGC, but recommends using a 5-year, rather than 3-year, regression. CEC argues that the timeframes for determining FEI's PFP and UCGC should align, that there should be a "consistent productivity thread", and that its recommendation of using 5 years would be "more indictive of 'things to come'".[240] FortisBC submits that CEC's recommendation to align regression timeframes without regard to their purpose is unreasonable and should be rejected.

173. The regression timeframe selected in each instance needs to be determined based on what it is intended to measure. As discussed in Part Three, Section C of this Reply Submission, the PFP should be determined using a 15-year regression given that the PFP should reflect reliable long-term productivity trends. In the context of the UCGC, the more relevant regression timeframe to compare to is the 3-year period that Dr. Kaufmann used in his benchmarking analysis to determine the current cost performance of the Utilities heading into the Rate Framework. Similarly, the UCGC needs to reflect FEI's current costs, as it will set the base UCGC beginning in 2025. CEC's suggestion to lengthen the regression period to 5 years, compared to FEI's proposal of 3 years, would make it less indicative of things to come and, therefore, a less reasonable starting place for FEI's Growth capital. This is especially the case given the significant changes in FEI's Growth capital costs in the past 3 years,[241] which make later years less representative of current conditions. FEI's Growth capital has been chronically underfunded under both the 2014-2019 PBR Plan and Current MRP because the UCGC was set in a manner

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[240] CEC Final Argument, paras. 170 to 176.

[241] Exhibit B-1-2, Updated Application, pp. C-73 to C-77.

that did not reflect FEI's current costs.[242] FEI's proposal in this Application is designed to remedy that situation and FEI submits that it should be approved.

B. Separate Reporting of CCOA Costs Not Consistent with Formula Treatment

174. CEC supports FortisBC's early development work of the Companies' respective CCOA plans but recommends that the BCUC direct FortisBC to separately capture its O&M- and capital-related CCOA costs as part of Annual Reviews beginning with costs incurred in 2024, for the "purposes of accounting".[243] FortisBC understands CEC's recommendation to be related to *reporting* CCOA costs, rather than the treatment of those costs under the Rate Framework.

175. FortisBC does not support the separate reporting of CCOA operating costs, as FEI's and FBC's CCOA operating costs are part of formula O&M and FortisBC should be permitted to manage these costs within the formula O&M envelope without a requirement for additional reporting. Further, FortisBC does not anticipate any CCOA capital projects over the term of the Rate Framework.[244] However, if the BCUC is interested in updates on FortisBC's CCOA-related work, FortisBC suggests that it could provide an update in its Annual Reviews on the status of its CCOA related work. FortisBC submits that this would be more informative than reporting on specific costs.

176. CEC also recommends that the BCUC direct FortisBC to develop future potential CCOA incentive targets.[245] The potential for a targeted incentive related to CCOA-related work was not explored in this proceeding; however, based on the principles for targeted incentives previously articulated by the BCUC,[246] FortisBC considers CCOA work unlikely to be suitable as it is driven by the need to improve asset and operational resilience to climate change risk as part of FortisBC's normal business.[247]

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[242] Exhibit B-1-2, Updated Application, p. C-76.

[243] CEC Final Argument, paras. 202 to 203.

[244] Exhibit B-4, BCUC IR1 2.1.

[245] CEC Final Argument, para. 202.

[246] MRP Decision, pp. 162-163; FortisBC Final Submission, para. 318.

[247] Exhibit B-1-2, Updated Application, p. B-12.

C. Forecast Increase in FBC's Capital Expenditures is Justified

177. ICG argues that FBC has not justified the proposed increase in its capital expenditures compared to 2024 Approved, stating that load growth, aging assets and increased threats were all present in 2024, "nor is there any other change in the operational, regulatory, or political environment" that justifies FortisBC's requested change.[248] ICG recommends there be no increase to capital expenditures in 2025 or, in the alternative, that the increase in regular capital expenditures be limited to 5 percent for each year of the Rate Framework.[249] As discussed below, FBC has justified its forecast capital expenditures. ICG's submission that there has been no change in FBC's environment is not credible; however, capital expenditures are not exclusively driven by changes "in the operational, regulatory, or political environment", as the drivers of capital expenditures are often not linear over time. For example, load growth may be a consistent driver, but the timing of the capital required to serve that load growth may occur in steps as system load restrictions are reached. The need to replace or upgrade assets is also not stable over time, as it can increase or decrease due to the time when assets were first installed, technological changes, or developments in codes and standards.

178. FBC will not reiterate all of its evidence here, but highlights the following points in response to ICG:

- FBC's forecast increase in capital expenditures is due to the following key drivers:[250]
  - Increased requirements for system improvements to the Transmission and Distribution systems to accommodate load growth;
  - Upgrades to aging assets, particularly Generation and Stations assets, to meet current codes and standards, to address the condition and age of infrastructure, and to improve reliability; and
  - Increased spending in Corporate Security to respond to the evolving threat landscape as well as the frequency and severity of emergencies and disaster events.

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248 ICG Final Argument, para. 33.

