Sarah Walsh
Director, Regulatory Affairs

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

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

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

May 15, 2025

British Columbia Public Interest Advocacy Centre
Suite 803 - 470 Granville Street
Vancouver, B.C.
V6C 1V5

Attention: Leigha Worth, Executive Director

Dear Leigha Worth:

Re: FortisBC Inc. (FBC)

2025 Cost of Service Allocation (COSA) and Revenue Rebalancing (Application)

Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, Together Against Poverty Society, and the Tenant Resource and Advisory Centre *et al*. (BCOAPO) Information Request (IR) No. 1

On February 14, 2025, FBC filed the Application referenced above. In accordance with the regulatory timetable established in BCUC Order G-60-25 for the review of the Application, FBC respectfully submits the attached response to BCOAPO IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC INC.

Original signed:

Sarah Walsh

Attachments

cc (email only): Commission Secretary
Registered Interveners

1.0 Reference: Exhibit B-1, pages 1 and 11

Preamble: The Application states (page 1):

> "As discussed in more detail in its report (EES COSA Report), EES Consulting completed the COSA study following standard utility practice and using inputs and allocation methodologies substantially the same as past practice for the Company. The COSA study considered each of the rate schedules associated with Residential, Commercial, Lighting, Irrigation, and Wholesale customers." (emphasis added)

The Application states (page 11):

> "As discussed in more detail in the EES COSA Report, EES Consulting completed the COSA study for this Application following standard utility practice and using inputs and allocation methodologies substantially the same as past practice for FBC, including those reviewed and accepted in the 2009 COSA and RDA proceeding and the 2017 COSA and RDA proceeding, as discussed in Section 3.2.2." (emphasis added)

1.1 Please identify those aspects of the new COSA study where the allocation methodology varies from past practice (in particular, from the methodology used in the 2017 COSA) or deals with new revenue/cost streams not present or specifically addressed in the 2017 COSA. In each instance, please supporting rationale for the approach used.

Response:

The following response has been provided by EES Consulting:

EES employed the same starting model as was used in 2017 and 2020 and maintained the previous allocation factors and functionalization approaches. For the input data, EES employed the methods most consistent with previous COSAs and in consideration of any minor changes over time in financial reporting formats and other inputs.

The changes to the current COSA compared to the 2017 COSA are as follows:

- **The inclusion of RS 38 revenues.** RS 38 did not exist in 2017 (or in 2020). For the reasons provided in Section 5.1.2.1 of the Updated Application and in responses to IRs (see for example the responses to the BCUC IR1 1 and 2 series), EES has treated the RS 38 revenues consistent with RS 37 revenue.
- **Change to the input assumptions regarding streetlights.** Please refer to the response to BCOAPO IR1 8.2 for further discussion.
- **Change to treatment of Demand Ratchets for revenue calculations.** Please refer to the response to BCMEU IR1 1.1 for further discussion.

2.0 Reference: Exhibit B-1, pages 12 and 19-20

Preamble: At pages 12 and 19-20 (Tables 5-1 and 5-5), the Application sets out the nine customer classes used in the COSA.

The Application states (page 12):

"For the purposes of cost allocation, any load and revenue associated with Time-of-Use (TOU) rate schedules is included in the totals for the default rate that would normally apply to a customer."; and

"For the purposes of the 2025 COSA study, FBC has treated both the revenues and costs of RS 38 in a manner that is consistent with how RS 37 revenues and costs are treated."

2.1 How does the COSA treat the costs associated with payments to Net Metering Customers (RS 95 – Billing Calculation Clauses 5 & 6) for any balance in the kWh Bank at the time of the first meter reading after March 31? Please provide FBC's rationale for this chosen treatment.

Response:

The following response has been provided by EES Consulting and FBC:

EES did not analyze these payments separately and the only net metering evaluation was on net consumption for consistency with prior models. These rate design aspects of net metering were not part of the scope of the study.

Because the Net Metering program limits generation to expected premise maximum load and normally places excess generation kWh into a bank for future consumption, actual payments to customers are rare and, when they do occur, the amounts are small. Generally speaking, any payments are incorporated into rate revenue and are thus captured in rate revenue forecasts within the COSA.

3.0 Reference: Exhibit B-1, pages 13-14

2017 COSA and Rate Design Application (RDA), Exhibit B-1, Attachment A, page 22

Preamble: The Application states:

"At the time of filing this Application, FBC has a single customer taking service under RS 38. However, there were no RS 38 revenues for the 2024 test year as the customer's load was served under RS 31 at the time. FBC considers it appropriate to reflect the change in the COSA load apportionment as a known and measurable change to the test year." (page 13)

"Since both the RS 37 and RS 38 rates are calculated based on the hourly Mid-C price in effect when the service is used, FBC applied the same treatment approved for RS 37 as part of the 2017 COSA and RDA Decision to the revenues of RS 38, which is allocated to all customers as an offset to the revenue requirement for compensating for the use of the system paid by all customers." (page 14)

The 2017 COSA and RDA states:

"Other customers are better off having the standby sales because the alternative would provide no additional revenues. Without the standby service offering, the customer would reduce its service to just the portion taken under Rate 31 and would forgo standby service. The Rate 37 revenues, even at a reduced rate, provide a contribution to the fixed costs on the system, which benefits all customers. These revenues are allocated on the basis of all rate base in consideration of the contribution to all fixed costs of the system." (Exhibit B-1, Attachment A page 21)

3.1 As per the quote from the 2017 COSA and RDA, please explain why FBC's thinks it reasonable to assume that "without the standby service offering, the customer would reduce its service to just the portion taken under Rate 31 and would forgo standby service" as opposed to customer purchasing the additional load required under Rate 31.

Response:

Customers taking service under a combination of RS 31 and RS 37 are likely to have a relatively low Contract Demand for RS 31 service and will use Stand-By Service in the event of a shutdown of self-generation. In the absence of a Stand-By Service offering, FBC considers it unlikely that a customer would choose to replace self-generated power with RS 31 service because the demand levels set during the generation outage would set a ratcheting monthly Demand Charge that would persist for the following 11 months, which could be extremely costly.

