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September 29, 2017

Commercial Energy Consumers Association of British Columbia
c/o Owen Bird Law Corporation
P.O. Box 49130
Three Bentall Centre
2900 – 595 Burrard Street
Vancouver, BC
V7X 1J5

Attention: Mr. Christopher P. Weafer

Dear Mr. Weafer:

Re: FortisBC Energy Inc. (FEI)

Project No. 1598915

**Application for Approval of Operating Terms between the City of Surrey and FEI
(the Application)**

**Response to the Commercial Energy Consumers Association of British
Columbia (CEC) Information Request (IR) No. 1**

On May 18, 2017, FEI filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-98-17 setting out the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to CEC IR No. 1.

If further information is required, please contact Ilva Bevacqua at 604-592-7664

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Commission Secretary
Registered Parties

FortisBC Energy Inc. (FEI or the Company) Application for Approval of Terms for an Operating Agreement between the City of Surrey and FEI (the Application)	Submission Date: September 29, 2017
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1 1. **Reference: Exhibit B1-1 page 5 and 6**

2.2 FEI'S DAY-TO-DAY OPERATIONS WITHIN THE CITY OF SURREY

FEI's daily activities in the City of Surrey consist of three major activities – new construction, maintenance, and emergency response – for both High Pressure Pipelines and Gas Mains.

- New construction consists of customer attachment activities, such as installing new gas services and mains.
- Maintenance activities consist of leak surveys, in-line inspection, meter exchange, valve and station maintenance, and corrective repairs.
- Emergency response activities include responding to and repairing damages to FEI's facilities, investigating gas odour calls, and assisting with line locates.

Currently, most of FEI's activities that involve interaction with the City relate to new construction. The City uses its approval and permitting processes for mains and new services to coordinate the installation of lines for new mains and to monitor and control traffic impacts. Changes to City bylaws in 2016 have increased the frequency of instances where Surrey is requesting FEI to apply for permits and pay fees. In circumstances where FEI crews are deployed to install gas services (as opposed to FEI's contractors), the City is requiring FEI to pay traffic obstruction fees. In circumstances where FEI has retained contractors to perform work, the City is requiring FEI's contractors to pay permit fees for FEI's gas installation activities.

FEI is of the view that it is not required to pay fees or obtain permits under the 1957 Agreement. Nevertheless, practical considerations – such as a desire to maintain a working relationship with the Municipality and a need to conduct work without delay – have necessitated that FEI and its contractors pay the fees and accede to the City's permit and approval requirements in order to avoid disputes. As described below, a new operating agreement that, among other things, clarifies protocols, limits the grounds for the City to withhold permits and approvals, and eliminates individual permit fees in favour of a reasonable annual Operating Fee, is a practical solution to the current state of affairs.

1.1 Please confirm that FEI has only been paying fees of the above nature to the City of Surrey since 2016.

Response:

FEI had been paying for the fees noted above prior to 2016 as well. FEI and Surrey have disagreed for a number of years on whether those fees are required and FEI continues to dispute Surrey's ability to levy any such fees. While continuing to object, FEI has, in some instances, paid the fees purely as a practical measure to ensure the work could continue in a timely manner and be completed efficiently. This disagreement remains and the increased permitting changes by the City in late 2016 are causing FEI to pay increasing fees to get the work done; however, FEI is working to minimize these fees as much as possible, until the new operating terms are determined by the Commission.

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1.1.1 If not confirmed, when did FEI commence paying fees to the City of Surrey?

Response:

Both FEI and its contractor have paid fees to the City for more than 10 years. The amount of fees paid to the City have been inconsistent over the years as FEI has not always consented to paying fees in recognition of the 1957 Operating Agreement. Please also refer to the response to BCUC IR 1.5.5.

1.2 Did FEI register any complaints with regard to the above fees at the time the City of Surrey imposed the fees? Please explain.