249 ICG Final Argument, para. 34.

250 Exhibit B-1-2, Updated Application, p. C-104.

- FBC has explained its forecast capital expenditures in detail, with explanations for all projects over $1 million. The need for the increases in the three categories that make up the majority of the increase in the 2025 Forecast compared to 2024 Approved is clear and compelling:

  - The approximately $15 million increase in 2025 Forecast compared to 2024 Approved in FBC's Transmission Growth capital is required to serve the increased demand in the City of Kelowna and the need to address the remaining portions of FBC's transmission interconnected system that do not achieve N-1 planning criteria.[251]

  - The approximately $5 million increase in 2025 Forecast compared to 2024 Approved in Generation Sustainment Capital is required to ensure FBC's 15 hydroelectric generating units continue to meet industry standards and guidelines, comply with regulations such as the *Dam Safety Regulation* and WorkSafe BC, and operate safely. FBC has identified the critical path items that need to be addressed and must undertake necessary upgrades to equipment to remediate the condition of aging infrastructure, address obsolescence, and ensure dam safety compliance identified in Dam Safety Reviews. FBC has described the 10 projects with expenditures that exceed $1 million and explains why each project is needed during the Rate Framework term.[252]

  - The approximately $12 million increase in 2025 Forecast compared to 2024 Approved in Station Sustainment Programs is primarily the result of FBC implementing new programs to support FBC's new Station Condition Assessment program in response to changing market conditions that are resulting in longer delivery and project development timelines. The resulting all-inclusive approach to assessing each FBC-owned station will provide valuable information, improving FBC's ability to prioritize investments according to cost, criticality, reliability, safety and risk.[253] The Stations Sustainment Capital category also includes the replacement of key substation equipment through a number of discrete projects with forecast expenditures over $1 million (e.g., the Grand Forks T1 Replacement and Equipment Upgrades project)[254] and a new Spare Parts expenditure area.[255]

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[251] FortisBC Final Argument, paras. 235 to 238.

[252] Exhibit B-1-2, Updated Application, pp. C-111 to C-115.

[253] Exhibit B-1-2, Updated Application, p. C-119; Exhibit B-4, BCUC IR1 24.6, 24.7 and 24.8.

[254] Exhibit B-4, BCUC IR1 24.12.

[255] Exhibit B-1-2, Updated Application, pp. C-118 to C-119; FortisBC Final Submission, paras. 242 to 245.

179. Deferring capital investments beyond 2027 will only put greater pressure on customers in future years. Given the increasing operating challenges utilities are facing with climate change, security risks, supply chain management, aging infrastructure, regulatory requirements, and load growth due to electrification, FBC does not expect the level of capital expenditures to decrease beyond 2027.[256]

180. Further, deferring needed projects is not acceptable from a safety or reliability standpoint. If FBC defers a project that has been identified as necessary to address a system need such as aging infrastructure, it increases system risk, reducing safe and reliable operations as the probability of equipment failure increases with time. Deferring a project needed for system growth could result in FBC not being able to provide adequate electric service to existing and new customers in a timely manner, and also defers the revenues that are enabled through attaching the customers. Deferring investments can also increase project and operational costs. Maintenance activities will need to increase to prolong the life of the existing equipment. Additional projects will have to be created at a future date when opportunities for project efficiencies may no longer be available.[257]

181. FBC submits that ICG has provided no evidence or argument that identifies any flaw or issue with FBC's evidence. FBC submits that its forecast capital expenditures are reasonable and should be approved.

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[256] Exhibit B-4, BCUC IR1 24.13.

[257] Exhibit B-4, BCUC IR1 24.13.

PART SIX: FEI'S 2025 CLEAN GROWTH INNOVATION FUND

183. In this Part, FEI responds to the submissions of RCIA, BCSEA and Air Products with respect to the 2025 CGIF. FEI submits that the modifications to the 2025 CGIF proposed by RCIA, BCSEA and Air Products are not justified and should be rejected.

A. Fixed Rate Rider Funding Mechanism Remains Reasonable

184. CEC and BCSEA support FEI's proposal to maintain a fixed rider for the CGIF.[258] RCIA is the only intervener to recommend that the CGIF should instead be funded with a volumetric rate rider.[259] According to RCIA, a volumetric rate rider would better match the costs of the 2025 CGIF to the benefits customers are likely to receive from CGIF investments.[260] As set out in Part Seven, Section D of FortisBC's Final Submission, FortisBC submits that a fixed rate rider remains the most reasonable mechanism for funding the CGIF.

185. First, the benefits of the 2025 CGIF are not as volumetric as RCIA suggests. The goals and the resulting innovation driven by the CGIF are broad in nature and directly benefit all of FEI's customers and British Columbians in general.[261] For instance, all customers will benefit from the ability of FEI to transition to low-carbon gases, reduce GHG emissions, and preserve the ongoing use of FEI's assets. While a high-volume customer may benefit from reductions in commodity costs, lower-volume residential customers will benefit from lower rates if higher-volume customers are able to be retained on the system. Thus, the benefits of the CGIF are broad-based and generally in favour of all customers. As such, a fixed rate rider remains the most equitable way of funding the CGIF.

186. Second, rate design choices need to reflect a balance of often competing factors. Overall, FortisBC submits that the relevant factors continue to weigh in favour of maintaining the fixed charge because it is more equitable, more stable, easier to administer, and consistent with the

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[258] CEC Final Argument, para. 185; BCSEA Final Argument, para. 104.

[259] RCIA Final Argument, p. 18.

[260] RCIA Final Argument, p. 25.

[261] Exhibit B-4, BCUC IR1 32.2.

existing amount which customers are already accustomed to.[262] As discussed in Part Seven, Section D of FortisBC's Final Submission:

- A fixed basic charge results in a small impact to all customers regardless of their volumes and rate class.[263]

- A fixed monthly rider is more stable for customers and the utility, as it does not vary by volume.[264] Customer volumes can fluctuate greatly from year to year depending on weather, business and other factors that are irrelevant to the CGIF, resulting in large variances from forecast. This, in turn, results in FEI either over-collecting or under-collecting revenue for the CGIF, which FEI then has to true up over time.[265]

- A fixed rider is easier to administer than a volumetric rider because it avoids the need for annual re-calculation, provides greater regulatory efficiency as it does not require annual review and approval from the BCUC, and FEI's billing systems are already set up to administer the rider, thus avoiding the time and resources to change approaches.[266] While a volumetric rider *can* be calculated, as RCIA notes, it is clear that a fixed rider is superior from an administrative and practical perspective.