3.2 The quote from page 13 of the Application suggests that the current FBC customer taking service under RS 38 does so as a result of converting some or all of the load they previously took under RS31 (i.e. it is not new load on FBC's system, merely load from one rate schedule now accepted under another rate schedule). If this is the case please explain why and how FBC's position is that the RS 38 load is considered incremental load such that the revenues (net of energy costs) are considered as a benefit all customers. In this response, please also explain FBC's reasoning that this load should not be allocated a portion of generation and transmission plant costs.

Response:

While the total load was previously served under RS 31, the portion converted to RS 38 is load served that was above the customer's Contract Demand.

The benefit in the case of both RS 37 and RS 38 is additional revenue that accrues to all ratepayers that would not otherwise be collected from the customers utilizing these two optional rates.

However, it is not the nature of the benefits provided by the rates that determines the treatment of the RS 37 and RS 38 revenues as an offset to the revenue requirement within the COSA. The treatment of those benefits, as described in the response to BCUC IR1 2.2, is tied to the nature of the rates themselves and how they were developed and previously approved by the BCUC. Both rates were developed outside of the COSA process without the intention of recovering embedded costs that are already recovered through existing rates.

3.3 Are RS 37 and/or RS 38 loads included in determining future generation and transmission capacity requirements and, if so, please explain FBC's reasoning why these loads should not be allocated a portion of the embedded generation and transmission costs?

Response:

FBC includes both RS 37 and RS 38 loads in its generation (power purchase expense) planning outside of the COSA process. FBC meets these loads on an as-needed basis from market purchases unless it is more cost-effective to utilize its own generation resources.

RS 37 and RS 38 transmission capacity requirements are treated differently. RS 37 is a firm rate and is taken into account for transmission capacity planning purposes. However, RS 38 is a non-firm rate and therefore transmission capacity planning does not apply. As the RS 38 non-firm rate is not included in transmission planning, usage is limited to surplus transmission on the existing system. Compensation for this usage is reflected in the Hourly Service Adder in the RS 38 tariff.

For a discussion of why RS 37 and RS 38 are generally excluded from the COSA cost allocation, including for embedded generation and transmission costs, please refer to the responses to BCUC IR1 1.2 and 2.2.

4.0 Reference: Exhibit B-1, Appendix A, pages 7-8

Exhibit B-1, COSA 2025 Model, Revenue Requirement Tab

FBC 2024 Annual Review, Exhibit B-13, Section 11, Schedule 16

Preamble: The Application states:

"For purposes of this COSA, EES used Evidentiary Update with individual account details from the 2022 Annual Report." (Appendix A, page 7)

"This COSA includes a revenue requirement from a forecast test year but reflects the account detail of actual costs from a historic year 2022 escalated to the approved revenue requirement for 2024 rates." (Appendix A, page 8)

4.1 In the COSA 2025 Model (Revenue Requirement Tab) the 2024 costs for a number of the accounts are determined by multiplying the 2022 value by the factor set out in cell F258 (~17%). Please explain how this factor was derived (including the supporting calculations), and why it is appropriate to apply the same factor to all of the accounts.

Response:

The following response has been provided by EES Consulting:

Consistent with prior studies, EES relies on audited financials by general ledger account for a historical year. More recent filed financials do not show the same level of detail and to preserve the historical detail (associated with the same historical metered year) there is an adjustment to current approved revenue requirements. 17 percent is the difference between the net O&M expense in the Evidentiary Update to the FBC Annual Review for 2024 Rates and the net O&M expense in the 2022 Annual Report.

4.2 Please reconcile the following differences between the costs used in the COSA and those set out in the 2024 Annual Review Evidentiary Update:

Item	COSA 2025 Model	2024 Annual Review Value & Reference
Depreciation	$64.789 M (per Cell F198)	$65.491 M (Sect. 11, Schedule 16)
Total Property Taxes	$19.276 M (per Cell F206)	$18.573 M (Sect 11, Schedule 16)

Response:

The following response has been provided by EES Consulting and FBC:

The differences between the costs (-$0.7 million for Depreciation and +$0.7 million for Property Taxes) are due to EES inadvertently applying offsetting entries to these line items in the COSA model. The impact of these offsetting values is immaterial to the COSA results; however, FBC has corrected both in the updated COSA model filed as Appendix B to the Updated Application, which FBC has filed concurrently with these IR responses.

5.0 Reference: Exhibit B-1, page 14

Exhibit B-1, COSA 2025 Model, Rate Base Tab FBC 2024 Annual Review, Exhibit B-13, Section 11

Preamble: The Application states:

"Consistent with the approach used in previous COSA studies (2009 and 2017), FBC used the average of the 2021 and 2022 actual rate base, which is $1,542.4 million for the purposes of cost allocations in the 2025 COSA study. The use of a two-year average is intended to smooth out the impact of large capital expenditures.

Table 5-3 below provides a summary of the rate base used for the 2025 COSA study which reflects a gross plant of $2,316.1 million plus working capital and unamortized deferrals of $127.1 million, offset by accumulated depreciation of $669.2 million and customer contributions of $231.7 million. Distribution plant makes up approximately 53.2 percent of the gross plant, followed by 22.5 percent for transmission plant, 14.4 percent for power production, and 9.9 percent for general plant. FBC's detailed rate base by account used for the 2025 COSA is provided in the EES COSA Report in Appendix A, Schedule 4.1." (page 14)

5.1 Please complete the following table:

Row	Item	COSA 2025 Model Mid-Year Value	F2024 Annual Review Mid-Year Value	% Difference
#1	Hydraulic Production - Gross Plant - Accumulated Depreciation - Net Plant			
#2	Transmission - Gross Plant - Accumulated Depreciation - Net Plant			
#3	Distribution - Gross Plant - Accumulated Depreciation - Net Plant			
#4	General Plant - Gross Plant - Accumulated Depreciation - Net Plant			
#5	CIAC -Total Additions - Accumulated Amortization - Net CIAC			