Response:

FEI has voiced its concerns to City staff, and has continually referred to the 1957 Operating Agreement as the basis for FEI not being required to pay permit fees when requested to by the City. Practical considerations such as the need to do work in a timely manner and to avoid disputes have often led to the payment – whether legally required or not - being the most efficient approach. This has had varying success and was one of the factors that finally led to formal discussions and negotiations between FEI and the City to resolve.

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1 2. **Reference: Exhibit B-1-1, page 7**

- 2 6. *Improve relationships between the Company and the City* – The status quo creates the potential for friction because of disagreements regarding how the parties interact with each other. Resolving issues and improving the relationship between the parties has the potential to encourage efficiencies through cooperation generally. It also improves the prospects of pursuing future business opportunities.

2

- 3 2.1 Please elaborate on how the types of future business opportunities that FEI may
4 pursue with the City of Surrey.

5

6 **Response:**

7 The types of future business opportunities which FEI may pursue with the City of Surrey
8 includes areas of mutual interest such as encouraging the use of renewable natural gas. For
9 example, FEI actively encouraged the development of the City's organic waste biofuel
10 processing facility which will process the City's organic waste into 100 percent renewable
11 natural gas, which will then be used to fuel the City's natural gas powered waste collection
12 vehicles, its growing fleet of natural gas powered operations service vehicles, and provide a
13 renewable fuel source for the new District Energy System, which will heat and cool Surrey's City
14 Centre.

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1 **3. Reference: Exhibit B-1-1, page 10**

- Section 8.2(c) Changes to Company Facilities, sets out the apportionment of Relocation Costs between the Company and the City, which provides for the City paying 100% of the relocation costs when the affected Company Facilities are Gas Mains, and 50% of the relocation costs when the affected Company Facilities are High Pressure Pipelines;

2
3 3.1 Please provide the underlying rationale for why there is a difference (ie. 100% vs.
4 50%) for the relocation of Gas Mains versus High Pressure Pipelines.

5
6 **Response:**

7 Many of FEI's assets have service lives that extend for decades. As such, if Surrey requests
8 changes that require a replacement before FEI would otherwise have to replace the assets,
9 Surrey is causing FEI and its customers to incur costs that would not otherwise have been
10 incurred. Therefore, FEI is of the view that 100 percent of the costs would generally be the
11 appropriate starting point when a municipality asks FEI to move its facilities because FEI would
12 not otherwise have incurred the costs. That is the allocation that is applicable in the Interior and
13 Vancouver Island operating agreements for all types of relocations. FEI is, for similar reasons,
14 agreeing to pay for all of the costs for changes it requests to Municipal Facilities.

15 The change to 50/50 for High Pressure Pipelines in FEI's proposal is a concession made by FEI
16 as part of an overall package. Please refer to section 3.2 of FEI's Application and the response
17 to BCUC IR 1.9.1 for further discussion of the Apportionment of Relocation Cost rationale. FEI
18 explains in the latter response why the Commission has jurisdiction to adopt a 100 percent
19 allocation for High Pressure Pipelines as well, should it consider that allocation to be fairer.

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22
23 3.2 Please provide order of magnitude costs for relocation of Gas Mains and High
24 Pressure Pipelines.

25
26 **Response:**

27 Gas Main relocations have been a regular occurring activity each year in the City of Surrey. For
28 the past six years costs have averaged approximately \$400 thousand per year.

29 High Pressure Pipelines relocations have been less frequent and with higher costs and
30 variability in annual spending. For the past six years costs have averaged approximately \$500
31 thousand per year.