- A fixed rider avoids a general decrease in customer satisfaction and acceptance, which would likely result from adopting a volumetric funding approach.[267]

187. Therefore, FortisBC submits that the BCUC's conclusion in the MRP Decision (p. 156) that "a fixed rate rider is more reasonable than a volumetric approach" continues to be correct and that a fixed rate rider should continue for the 2025 CGIF.

B. FEI Has Demonstrated the Need to Fund Cost Mitigation and Resilience Through the 2025 CGIF

188. Despite recognizing that the two new application areas (Cost Mitigation and Resilience) are "intrinsically desirable", BCSEA suggests that neither area is sufficiently tied to

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262 Exhibit B-12, RCIA IR1 39.1.

263 Exhibit B-19, RCIA IR2 54.4.

264 Exhibit B-4, BCUC IR1 32.1.

265 Exhibit B-19, RCIA IR2 54.2.

266 Exhibit B-19, RCIA IR2 54.2.

267 Table 1 of the response to RCIA IR2 54.4 (Exhibit B-19) provides a breakdown of the changes in the average annual customer bill under a volumetric approach for each rate class.

decarbonization and that FEI has not demonstrated that it could not innovate in these areas without the 2025 CGIF.[268] However, BCSEA's argument should be rejected as both of the new areas fit well within the CGIF and would fund pre-commercial technologies that FEI could not innovate itself.

189. First, the Cost Mitigation application area is directly linked to decarbonization, as mitigating the costs to decarbonize the gas system is central to a successful energy transition. Cost is often the primary constraint on decarbonization efforts, and the cost pressures for customers due to decarbonization efforts creates an impetus to fund innovative and non-commercially available technologies to reduce costs for customers. This area will include innovations to directly reduce customer costs (e.g., Combined Heat and Power (CHP) systems) that are within the range of technology readiness levels (TRL) 3 to 9 (i.e., those that range from pre-commercial development to commercial demonstration and pilot projects).[269] Therefore, contrary to BCSEA, the CGIF is funding technologies that FEI cannot simply implement or develop itself.

190. Second, the Resilience application area fits well within the CGIF, as it will support the clean energy transition in the context of a changing climate. Adapting the gas system to the impacts from higher temperatures, increased rainfall and other extreme weather events through the Resilience application area will be key to navigating the energy transition as decarbonization efforts unfold. FEI has identified several types of innovative technologies that could warrant funding through the 2025 CGIF that would address the need to adapt to a changing climate.[270] These innovative technologies are limited to those that are not commercially available. Funding is not available for technologies that FEI can simply implement or develop itself in the normal course of business.

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[268] BCSEA Final Argument, paras. 10 and 103.

[269] Exhibit B-12, RCIA IR1 38.1; Exhibit B-1-2, Updated Application, p. C-172.

[270] Exhibit B-1-2, Updated Application, pp. C-172 to C-173.

C. Investing in Pre-Commercial Technologies that May Reduce Future O&M Expenditures is Reasonable and Appropriate

191. RCIA accepts that the proposed Cost Mitigation application area falls within the intended scope of the CGIF, but recommends that the CGIF not be available to reduce FEI's formula O&M expenditures or that the shareholder bear 50 percent of such funding.[271] FEI submits that this issue is somewhat speculative and unlikely to occur over the Rate Framework term, and that RCIA's concern is, in any case, misguided.

192. First, FEI does not expect to realize savings in formula O&M due to technologies benefiting from the CGIF over the Rate Framework term. The 2025 CGIF only provides innovation-related funding to pre-commercial technologies and, as such, there will be a material time lag between innovation funding and any cost mitigation benefits that may be realized. The time lag would include the time for the third party to apply for funding, FEI to evaluate and grant the funding, the funding to be used in pre-commercial trials or studies, and the technology to be developed and commercialized and made available to FEI as the technology developer scales up so that its technology can be widely adopted, including by FEI into its operations. It is therefore unlikely that FEI would be able to reduce its formula O&M during the Rate Framework term as a result of the 2025 CGIF.

193. Second, in the unlikely scenario FEI were able to realize savings from CGIF technologies during the term of the Rate Framework, this would only be because of FEI's efforts to identify, invest in and adopt cost-savings technologies for the benefit of customers. Indeed, FEI may be required to expend more O&M to be able to adopt such technologies to generate more long-term savings. In this scenario, the 50/50 earning sharing mechanism under the Rate Framework would be reasonable.

194. Third, RCIA's proposal that the CGIF not fund these innovations or that the shareholder pay for half is a case of cutting off one's nose to spite one's face. RCIA's proposal would create a disincentive to pursue these initiatives, delaying or preventing the development of the

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[271] RCIA Final Argument, pp. 26 to 27.

technologies and the reduction in costs that would otherwise benefit customers. FEI therefore submits that RCIA's proposal is not in the interest of customers and should be rejected.

D. Governance of the 2025 CGIF Provides Ample Protection of Customers' Funds

195. RCIA's recommendation that 2025 CGIF expenditures be audited prior to the end of the Rate Framework term, including investigating any real or perceived conflicts of interest and confirming all funding meets the established eligibility criteria, is unnecessary and should not be accepted.[272]

196. First, RCIA does not identify any real (or perceived) conflicts of interest or suggest that funding provided under the 2020 CGIF to date has not met the established eligibility criteria. Rather, RCIA's recommendation would add additional layers of protection to an already multi-level governance process out of an abundance of caution alone. FortisBC submits that the established governance structure is already robust. Proposed projects are reviewed by subject matter experts and the CGIF Steering Team (which comprises senior managers that lead a variety of internal departments), externally reviewed by the External Advisory Council which includes stakeholder representatives (e.g., BCSEA and the BC Ministry of Energy, Mines and Low-Carbon Innovation), and then ultimately reviewed by the CGIF Executive Steering Committee which makes final decisions regarding proposed projects and provides overall strategic direction regarding the CGIF.[273] Concerns regarding conflicts of interest and funding eligibility can already be raised at any of these stages without needing additional auditing after the fact.