Row	Item	COSA 2025 Model Mid-Year Value	F2024 Annual Review Mid-Year Value	% Difference
#6*	Total Plant - Gross Plant - Accumulated Depreciation - Net Plant			
#7	Working Capital			
#8	Other Rate Base Items			
#9	Total Rate Base			

* (Equals 1+2+3+4-5)

Response:

The approach used in the 2025 COSA model is consistent with the approach used in previous COSA studies. Although the rate base forecast in the 2024 Annual Review is slightly higher than the rate base input used for the 2025 COSA model (which is based on the two-year average of 2021 and 2022 actual rate base as discussed in Section 5.1.3 of the Application[1]), the relatively small difference would only have a minor impact on the results of the 2025 COSA model. This is demonstrated in Table 2 below which shows that the percentage breakdown between the different components of rate base remain essentially the same between the rate base input used for the 2025 COSA Model and the forecast rate base in FBC's 2024 Annual Review. Thus, there would be almost no change to the allocation of the rate base in the 2025 COSA model if the forecast rate base from the 2024 Annual Review were used.

[1] There are no changes to the discussion in Section 5.1.3 of the Updated Application filed concurrently with these IR responses, or to the rate base amounts used in the updated COSA model.

Table 1: Comparison between the Rate Base Inputs for FBC's 2025 COSA Model and the 2024 Forecast Rate Base from FBC's 2024 Annual Review

Row	Item	2025 COSA Model Mid-Year Value ($000s)	F2024 Annual Review Mid-Year Value ($000s)	% Difference
#1	Hydraulic Production -Gross Plant -Accumulated Depreciation -Net Plant	$ 269,741	$ 299,533	11%
#2	Transmission -Gross Plant -Accumulated Depreciation -Net Plant	351,633	375,523	7%
#3	Distribution -Gross Plant -Accumulated Depreciation -Net Plant	878,701	956,000	9%
#4	General Plant -Gross Plant -Accumulated Depreciation -Net Plant	146,859	154,540	5%
#5	CIAC -Gross Plant -Accumulated Depreciation -Net Plant	(231,706)	(211,390)	-9%
#6	Total Plant -Gross Plant -Accumulated Depreciation -Net Plant	$ 1,415,227	$ 1,574,205	11%
#7	Working Capital	6,562	6,730	3%
#8	Other Rate Base Items	120,569	$ 133,736	11%
#9	Total Rate Base	$ 1,542,358	$ 1,714,670	11%

Table 2: Comparison of the Percentage Breakdown of the Rate Base Component between the 2025 COSA Model and the Rate Base Forecast from FBC's 2024 Annual Review

Row	Item	2025 COSA Model Mid-Year Value ($000s)	F2024 Annual Review Mid-Year Value ($000s)	Difference
#1	Hydraulic Production -Gross Plant -Accumulated Depreciation -Net Plant	17%	17%	0%
#2	Transmission -Gross Plant -Accumulated Depreciation -Net Plant	23%	22%	-1%
#3	Distribution -Gross Plant -Accumulated Depreciation -Net Plant	57%	56%	-1%
#4	General Plant -Gross Plant -Accumulated Depreciation -Net Plant	10%	9%	-1%
#5	CIAC -Gross Plant -Accumulated Depreciation -Net Plant	-15%	-12%	3%
#6	Total Plant -Gross Plant -Accumulated Depreciation -Net Plant	92%	92%	0%
#7	Working Capital	0.4%	0.4%	0%
#8	Other Rate Base Items	8%	8%	0%
#9	Total Rate Base	100%	100%	0%

6.0 Reference: Exhibit B-1, page 19

Preamble: The Application states:

> "Using the revenues at approved rates for 2024 results in projected rate revenues of $451.6 million, after the adjustments for RS 37 and RS 38 revenues. The calculated revenue from rates in the 2025 COSA using the actual billing determinants, multiplied by the various rate components, is $442.8 million, which is 1.99 percent lower than the revenue forecast provided in the Evidentiary Update to the FBC Annual Review for 2024 Rates."

6.1 Please provide specifics explaining why the calculated revenue from 2024 rates in the 2025 COSA process differs from the revenue forecast provided in the Evidentiary Update to the FBC Annual Review for 2024 Rates.

Response:

FBC clarifies that the revenue used in the 2025 COSA is $451.6 million, which is based on the approved forecast revenue from the Evidentiary Update to FBC's 2024 Annual Review, less the RS 37 and RS 38 revenue. The 2024 Approved forecast revenue was calculated based on the load forecast at the time of the 2024 Annual Review, whereas the calculated revenue of $442.8 million in the 2025 COSA referenced in the preamble above is based on the Actual 2022 load from AMI data (i.e., the actual billing determinants) multiplied by the 2024 Approved rates.

As explained on page 19 of the Application (Lines 23 to 25), the calculated revenue using the 2022 Actual load was adjusted on a pro-rated basis to match the 2024 Approved forecast revenue in the 2025 COSA. The reason for this adjustment is that the seasonal load profile from actual AMI data between each rate schedule is preserved in the 2025 COSA while the total revenue (i.e., 2024 Approved forecast revenue) remains aligned with the total cost of service (i.e., 2024 Approved revenue requirement).

7.0 Reference: Exhibit B-1, pages 26-36

7.1 Please confirm that the bill impacts set out in Tables 7-1 through 7-5 are only those related to rebalancing and that, if implemented January 1, 2026, customers in each class will also be impacted by whatever general rate increase might be approved by the BCUC for that year.

Response:

Confirmed.

8.0 Reference: Exhibit B-1, COSA 2025 Model, Load Tab (Cells A70:L75)
Exhibit B-1, COSA 2025 Model, Rev Req by Cust Tab, Rows 118-143)
Exhibit B-1, COSA 2025 Model, Rate Base by Cust Tab, Rows 63-78)

8.1 Please explain what types of assets are included in the Street Lights and Signal Systems account (Rate Base by Cust Tab. Row 77).

Response:

The following response has been provided by EES Consulting:

Typical assets included in the Street Lights and Signal Systems account are lighting poles, lighting fixtures, bulbs, timing or light sensing equipment, and related, for all different types of utility-owned and maintained lights.

8.2 Please provide a detailed explanation why in the "Provided Services" section of the Load Tab (Cells A70:L75) Lighting is identified as not using Primary or Secondary Distribution, resulting in Lighting not being allocated any of the Rate Base associated with Poles, Towers & Fixtures, Conductors and Devices or Line Transformers and is also not allocated any related Distribution Expenses (e.g. Distribution Line Maintenance) where Rate Base is used as the allocator.

Response:

The following response has been provided by EES Consulting:

EES uses this treatment within the COSA because lighting has its distribution costs direct-assigned. Unlike for other rate classes, direct assignment is possible because FBC tracks both the capital cost and lighting-related O&M separately. If lighting were separately allocated costs in addition to those that are directly assigned, it would double count costs attributable to lighting.

8.3 Please explain why Lighting is allocated a portion of the Rate Base associated with meters (Rate Base by Cust Tab, Row 74) while indicating whether Street Lights are metered?

Response:

The following response has been provided by EES Consulting:

Street lighting is generally not metered. However, EES included a minimal $1.00 weighting factor to prevent divide-by-zero errors in the Excel modelling. A divide-by-zero error is where zero values trigger other adjustments when there are no other zero values in a weighting series. As $1.00 is minimal compared to other meter and service weighting factors that are in the hundreds of dollars, there is no material impact on the results due to this minimal allocation. In short, including a $1.00 weighting factor has no material impact and maintains the integrity of the COSA model.

9.0 Reference: Exhibit B-1, pages 30-31

9.1 It is noted that under Option 3, the absolute percentage point change (increase) in the Revenue to Cost Ratio for Irrigation is less than that for Wholesale-Primary (i.e., 2.1 vs 2.3) even though the initial Revenue to Cost Ratio for Wholesale-Primary is higher (i.e., 92.1% vs. 82.9%). Please provide FBC's commentary whether this result negatively impacts Option 3's alignment with either Bonbright's Principle 2 or Principle 4.

Response:

While responding to BCUC and Intervener IRs, FBC identified some errors in the COSA model. As a result of correcting these errors, the R/C ratios of most rate classes have changed. While for most rate classes the adjustments to the R/C ratios are minor, one rate class – Large Commercial Transmission (RS 31) – has now moved outside of the range of reasonableness (RoR), and one rate class – Wholesale Transmission (RS 41) – has moved within the RoR. Given the updated R/C ratios, FBC has developed new rebalancing options and proposed a new preferred rebalancing option. These new options and new rebalancing proposal are reflected in Sections 7.2 and 7.3 of the Updated Application filed concurrently with these IR responses. The response below reflects the updated R/C ratios and the preferred Option 2 as presented from the Updated Application.

FBC notes that as shown in Table 1 below, under the proposed Option 2 in the Updated Application, the absolute percentage point change (increase) in the R/C ratio for RS 60 customers is now 11.5 percent, while the change (increase) for RS 40 customers is 1.1 percent.

Table 1: Wholesale Primary and Irrigation R/C Ratios and Absolute % Increases Before and After Revenue Rebalancing under the Preferred Option 2 in the Updated Application

	Option 2		
	R/C Ratio Before Rebalancing	R/C Ratio After Rebalancing	Absolute Increase (%)
RS 40	94.0%	95.0%	1.1%
RS 60	77.3%	88.9%	11.5%

However, the goal of revenue rebalancing is to move all rate schedules closer to or within the range of reasonableness with consideration of rate impacts to each rate schedule. The fact that RS 60 Irrigation customers will see an absolute percentage point change of 11.5 percent in their R/C ratio from 77.3 percent to 88.9 percent, while RS 40 Wholesale Primary customers will see an absolute percentage point change of 1.1 percent in their R/C ratio from 94 percent to 95 percent, has no relevance on the rebalancing approach, nor in the consideration of the rate impact to each rate schedule.

Instead, FBC has appropriately assessed the proposed Option 2 in consideration of the option's alignment with the relevant Bonbright principles, including the following:

- For Bonbright Principle 2, the fair apportionment of costs among customers refers to the extent to that the R/C ratios fall within the range of reasonableness such that the costs recovered from each customer group closely reflect the costs to serve them. The absolute

percentage change in the R/C ratio resulting from the revenue rebalancing is not relevant to this consideration.

- For Bonbright Principle 4 (customer understanding and acceptance), FBC considered whether any of the customer groups whose R/C ratios are already within the range of reasonableness would be rebalanced under the proposed rebalancing options. If a particular customer group is already within the range of reasonableness, then generally it is expected that there would be no change to their rates due to revenue rebalancing. FBC considers this to be more relevant than whether the RS 60 customer class has a larger or smaller absolute percentage point change in their R/C ratio compared to RS 40 or other customer groups.

As discussed in Section 7.2.6 and Section 7.3 of the Updated Application filed concurrently with these IR responses, the proposed Option 2 reflects the best balance of the relevant Bonbright principles.

10.0 Reference: Exhibit B-1, pages 35-37

Exhibit A-5, BCUC 8.1 & 8.2

10.1 Please provide the results (versions of Table 7-6 and 7-7 by year) and an evaluation based on the Bonbright principles for variations of both Option 7 and Option 8 (per BCUC 8.1) where if the resulting R/C ratio for RS 20 is less than 104.7%, then the R/C ratios for both RS 20 and RS 31 are set at the same value so as to ensure the overall rebalancing is revenue neutral, with the additional proviso that if the resulting R/C ratios for RS 20 and RS 31 are less than 103.9%, then the ratios for RS 20, RS 31 and RS 21 are all deceased to the same value so as to ensure the overall rebalancing is revenue neutral.