197. Second, as detailed in FortisBC's Final Submission, the established CGIF governance structure has been accepted by the BCUC in the MRP Decision as both consistent with those used in other jurisdictions and reflective of accepted best practices.[274] RCIA has not demonstrated that the BCUC's conclusions are no longer applicable to the 2025 CGIF such that investigation of either conflicts of interest or audit of CGIF funding grants is necessary to "preserve the integrity of the CGIF" and "provide assurances to ratepayers", or indeed, is ultimately a good use of Company

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[272] RCIA Final Argument, p. 28.

[273] Exhibit B-1-2, Updated Application, pp. C-159 to C-160.

[274] FortisBC Final Submission, para. 284.

resources. In addition to the established governance structure outlined above, FortisBC submits that the annual audit of FEI's financial statement balances and controls, including balances and controls for regulatory assets and liabilities (which includes the CGIF account), have proven effective to date and provide ample assurance to ratepayers that the risk of conflicts of interest, whether real or perceived, are appropriately mitigated.[275]

198. Third, conflicts of interest, in particular, are explicitly addressed in FortisBC's Code of Conduct, which applies to all employees, officers and directors. This provides an additional layer of accountability that addresses the *potential* for undisclosed conflicts of interest raised by RCIA. The Code of Conduct states that:[276]

> [Employees, officers and directors]…must not engage in activity that could, or could be perceived to, give rise to a potential or perceived conflict between your personal interests and the interests of FortisBC, or that appears to compromise your ability to act in an unbiased way. This extends to situations that involve or relate to the interests of family members, friends or acquaintances. [Emphasis added.]

The language in the Code of Conduct is unequivocal and makes clear that offering or accepting a bribe or kickback, or promising or receiving any other improper benefit, is a serious offence and prohibited.[277]

199. Therefore, the BCUC can be assured that the multiple layers of protection in place to ensure the funds collected from its customers, including those associated with the 2025 CGIF, will be appropriately deployed.

E. CGIF Does Not Fund FEI Hydrogen Production

200. Air Products opposes the use of the 2025 CGIF for "future hydrogen production development costs," which Air Products alleges is "premised on the need for ratepayers to subsidize hydrogen supply in BC".[278] Air Products opposition is misguided. The 2025 CGIF can be

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[275] Exhibit B-1-2, Updated Application, pp. C-158 to C-160; Exhibit B-12, RCIA IR1 36.1; Exhibit B-19, RCIA IR2 53.1.

[276] Exhibit B-19, RCIA IR2 53.2, Attachment 53.2, pp. 8 to 9.

[277] Exhibit B-19, RCIA IR2 53.2, Attachment 53.2, p. 7.

[278] Air Products Final Argument, p. 3.

used to provide third parties, including Air Products, with innovation-related funding for pre-commercial technological innovations in upstream hydrogen production that can benefit FEI customers. The 2025 CGIF excludes funding for commercially-available technologies that would be considered under the normal course of business, does not provide FEI with any interest in any third-party project or company, does not pay for hydrogen production for FEI, and does not contribute to any FEI hydrogen development costs. Therefore, the CGIF does not "subsidize" FEI's hydrogen supply or give FEI any competitive advantage in the hydrogen market. Furthermore, all third parties, including Air Products, are eligible to apply for CGIF funding. There are also other innovation funds available from government and other entities. Air Products' concerns are therefore misplaced.

PART SEVEN: SERVICE QUALITY INDICATORS

202. In this Part, FortisBC responds to intervener submissions on its proposed suite of SQIs and new SQIs proposed by interveners.

A. FEI Has Demonstrated That it is Taking All Reasonable Steps to Mitigate Public Contacts with Gas Lines

203. As set out in FortisBC's Final Submission, drawing specific conclusions about the reasons for variability in gas line hits in jurisdictions across Canada is difficult due to the number of potential factors that could affect the number of gas line hits, and FEI is taking all reasonable steps within the BC context to mitigate the impact of gas line hits to public safety.[279] In this section, FortisBC responds to the points raised by CEC and RCIA regarding public contacts with gas lines.

(a) FEI's 2024 Base O&M Provides Sufficient Funding to Reasonably Mitigate the Risk of Gas Line Hits

204. CEC and RCIA support increased O&M funding for the continued improvement of FEI's Public Contacts with Gas Lines SQI performance.[280] While CEC does not specify the amount the funding ought to increase, it advocates for the incremental funding being used to support increased physical marking activities.[281] RCIA supports increasing FEI's public awareness and education budgets by 50 percent (totalling an additional $488,000 in FEI's Base O&M) to fund measures such as physical marking activities, GPS mapping of new installations, as well as other tools and technologies used by other Canadian utilities.[282] FortisBC does not consider increasing O&M funding to further mitigate the risk of gas line hits to be necessary at this time, for the reasons below.

205. First, as outlined in Part 8, Section B(b) of FortisBC's Final Submission, FEI's Public Contacts with Gas Lines SQI performance has improved over the Current MRP term and FEI considers its

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279 FortisBC Final Submission, paras. 297 to 300.