Response:

While responding to BCUC and Intervener IRs, FBC identified some errors in the COSA model. As a result of correcting these errors, the R/C ratios of most rate classes have changed. While for most rate classes the adjustments to the R/C ratios are minor, one rate class – Large Commercial Transmission (RS 31) – has now moved outside of the range of reasonableness (RoR), and one rate class – Wholesale Transmission (RS 41) – has moved within the RoR. Given the updated R/C ratios, FBC has developed new rebalancing options and proposed a new preferred rebalancing option. These new options and new rebalancing proposal are reflected in Sections 7.2 and 7.3 of the Updated Application filed concurrently with these IR responses. The following response reflects the corrected R/C ratios as well as revenue rebalancing options filed as part of the Updated Application.

To distingish from Option 7 and Option 8 presented in the response to BCUC IR1 8.1, FBC will be referring to the two rebalancing options identified in this information request as BCOAPO Option 7 and BCOAPO Option 8. Please refer to points a) and b) below for a discussion on BCOAPO Option 7 and BCOAPO Option 8, respectively. Please also refer to point c) below for the updated Tables 7-6 and 7-7 for the comparison of revenue shifts as well as bill impacts that include BCOAPO Option 7 and BCOAPO Option 8.

a) BCOAPO Option 7:

Due to the changes in the Updated Application, RS 41 is now within the RoR, while RS 31 is outside of the RoR, resulting in RS 20, 31, 40, and 60 requiring revenue rebalancing. However, based on the scenario suggested by BCOAPO Option 7, it is not possible to reduce RS 20 to the same level as RS 31 while rebalancing RS 40 to 95 percent, capping the rate impact to RS 60 customers to 5 percent (R/C ratio of 81.2 percent), and also maintaining revenue neutrality. This is because, under the scenario suggested by BCOAPO Option 7, there is not enough revenue increase from RS 40 (to 95 percent) and RS 60 (capped at 5 percent rate increase) to balance out the revenue reduction from RS 20 and RS 31. As shown in Table 1 below, even if the R/C ratio of RS 31 remains unchanged at 105.3 percent, the lowest R/C ratio that can be achieved for RS 20 is 105.8 percent under BCOAPO Option 7.

Table 1: BCOAPO Option 7 – 2025 COSA R/C Ratio Results after Revenue Rebalancing

Rate Schedule	Initial COSA R/C	Revenue Shift ($000s)	Approx. Monthly Bill Impact (%)	Approx. Monthly Bill Impact ($)	COSA after Rebalancing R/C
RS 01 Residential	99.5%	-	-	-	99.5%
RS 20 Small Commerical	107.5%	(785)	(1.6%)	(4.3)	105.8%
RS 21 Commerical	102.4%	-	-	-	102.4%
RS 30 Large Commercial Primary	100.7%	-	-	-	100.7%
RS 31 Large Commerical Transmission	105.3%	-	-	-	105.3%
RS 40 Wholesale Primary	94.0%	581	1.1%	4,838.0	95.0%
RS 41 Wholesale Transmission	98.3%	-	-	-	98.3%
RS 50 Lighting	99.8%	-	-	-	99.8%
RS 60 Irrigation	77.3%	204	5.0%	15.4	81.2%

Under BCOAPO Option 7, an average RS 20 customer will see a rate reduction of approximately 1.6 percent, while an average RS 40 and RS 60 customer will see a rate increase of approximately 1.1 percent and 5.0 percent, respectively.

When assessed against the Bonbright principles, BCOAPO Option 7 would align with principle 6:

- **Principle 6 – Rate Stability (Customer rate impact should be managed)**

  The rate impacts to all impacted rate classes are below 10 percent, with the impacts ranging from a decrease of 1.5 percent to an increase of 5 percent.

However, BCOAPO Option 7 does not align with principles 2 and 4:

- **Principle 2 – Fair apportionment of costs among customers**

  Under this option, three rate schedules (RS 20, RS 31, and RS 60) would remain outside of the RoR, which is the most rate schedules out of any of the other options explored (including the options explored in BCUC IR1 8.1).

- **Principle 4 – Customer understanding and acceptance**

  This option ranks poorly for customer understanding and acceptance, as both RS 20 and RS 31 will still be above the RoR, while RS 60 will still be significantly below the RoR at 81.2 percent.

b) BCOAPO Option 8:

This option involves rebalancing RS 40 and RS 60 to the lower bound of the RoR, while using both RS 20 and RS 31 (by setting the R/C ratios of these two rate classes equal to each other) to maintain overall revenue neutrality after rebalancing. The main difference between this option and BCUC Option 8 as presented in the response to BCUC IR1 8.1 is that both RS 20 and RS 31 would now be rebalanced to below 105 percent, whereas under BCUC Option 8, only RS 20 would be rebalanced to below 105 percent. Please

refer to Table 2 below for the revenue shifts for rebalancing under BCOAPO Option 8, the approximate bill impact per month in percentage and in dollars, and the final R/C ratios after the revenue shift.

Table 2: BCOAPO Option 8 – 2025 COSA R/C Ratio Results after Revenue Rebalancing

Rate Schedule	Initial COSA R/C	Revenue Shift ($000s)	Approx. Monthly Bill Impact (%)	Approx. Monthly Bill Impact ($)	COSA after Rebalancing R/C
RS 01 Residential	99.5%	-	-	-	99.5%
RS 20 Small Commerical	107.5%	(1,370)	(2.9%)	(7.4)	104.5%
RS 21 Commerical	102.4%	-	-	-	102.4%
RS 30 Large Commercial Primary	100.7%	-	-	-	100.7%
RS 31 Large Commerical Transmission	105.3%	(143)	(0.8%)	(2,980.6)	104.5%
RS 40 Wholesale Primary	94.0%	581	1.1%	4,838.0	95.0%
RS 41 Wholesale Transmission	98.3%	-	-	-	98.3%
RS 50 Lighting	99.8%	-	-	-	99.8%
RS 60 Irrigation	77.3%	933	22.9%	70.5	95.0%

Under BCOAPO Option 8, as shown in Table 2 above, an average RS 20 and RS 31 customer will see a rate reduction of approximately 2.9 percent and 0.8 percent, respectively, while an average RS 40 and RS 60 customer will see a rate increase of approximately 1.1 percent and 22.9 percent, respectively. FBC notes that the rate impact for RS 60 (equivalent to approximately $70.50 per month for the average RS 60 customer) would be considered rate shock.