280 CEC Final Argument, para. 218.

281 CEC Final Argument, para. 218.

282 RCIA Final Argument, p. 33.

existing funding to be sufficient to continue to improve performance.[283] While FEI is committed to reducing gas line hits, the number of gas line damages in British Columbia are generally proportionate to the province's proportion of the Canadian population and FEI has demonstrated its investments at current levels are working to improve performance.[284]

206. Second, FEI is already taking reasonable steps within the BC context to mitigate the risk of gas line hits. While FEI agrees with RCIA that educating municipalities, excavators and the public have been successful, it does not necessarily follow that increased investment by FEI is justified at this time. FEI is already forecasting an increased number of line locate requests at current funding levels.[285] As 64 percent of gas line hits in 2023 occurred where no BC 1 Call request was made, FEI expects that the current trend of increasing line locate requests will continue to help mitigate the risk of gas line hits. Further, as discussed in Part Seven, Section A(d) below, 81 percent of the remaining 36 percent of gas line hits occurred where information provided by BC 1 Call was not used or safe digging protocols were not followed.[286] Therefore, increasing O&M funding, including physically marking gas lines, would not necessarily address the unsafe actions or inactions of excavators.

207. Third, an addition of $488 thousand may do little to reduce gas line hits. It would cost approximately $31.6 million to have physically marked the approximately 158,000 line locate requests FEI received in 2023.[287] Therefore, even if $488 thousand of incremental funding were used for physical marking of normal (i.e., not-specialized) gas line locates, FEI could only undertake approximately 2,300 of the approximately 164,000 line locate requests forecast for 2024.[288] Further, increased funding would not address a number of jurisdiction-specific factors, including increased construction activities and individual service territory characteristics, that

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283 FortisBC Final Submission, para. 296.

284 Exhibit B-1, Application, Appendix C6-1, p. 10; Exhibit B-12, RCIA IR1 40.9.

285 Exhibit B-19, RCIA IR2 55.4.

286 Exhibit B-19, RCIA IR2 55.3.

287 Exhibit B-19, RCIA IR2 55.4.

288 Consistent with the calculation in the response to RCIA IR2 55.4, FEI has assumed that each locate costs approximately $213.

influence gas line hits. Given these factors – many of which evolve from year to year – damage prevention is best considered a joint effort and shared responsibility among stakeholders.

(b) Imposition of Administrative Monetary Penalties is Properly a Matter for Government Not FEI

208. CEC suggests that FEI should explore how its increased efforts to reduce gas line hits could be funded through administrative monetary penalties imposed on at-fault excavators.[289] While FEI is committed to exploring all reasonable steps to continue to reduce gas line hits, the imposition of administrative monetary penalties for at-fault excavators would require legislative amendments by government. Revenues generated from such penalties would likely be collected by the Province and not directed to FEI.

(c) Compliance Filing Regarding Gas Line Hits Would Not Serve the Intended Purpose

209. CEC and RCIA recommend that the BCUC direct FEI to coordinate with other utilities, BC 1 Call, WorkSafeBC and other involved parties to prepare a report detailing potential modifications to line locate processes to bring them in line with other neighbouring provinces.[290] CEC and RCIA have failed to demonstrate the need to allocate internal resources to prepare this report or, as explained below, that adopting approaches to mitigate gas line hits from other jurisdictions that are within the control of public utilities like FEI will reduce gas line hits in British Columbia.

210. A compliance filing that outlines how to adopt approaches used in other jurisdictions to mitigate gas line hits will have little, if any, utility. It is evident that RCIA, in particular, considers the regulatory framework for mitigating gas line hits in British Columbia to be inadequate in comparison to other jurisdictions. However, as FEI has substantiated through the Application and various responses to IRs, drawing specific conclusions about the reasons for variability in gas line hits in jurisdictions across Canada is not as simple as assessing the resources and programs in

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[289] CEC Final Argument, para. 219.

[290] CEC Final Argument, para. 219; RCIA Final Argument, p. 32.

other provinces and then applying those approaches in British Columbia.[291] This does not recognize the unique characteristics of provinces and the different regulatory requirements imposed by governments in each jurisdiction, which are not within the control of public utilities like FEI. Put simply, there is no one size fits all approach to reducing gas line hits.

211. FEI has demonstrated through this proceeding that it is taking all reasonable steps to mitigate the risk of gas line hits within the context of the regulatory framework in British Columbia. In conjunction with other stakeholders such as WorkSafeBC and Technical Safety BC, FEI has materially reduced the number of gas line hits on its system over the Current MRP. This is a positive trend that FEI will endeavour to continue during the proposed Rate Framework term.

(d) Majority of Gas Line Hits Where BC 1 Call Contacted Are Due to Information Not Being Used or Work Undertaken in an Unsafe Manner

212. CEC suggests that there may be "grey areas" where the locational position of FEI's assets is either not properly conveyed or sufficiently understood by excavating parties, or the instructions from BC 1 Call are not properly executed.[292] CEC therefore recommends that the BCUC direct FEI to continue to work on these potential "grey areas".[293] There is no basis for this direction as there is no evidence on the record that the "grey areas" identified by CEC exist or are an underlying cause of gas line hits. Indeed, FEI's evidence is clear that, where an excavator first called BC 1 Call, the majority of resulting gas line hits occurred where the location information provided was not used or safe digging protocols were not followed, and not because the information was not properly conveyed, understood or executed as suggested by CEC. The small number of remaining of gas line hits were generally caused by vehicle accidents, house fires or natural events.[294]

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[291] Exhibit B-1, Application, Appendix C6-1, Section 3.1.4; Exhibit B-12, RCIA IR1 40 series; Exhibit B-19, RCIA IR2 55 series.

[292] CEC Final Argument, para. 214.

[293] CEC Final Argument, para. 217.

[294] Exhibit B-19, RCIA IR2 55.3.

B. The AMI Deployment Schedule Does Not Change the Rationale for Adjusting FEI's Meter Reading Accuracy SQI

213. CEC argues that FEI's proposal to change the Meter Reading Accuracy SQI to an informational indicator is premature in light of uncertainties in the AMI deployment schedule it says FEI "alludes to and recognizes" in the Application. Instead, CEC suggests that the application of the Meter Reading Accuracy SQI should be gradually adjusted to apply to FEI's remaining manual meter reading activities until full AMI implementation is achieved.[295] CEC's proposed approach would lead to inaccurate results and would be unworkable in practice.

214. First, FEI's reference to uncertainties in the AMI deployment schedule in the context of FEI's forecast (flow-through) O&M does not change the underlying rationale for changing the Meter Reading Accuracy SQI to an informational indicator.[296] Namely, the deployment of AMI will result in the proportion of manual meters declining as the AMI project progresses and will diminish the effectiveness of the benchmark and threshold in evaluating FEI's service quality.[297] Thus, while the rate of meter exchanges will depend on the AMI deployment schedule, the number of manual meters on the gas system will undoubtedly decline each year over the course of the Rate Framework term. This decline in manual meters over the course of each year will distort the metric's ability to accurately reflect the overall service quality experienced by FEI's customers.[298]

215. Second, CEC's proposed approach of gradually adjusting the SQI's application to FEI's remaining manual meter-reading activities lacks clarity and would likely be administratively burdensome to implement. For example, CEC does not address how FEI should treat manual meters that are removed part way through the year and whether advanced meters should be accounted for under its proposed approach. FEI submits that dividing the metric by type of meter when the number of each type of meter is in flux each year would not provide an effective means of assessing FEI's service quality.

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295 CEC Final Argument, paras. 225 to 227.

296 Exhibit B-1-2, Updated Application, p. C-27.

297 Exhibit B-1-2, Updated Application, p. C-185.

298 Exhibit B-12, RCIA IR1 42.2.

216. Ultimately, FEI's proposal to retain the metric as an informational indicator (with no benchmark and threshold) until the AMI Project is fully implemented is reasonable and will ensure the BCUC and interveners continue to have information regarding meter reading completion rates.

C. Energy Transition Informational Indicators Are Reasonable for the Rate Framework Term

(a) FEI Maintains That It Would Not be Appropriate or Useful to Report Scope 3 Emissions

217. BCSEA and CEC support requiring FEI to report the overall GHG emissions from all customers (i.e., Category 11, Scope 3 emissions) on an informational basis.[299] BCSEA, in particular, disagrees with a number of the points raised by FEI in Part 8, Section B(d) of its Final Submission (para. 309) which FEI addresses in turn below.[300]

218. First, BCSEA suggests that material changes in Scope 3 emissions from year to year can and should be addressed through explanatory commentary, averaging, and weather normalization.[301] However, BCSEA's suggestion complicates the reporting by requiring complex explanation and analysis of the data, which is challenged by the fact that emission levels change due to many factors that are difficult to isolate, as well as being outside of the Company's control.[302] As such, results fluctuate from year to year in a manner that cannot be clearly explained or normalized, thereby potentially leading to conclusions being drawn by the BCUC and interveners that do not properly reflect FEI's performance.

219. Second, BCSEA argues that informational reporting on FEI's Scope 3 emissions would provide the single most important indicator of FEI's progress in terms of the clean energy transition and reducing this type of emission is where attention should be focused.[303] FEI disagrees given, in particular, the fluctuations discussed above which would materially impact

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299 BCSEA Final Argument, paras. 9 and 109; CEC Final Argument, para. 242.

300 BCSEA Final Argument, paras. 118 to 123.

301 BCSEA Final Argument, para. 119.

302 Exhibit B-4, BCUC IR1 33.5.1.

303 BCSEA Final Argument, paras. 120 and 122.

the usefulness of such an informational indicator. Instead, FEI submits that its proposed set of informational indicators in areas where its activities positively impact Scope 3 emissions and where it has greater direct influence are more useful and indicative of FEI's performance. For example, while FEI can make investments in increased renewable and low-carbon gases, as well as DSM, it cannot directly control how much energy it delivers to customers during peak winter periods when heating requirements are highest.[304]

220. Finally, BCSEA argues there is no basis for FEI's argument that reporting on Scope 3 emissions will take focus away from more important areas of discussion.[305] However, Scope 3 emissions would be a highly-variable informational indicator that would require commentary and analysis. As this indicator would not reflect FEI's actions, providing it could only minimize the focus on the actions FEI is taking. FEI submits that actions like investing in renewable and low carbon gases and DSM are more important in terms of actually reducing GHG emissions.

(b) Expanded Scope of Proposed Annual Renewable Gas and Low Carbon Energy Supply Informational Indicator Would Provide Minimal Value

221. CEC recommends that the BCUC direct FEI to "allow flexibility" in the design of the Acquired Annual Renewable Gas and Low Carbon Energy Supply Informational Indicator by enabling the indicator to capture: (1) the volume breakdown by type of renewable and low-carbon gas; and (2) the embedded weighted average cost of the acquired supply.[306]

222. First, FEI does not see any benefit in reporting separate values at this time as the values for this metric are, for the timing being, limited to RNG as FEI is still exploring the potential of other low-carbon gases (such as hydrogen).[307] Until FEI adds other renewable and low carbon gases, adding a volume breakdown would provide no additional information to the BCUC and interveners.

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304 Exhibit B-4, BCUC IR1 33.5.1.

305 BCSEA Final Argument, para. 121.

306 CEC Final Argument, paras. 237 to 239.

307 Exhibit B-1, Application, Appendix C6-1, pp. 21-22; Exhibit B-8, BCSEA IR1 3.9.

223. Second, reporting the embedded weighted average cost of acquired supply does not align with the purpose of the proposed energy transition information indicators; namely, providing context on how FEI is broadly addressing the energy transition. Unlike the other informational indicators, the cost of acquired supply does not relate to the Company's reduction of GHG emissions over time, but rather, the commodity cost of FEI's energy supply. With the exception of the CMAE costs, FEI does not request approval of forecast gas costs as part of Annual Reviews as the scope of these proceedings is limited to FEI's delivery rates and not the Company's commodity or midstream rates. As such, reporting the embedded weighted average cost of acquired supply in addition to the associated volumes would provide little value to inform any issue within the scope of the Annual Reviews.