When assessed against the Bonbright rate design principles, BCOAPO Option 8 aligns with principle 2:

- **Principle 2 – Fair apportionment of costs among customers**

  All R/C ratios of the applicable rate schedules would fall within the RoR. Therefore, the cost recovery through each rate schedule closely reflects the fair apportionment of costs from each customer group.

However, BCOAPO Option 8 does not align with principles 4 or 6:

- **Principle 4 – Customer understanding and acceptance**

  While the rebalancing is limited to customer classes that are outside of the RoR (RS 20, 31, 40 and 60), in order to achieve revenue neutrality under this option, both RS 20 and RS 31 will be rebalanced to below the upper bound of the RoR (i.e., 104.5 percent). This could erode the level of understanding and acceptance for other rate schedules.

- **Principle 6 – Rate Stability (Customer rate impact should be managed)**

  The rate impact of approximately 22.9 percent to RS 60 customers would be significant. This level of rate increase would be considered rate shock.

c) Summary

FBC does not consider BCOAPO Option 7 or BCOAPO Option 8 to be superior to the preferred Option 2 presented in the Updated Application. BCOAPO Option 7 would result in three customer classes (i.e., RS 20, 31, and 60) remaining outside of the RoR which is the most out of all of the options considered. BCOAPO Option 8 would result in a rate impact of 22.9 percent for RS 60 customers, which is rate shock and is misaligned with Bonbright principle 6.

Please refer to the updated Tables 7-6 and 7-7 of the Updated Application below, comparing the revenue shifts and bill impacts between all options, including BCUC Options 6, 7, and 8 as presented in BCUC IR1 8.1 as well as BCOAPO Options 7 and 8.

Updated Table 7-6: Summary of Revenue Shifts and Resulting R/C Ratios Between Rate Schedules for All Rebalancing Options

	Option 1		Option 2		Option 3		Option 4		Option 5		BCUC Option 6		BCUC Option 7		BCUC Option 8		BCUC Option 7		BCUC Option 8	
	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio
RS 01	-	99.5%	-	99.5%	195	99.6%	-	99.5%	-	99.5%			-	99.5%	-	99.5%	-	99.5%	-	99.5%
RS 20	(1,134)	105.0%	(1,134)	105.0%	(1,134)	105.0%	(1,134)	105.0%	(666)	106.0%			(729)	105.9%	(1,458)	104.3%	(785)	105.8%	(1,370)	104.5%
RS 21	(233)	102.0%	-	102.4%	-	102.4%	-	102.4%	-	102.4%			-	102.4%	-	102.4%	-	102.4%	-	102.4%
RS 30	(90)	100.4%	-	100.7%	-	100.7%	-	100.7%	-	100.7%			-	100.7%	-	100.7%	-	100.7%	-	100.7%
RS 31	(55)	105.0%	(55)	105.0%	(55)	105.0%	(55)	105.0%	(55)	105.0%	Same as Option 2		(55)	105.0%	(55)	105.0%	-	105.3%	(143)	104.5%
RS 40	581	95.0%	581	95.0%	581	95.0%	986	95.7%	581	95.0%			581	95.0%	581	95.0%	581	95.0%	581	95.0%
RS 41	-	98.3%	-	98.3%	8	98.4%	-	98.3%	-	98.3%			-	98.3%	-	98.3%	-	98.3%	-	98.3%
RS 50	-	99.8%	-	99.8%	2	99.9%	-	99.8%	-	99.8%			-	99.8%	-	99.8%	-	99.8%	-	99.8%
RS 60	933	95.0%	609	88.9%	405	85.0%	204	81.2%	141	80.0%			204	81.2%	933	95.0%	204	81.2%	933	95.0%

Updated Table 7-7: Summary of Monthly Bill Impact in % and $ for an Average Customer in Each Rate Schedule for All Rebalancing Options

	Option 1		Option 2		Option 3		Option 4		Option 5		BCUC Option 6		BCUC Option 7		BCUC Option 8		BCUC Option 7		BCUC Option 8	
	Approx. Monthly Bill Impact (%)	Approx. Monthly Bill Impact ($)	Approx. Monthly Bill Impact (%)	Approx. Monthly Bill Impact ($)	Approx. Monthly Bill Impact (%)	Approx. Monthly Bill Impact ($)	Approx. Monthly Bill Impact (%)	Approx. Monthly Bill Impact ($)	Approx. Monthly Bill Impact (%)	Approx. Monthly Bill Impact ($)	Approx. Monthly Bill Impact (%)	Approx. Monthly Bill Impact ($)	Approx. Monthly Bill Impact (%)	Approx. Monthly Bill Impact ($)	Approx. Monthly Bill Impact (%)	Approx. Monthly Bill Impact ($)	Approx. Monthly Bill Impact (%)	Approx. Monthly Bill Impact ($)	Approx. Monthly Bill Impact (%)	Approx. Monthly Bill Impact ($)
RS 01	-	-	-	-	0.1%	0.1	-	-	-	-			-	-	-	-	-	-	-	-
RS 20	(2.4%)	(6.2)	(2.4%)	(6.2)	(2.4%)	(6.2)	(2.4%)	(6.2)	(1.4%)	(3.6)			(1.5%)	(4.0)	(3.0%)	(7.9)	(1.6%)	(4.3)	(2.9%)	(7.4)
RS 21	(0.3%)	(10.9)	-	-	-	-	-	-	-	-			-	-	-	-	-	-	-	-
RS 30	(0.3%)	(198.3)	-	-	-	-	-	-	-	-			-	-	-	-	-	-	-	-
RS 31	(0.3%)	(1,156.1)	(0.3%)	(1,156.1)	(0.3%)	(1,156.1)	(0.3%)	(1,156.1)	(0.3%)	(1,156.1)	Same as Option 2		(0.3%)	(1,156.1)	(0.3%)	(1,156.1)	-	-	(0.8%)	(2,980.6)
RS 40	1.1%	4,838.0	1.1%	4,838.0	1.1%	4,838.0	1.8%	8,214.7	1.1%	4,838.0			1.1%	4,838.0	1.1%	4,838.0	1.1%	4,838.0	1.1%	4,838.0
RS 41	-	-	-	-	0.1%	636.0	-	-	-	-			-	-	-	-	-	-	-	-
RS 50	-	-	-	-	0.1%	0.1	-	-	-	-			-	-	-	-	-	-	-	-
RS 60	22.9%	70.5	14.9%	46.0	9.9%	30.6	5.0%	15.4	3.5%	10.7			5.0%	15.4	22.9%	70.5	5.0%	15.4	22.9%	70.5