224. CEC considers that these adjustments to the indicator's design enable it to act as a proxy affordability measure until other affordability measures are considered.[308] FEI does not consider that the weighted average cost of RNG supply would be a good proxy for an affordability measure, as it such a small piece of FEI's overall revenue requirements and rates. Further, affordability is a relative measure that is defined differently by different customer segments and one specific measure cannot act as a proxy for affordability.[309]

(c) The Proposed Energy Transition Informational Indicators are a Meaningful Means of Measuring FEI's Progress in Response to the Energy Transition

225. BCOAPO takes issue with the fact that FEI's energy transition informational indicators do not have benchmarks or thresholds and have no threat of penalties associated with them.[310] BCOAPO asks that the BCUC direct FortisBC to develop meaningful "key performance indicators (KPIs) and/or key risk indicators (KRIs)" and associated targets to measure progress towards the energy transition and ensure affordability of rates for ratepayers for regulatory review in 2026.[311] FEI addressed the topic of its proposed energy transition informational indicators in Part Eight

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308 CEC Final Argument, para. 271.

309 Exhibit B-7, BCOAPO IR1 6.1.

310 BCOAPO Final Argument, pp. 13 to 14.

311 BCOAPO Final Argument, pp. 28 and 29.

Section B(d) of its Final Submission. BCOAPO has not responded to FEI's substantive submissions on this point.

226. As FEI has submitted, there is no rational foundation or valid ratemaking principle on which the BCUC could impose a penalty regime on the energy transition informational indicators. To summarize:

- Penalties simply do not make sense for these metrics. The proposed suite of indicators will show FEI's progress in achieving a number of beneficial outcomes central to lowering GHG emissions, which government has supported and that FEI should be incented to improve. It would therefore be inappropriate to impose penalties for failure to achieve a certain value, as any progress towards the targets can only be beneficial and the targets may not ultimately be achievable.[312]

- It would not be fair or reasonable to impose a penalty regime on the energy transition informational indicators due to the many factors that are outside of the Company's control that influence FEI's performance and the significant increased investment required to achieve performance.[313]

- Penalties for these metrics would be duplicative of government regulations that seek similar emissions reduction outcomes (e.g., Carbon Tax, Zero Carbon Step Code, BC Low Carbon Fuel Standard, etc.).[314]

- Continued policy uncertainty associated with the energy transition and GHG emission reduction policies would make setting targets a difficult exercise and there would be considerable risk that benchmarks and thresholds could become misaligned as policy changes occur.

Therefore, in FEI's submission, imposing penalties for failure to achieve benefits up to a benchmark that is not within FEI's control to achieve would violate the fair return standard.

227. Classifying the indicators as informational only aligns with their underlying purpose to assist the BCUC and interveners in better understanding how FEI is addressing the energy transition.[315] This has a number of benefits, including transparency, a level of accountability, and

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312 Exhibit B-4, BCUC IR1 33.1.

313 Exhibit B-1, Application, Appendix C6-1, p. 20; see also Exhibit B-14, BCOAPO IR2 18.2.

314 Exhibit B-4, BCUC IR1 33.1.

315 Exhibit B-1, Application, Appendix C6-1, p. 20; Exhibit B-4, BCUC IR1 33.1.

an incentive for FEI to progress these indicators.[316] FEI's approach is also consistent with how other utilities disclose and report their sustainability performance and energy transition impacts.[317] Therefore, FEI submits that its proposed approach to energy transition informational indicators is reasonable and appropriate for the Rate Framework term.

D. New SQIs Proposed by Interveners Are Not Feasible

228. In this section, FortisBC addresses new SQIs proposed by RCIA in its Final Argument.

(a) FortisBC's Existing First Contact Resolution and Average Speed of Answer SQIs Remain Reasonable and Appropriate

229. RCIA recommends creating new informational indicators that measure FortisBC's first contact resolution and average speed of answer for both telephone and non-telephone channels to capture the most popular channels used by customers.[318] FortisBC submits that the inclusion of new non-telephone channel SQIs as proposed by RCIA is not warranted at this time.

230. While FortisBC has committed to considering appropriate measures of service quality for non-telephone inquiries,[319] it is premature to implement any new SQIs in this regard – even if they are informational only – because expanding the Non-Emergency Average Speed of Answer and First Contact Resolution SQIs as RCIA proposes will not be reflective of service quality. For example, because FortisBC's self-serve options (e.g., Account Online (AOL) and Interactive Voice Response (IVR)) are designed to resolve basic common customer requests without the need for further support using other channels, service quality is likely not best measured, as RCIA argues, by an SQI to address the time it takes for FEI and FBC to respond to inquires.[320] If these options are working as intended, the customer will have confirmed their account balance, reported a payment or entered a meter reading by accessing the AOL or IVR systems. More complex issues can only be addressed through other channels. Interactions on the AOL or IVR systems are

316 Exhibit B-4, BCUC IR1 33.1.

317 Exhibit B-4, BCUC IR1 33.1.

318 RCIA Final Argument, p. 36.

319 Exhibit B-19, RCIA IR2 57.1.

320 Exhibit B-19, RCIA IR2 56.1.

therefore fundamentally different than telephone or chat channels, which may result in differing service quality experiences based on the volume of calls or other factors such as the complexity of issues being resolved on a given day. Further, a single SQI for all non-telephone contacts may also not reflect the variety of industry standards used for each type of interaction.[321] Importantly, other than FortisBC's self-serve options, customer-initiated contacts continue to primarily be initiated through the telephone channel.[322] As such, a majority of contacts with customers regarding more complex issues (i.e., where the utility's responsiveness in terms of speed of answer and ability to resolve a customer's issue in the first instance are material to service quality) are already captured by FortisBC's existing metrics.