10.2 Was any consideration given to phasing in the R/C ratio change for RS 60 to 95% over more than one year so as to reduce the impact to RS 60 annual bills and, if so, why were these phase-in options not included in the Application?

Response:

Please refer to the response to BCUC IR1 8.1.2.

10.3 Please provide the results (versions of Table 7-6 and 7-7 by year) and an evaluation based on the Bonbright principles of an Option where: i) the R/C ratio for RS 60 is phased in to 95% over 3 years with equal bill impacts in each year; ii) the R/C ratios for RS 40 and RS 41 are increased to 95% in the first year; iii) the R/C ratio for RS 20 (and RS 31 & RS 21 if necessary) for each year is set at the same value in order to maintain revenue neutrality; and iv) the R/C ratios for the remaining rate classes are unchanged, including RS 31 & RS 21 unless adjustments are needed to one or both of these in order to maintain revenue neutrality

Response:

FBC notes that, as discussed in Section 7.3 of the Updated Application filed concurrently with these IR responses, in order to facilitate the phase-in of the rate impact to RS 60 customers and maintain overall revenue neutrality, FBC is seeking approval to establish a deferral account to capture the revenue deficiency resulting from the phase-in. The deferred deficiency would then be recovered from all customers through amortization over five years to maintain revenue neutrality for FBC as opposed to adjusting the revenue rebalancing (therefore R/C ratios) between all rate schedules each year during the phase-in period as suggested in this question. This approach is consistent with past phase-ins.

As such, except for RS 60, the R/C ratios as well as the revenue rebalancing of all other rate schedules would be the same as BCOAPO Option 8 as presented in the response to BCOAPO IR1 10.1 over the phase-in period, whereas the R/C ratio of RS 60 would be incrementally moved towards 95 percent over the phase-in period. Please refer to Table 1 below which provides the R/C ratio as well as the average monthly bill impact in percentage and in dollars for RS 60 customers assuming a phase-in period of three years as requested in this question. Please also refer to Table 2 below for a summary of the revenue shifts and resulting R/C ratios for all rate schedules each year during the phase-in period (in the same format as Table 7-6 of the Updated Application), and Table 3 below for a summary of the monthly bill impact in percentage and in dollars for all rate schedules each year during the phase-in period (in the same format as Table 7-7 of the Updated Application).

Table 1: R/C Ratio and Bill Impact of RS 60 Customers Over a 3-year Phase-in Period

	Year 1	Year 2	Year 3
Revenue shift per year ($000s)	$ 311	$ 311	$ 311
Cumulative revenue shift over phase-in period ($000s)	$ 311	$ 622	$ 933
RS 60 R/C Ratio	**83.2%**	**89.1%**	**95.0%**
Effective Rate Increase per year (%)	7.6%	7.6%	7.6%
Cumulative Rate Increase per year (%)	**7.6%**	**15.2%**	**22.9%**
Approx. Monthly Bill Impact per year ($)	$ 23.5	$ 23.5	$ 23.5
Approx. Cumulative Monthly Billl Impact per year ($)	**$ 23.5**	**$ 47.0**	**$ 70.5**

Table 2: Summary of Revenue Shifts and Resulting R/C Ratios between Rate Schedules per Year under BCOAPO Option 8 with 3-year Phase-in for RS 60

	BCOAPO Option 8 w/ 3-year Phase-in for RS 60					
	Year 1		Year 2		Year 3	
	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio
RS 01	-	99.5%	-	99.5%	-	99.5%
RS 20	(1,370)	104.5%	-	104.5%	-	104.5%
RS 21	-	102.4%	-	102.4%	-	102.4%
RS 30	-	100.7%	-	100.7%	-	100.7%
RS 31	(143)	104.5%	-	104.5%	-	104.5%
RS 40	581	95.0%	-	95.0%	-	95.0%
RS 41	-	98.3%	-	98.3%	-	98.3%
RS 50	-	99.8%	-	99.8%	-	99.8%
RS 60	311	83.2%	311	89.1%	311	95.0%

Table 3: Summary of Monthly Bill Impact in % and $ for an Average Customer in Each Rate Schedule per Year under BCOAPO Option 8 with 3-year Phase-in for RS 60

	BCOAPO Option 8 w/ 3-year Phase-in for RS 60					
	Year 1		Year 2		Year 3	
	Avg. Monthly Bill Impact (%)	Avg. Bill Impact ($/Mth)	Avg. Monthly Bill Impact (%)	Avg. Bill Impact ($/Mth)	Avg. Monthly Bill Impact (%)	Avg. Bill Impact ($/Mth)
RS 01	-	-	-	-	-	-
RS 20	(2.9%)	(7)	-	-	-	-
RS 21	-	-	-	-	-	-
RS 30	-	-	-	-	-	-
RS 31	(0.8%)	(2,981)	-	-	-	-
RS 40	1.1%	4,838	-	-	-	-
RS 41	-	-	-	-	-	-
RS 50	-	-	-	-	-	-
RS 60	7.6%	23	7.6%	23	7.6%	23

As shown in the tables above, even if the rate increase to RS 60 is smoothed over three years, the impact to RS 60 customers is still relatively large in each year, especially when considering that this increase does not include FBC's annual general rate increases.

With regard to Bonbright rate design principles 2 and 4, FBC's assessment of BCOAPO Option 8 with a 3-year phase-in period for RS 60 is the same as the response to BCOAPO IR1 10.1.

With regard to principle 6, even with a 3-year phase-in period for RS 60, BCOAPO Option 8 remains misaligned with this principle, as the rate impacts over the 3-year period are significant, especially when considering the additional impact of FBC's annual general rate increases.

Based on an assessment against the Bonbright rate design principles, FBC continues to consider the proposed Option 2 to be superior to BCOAPO Option 8 with a 3-year phase-in period for RS 60. As explained in the response to BCUC IR1 8.1.2, although the proposed Option 2 does not

rebalance the R/C ratio of RS 60 to 95 percent (i.e., RS 60's R/C ratio will move to 88.9 percent), Option 2 moves the R/C ratio closer to the lower bound of the RoR than most of the other options considered, while still aligning with Bonbright's principle 6 through the proposed phase-in over five years.

11.0 Reference: Exhibit B-1, pages 38-39

Preamble: The Application states**:**

> "Consistent with past COSA Studies, the 2025 COSA results were used to establish the difference in costs in order to set the appropriate discount for taking service at a higher voltage level. The COSA is set up to account for the voltage level associated with each customer class. This allows the allocation of costs for the specific facilities used by customers within the class. To determine the difference in costs solely based on a change in voltage level, the COSA was recalculated assuming a higher voltage level for the class in question. The difference was calculated independently for each class where such a discount is offered but assumed the entire class rather than specific customers were served at the higher voltage level. None of the load data or allocation factors were changed for the various classes when completing the calculation. <u>The only difference is that certain costs were no longer assigned to the class</u>. The resulting difference in the unit costs for each class was then taken from the 2025 COSA to determine the appropriate discount level on a per kVA basis." (emphasis added)

11.1 For each of the three rate classes (RS 21, RS 30, and RS 40), please indicate what costs (i.e., accounts and resulting dollar values) are not allocated (i.e., excluded from those allocated in the 2025 COSA) in order to determine the appropriate discount level and provide the derivation of the proposed discount based on these values.

<u>Response:</u>

The following response has been provided by EES Consulting:

In the COSA model, RS 21 unit costs on the *Unit Cost* tab assume that the rate class takes service at all delivery levels and has an allocation of costs for all those levels. For RS 30, there is an exclusion of any cost allocated based on Non-Coincident Peak Secondary, while an inclusion of any cost allocated on Non-Coincident Peak Primary or other allocation factors. For RS 40, there is a general exclusion of both primary and secondary distribution related costs altogether. The result of this difference produces differences in unit costs for service voltage levels and the differences between those unit costs form the basis for the transformation discounts based on the *Unit Cost* results tab.

11.2 Based on the load for the RS 21, RS 30 and RS 40 customers receiving the transformation discounts and the proposed changes in the discounts, what is the anticipated change in the dollar value for these discounts and how is this change captured in the 2025 COSA?

Response:

Please refer to the response to CEC IR1 5.2 for an analysis of the billing impacts from the proposed changes to the transformation discounts. The discounts that apply to the default rates are calculated from information within the COSA; however, the discounts themselves are not "captured in the 2025 COSA".

12.0 Reference: Exhibit B-1, Appendix E, page 2

Preamble: The Application states:

> "FBC generally classifies regulatory proceeding accounts as benefit matching accounts since the costs are recovered over the period of time related to the application, which serves to match the costs and benefits of the application."

12.1 Given that the proposed deferral account is classified as a benefit matching account, please explain in detail why would it not be appropriate to use an amortization period that reflects FBC's expectation as to when the COSA and possible rate rebalancing will next be revisited.

Response:

FBC considers its proposed amortization period of 1 year to be appropriate for the reasons described in the Application (which remain unchanged in the Updated Application) and for the reasons discussed below.

First, although regulatory proceeding cost accounts are classified as benefit matching accounts and, as a result, the amortization can be tied to the length of time between applications, another important consideration is the expected customer rate impact resulting from the amortization. As discussed in Section 2.1 of the Updated Application (also on page 3 of Appendix E), the expected rate impact to customers is relatively small at 0.13 percent (when compared to 2025 rates approved on an interim basis by Order G-314-24) even for a one-year amortization period, which equates to approximately $1.70 per year for an average residential customer. This level of rate impact is minor and enables the deferral account costs to be recovered over as short a time period as reasonably possible (thus minimizing the income tax expense and financing costs that will accrue on the deferral account balance).

Second, as discussed in the response to BCUC IR1 12.1, there is no fixed timeframe or frequency to when COSA studies are filed. Prior to the 2017 COSA study, the last COSA study completed by FBC was in 2009. Additionally, in compliance with the BCUC's decision on the FBC 2017 COSA and RDA, FBC filed a new COSA study in 2020. This has resulted in FBC's last four COSA studies being filed over a variety of timeframes (2009, 2017, 2020, 2025). As such, unless a specific timeframe for completing the next COSA study is directed by the BCUC, FBC does not know with certainty when it would next file a COSA study.

If FBC were to attempt to match the amortization period with the expected timing of the next COSA study, FBC would propose a 5-year amortization period. As explained in the response to BCUC IR1 12.1, FBC considers 5 years to be the minimum number of years that should occur between COSA studies, unless significant changes internally or externally occur that indicate a new COSA study is required. Under a 5-year amortization period, the rate impact in 2026 due to the amortization of the deferral account would be 0.03 percent. While this is less than the 0.13 percent resulting from 1-year amortization period, as previously explained, both amortization periods result in very minor annual rate impacts.