231. Further, FortisBC does not currently have the ability to implement such metrics. If the BCUC were to direct FortisBC to measure first contact resolution and average speed of answer for non-telephone channels, FortisBC would first need to assess its system capabilities to determine what could be tracked (and the cost to incorporate a tracking capability if one does not currently exist), and the administrative effort to track and report non-telephone channels. For example, FortisBC's current system does not divide AOL interactions as between FEI and FBC.[323] This system would need to be updated and there would be other additional costs associated with implementing measurement of these other channels. FortisBC does not consider these additional costs to be prudent without first carefully considering and selecting the appropriate measures, including undertaking research to determine if other utilities in other jurisdictions track the average response time for non-telephone inquiries in order to understand what an appropriate metric would be.[324]

232. Ultimately, as customers' use of non-telephone options has not increased to an extent that would impede the BCUC's ability to assess whether FEI is providing timely responses to inquiries, FortisBC considers that its existing Non-Emergency Average Speed of Answer and First Contact Resolution SQIs remain reasonable and appropriate and will ensure service quality to

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321 Exhibit B-12, RCIA IR1 43.1.

322 Exhibit B-19, RCIA IR2 56.1.

323 Exhibit B-12, RCIA IR1 41.1.

324 Exhibit B-12, RCIA IR1 43.1.

customers is maintained at acceptable levels throughout the three-year proposed Rate Framework term.

(b) Small Number of Service Line Installations and Alteration Complaints Does Not Support a New SQI

233. RCIA recommends that FEI develop and implement new SQIs that track the time for service line installations and alterations.[325] However, RCIA fails to substantiate the need for these proposed SQIs or that such SQIs are feasible. First, there is no evidence that the time taken for service line installations and alterations is a service quality issue that needs monitoring. While FEI has at times received complaints from customers and potential customers with respect to the time to install new service lines or to make alterations to existing service lines, such complaints from customers are relatively few in comparison to the number of service orders FEI completes each year.[326] Second, developing such an SQI would not be feasible due to the difficulty in selecting an average completion time that accurately and fairly represents FEI's expected service quality. This is because the time for FEI to complete a new service connection or service alteration is often driven by factors beyond FEI's control, including:[327]

- **Permitting Timelines:** Each municipality has specific timelines and requirements for permitting which can impact timelines for works to begin. In particular, environmental and archeological permitting requires significant time to submit and receive approval. The time it takes for permitting applications is influenced by factors such as the complexity of the associated works, the volume of other permitting applications and, as noted above, timelines will vary between municipalities.

- **Variable Application Timing:** There is significant variability in when customers contact FEI requesting a new service connection or to complete a service alteration. For example, some customers may contact FEI a year in advance, while others may wait until a week before the request is needed. A metric tracking when a customer completes this type of application would not accurately report or differentiate between delays in the completion of work that are due to FEI's performance (i.e., lack of timeliness) and customers contacting FEI without sufficient lead time. Early contact from customers has a number of benefits and is

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325 RCIA Final Argument, p. 37.

326 Exhibit B-12, RCIA IR1 44.1.

327 Exhibit B-12, RCIA IR1 44.2.

encouraged because it provides FEI time to complete the necessary design process and seek required permits.

- **On-Site Delays:** Factors beyond FEI's control can result in on-site delays affecting FEI's ability to complete the requested work. For example, FEI may have scheduled crews only to find the customer is not ready due to scheduling changes, or that the site conditions prevent undertaking the work.

- **Seasonality:** Depending on the time of year, a request for a new service install or service alteration may come in during a period of time where work would not be scheduled due to seasonality causing unfit working conditions, such as frozen ground.

234. RCIA proposes that the service installation SQI could be structured to track only the time after permits are received.[328] However, this proposal would not address the impact of the timing of customer requests, on-site delays, and seasonality, all of which are outside of FEI's control and cause significant variability.[329]

235. RCIA also proposes that multiple metrics be created to address seasonality.[330] However, it is unclear how this could be accomplished in practice, as isolating the impact of seasonality would be impractical as it interacts with the other drivers, such as the timing of customer requests and on-site delays. Any such SQI would need to be very complex, making it even more difficult to assess the Company's performance.

236. Finally, RCIA does not support continued reliance on the Customer Satisfaction Index (CSI) SQI to track service line installation requests because concerns expressed by a relatively small number of new customers will be "lost or attenuated" by the overall satisfaction of FEI's entire customer group.[331] FEI disagrees. The CSI score includes feedback from customers regarding their experience though the process from initial contact through to installation touch points from customer service and field services, including new service connections and alterations. An increase in complaints regarding new service connections and alterations will still impact the CSI

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328 RCIA Final Argument, p. 37.

329 Exhibit B-12, RCIA IR1 44.2.

330 RCIA Final Argument, p. 37.

331 RCIA Final Argument, pp. 37 to 38.

metric. Where a decline occurs, the BCUC and interveners will continue to be able to inquire as to the cause of any decline in customer satisfaction – which would include long wait times for new service connections and alterations.

PART EIGHT: CONCLUSION

237. FortisBC submits that the evidence supports its approvals sought and recommends that the BCUC approve the Rate Framework.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated:	January 15, 2025	***[original signed by Chris Bystrom]***
		Chris Bystrom Counsel for FortisBC Energy Inc. and FortisBC Inc.
Dated:	January 15, 2025	***[original signed by Niall Rand]***
		Niall Rand Counsel for FortisBC Energy Inc. and FortisBC Inc.