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1 **4. Reference: Exhibit B-1-1, page 13**

2 **3.3 AREA OF DISAGREEMENT – ISSUE NO. 2: OPERATING FEE**

3 The Operating Fee being requested by Surrey is a second disputed issue. An Operating Fee is
4 a fee collected by the Company from its customers within a municipality and remitted to the
5 municipality in consideration of covenants made by the municipality contained in an operating
6 agreement and costs incurred by the municipality as a result of the Company's operations in the
7 municipality's streets. In the case of Surrey, FEI believes an Operating Fee, if the quantum is
8 reasonable, may be appropriate as part of an overall agreement. However, an excessive
9 Operating Fee would be punitive to FEI's customers, and effectively represent a hidden
10 municipal tax that is unrelated to the impact of FEI's operations on the Municipality. FEI's
11 proposed Operating Fee is fair to the City and fair to FEI's customers from whom costs and fees
12 are recovered.

13 4.1 Please elaborate on the types of costs incurred by the municipality as a result of
14 the Company's operations in the municipality's streets that would not otherwise
15 be covered by FEI.

1 **Response:**

2 In FEI's Application Section 3.3.3.1 (page 15), FEI has included an allocation representative of
3 permit fees in the proposed Operating Fee on the assumption these fees reflect reimbursement
4 of the costs incurred by the Municipality. While FEI does not have visibility into Surrey's internal
5 costs, we consider it to be a reasonable assumption that the fees at least cover Surrey's costs.
6 Regardless, the proposed Operating Fee is significantly better for Surrey than under the current
7 1957 Operating Agreement, as it would resolve the current dispute over Surrey's entitlement to
8 collect fees and give Surrey certainty regarding the funds it would receive.

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1 **5. Reference: Exhibit B-1-1 page 14 and page 16 and Exhibit B2-1 page 6**

FEI's proposal is to base the Operating Fee on 0.7% of Delivery Margin. FEI's proposed terms regarding the Operating Fee are as follows:

12. OPERATING FEE

12.1 Fee Calculation

Provided that FortisBC is permitted to collect the Operating Fee from customers within the Boundary Limits and effective commencing from the date established by the BCUC, FortisBC agrees to pay to the Municipality on an annual basis, a fee (the "Operating Fee") of 0.70 % of the delivery revenue (excluding taxes) received by FortisBC from its customers for the distribution of gas consumed within the Boundary Limits (the "Delivery Revenue"), but excluding compressed natural gas distributed from fueling stations and the delivery of liquefied natural gas. Delivery Revenue further does not include (i) any gas commodity revenue, or (ii) any delivery revenue from customers from whom the BCUC has not allowed FortisBC to collect the Operating Fee.

FEI proposal for the Operating Fee has been calculated as the total of these three amounts, divided by FEI's Delivery Margin revenue attributable to the Municipality for 2016. The calculation yields the percentage that will be applied in future years to calculate the quantum of the Operating Fee.

The following amounts are estimated for 2016 for each of the three above described components.

Component	2016Estimate
Permit and Cut Fees	\$350,000
Operating Efficiencies	\$150,000
Avoidance of Potential Litigation	\$100,000
Total:	\$600,000

There is more FEI distribution equipment in Surrey than in any other municipality in the province. FEI has 2,685 kms of pipes within Surrey's boundaries.⁷ To put that number in context, FEI has 340 kms of pipes in the City of Victoria.⁸

5.1 Would it be reasonable to calculate the Operating Fee based on other measures such as km of pipeline? Please identify any other options that FEI considered and briefly discuss.

Response:

FEI considers the activity approach based on cost causation to be a fairer approach than km of pipeline because the latter approach may not reflect the construction activity in a municipality. The approach favoured by Surrey in its application and used in other agreements results in an

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1 excessive Operating Fee when measured against anticipated costs and activity levels related to
2 FEI's operations in Surrey.

3 FEI's view is that, if there is to be an Operating Fee, it should be based on cost causation and
4 levied as a percentage of delivery margin, such that the percentage should relate to costs. FEI
5 did consider potential options for financial arrangements outside of the Operating Fee model,
6 but landed on the current proposal as the fairest approach to address cost causation. FEI's
7 specific discussions with Surrey on such matters were "without prejudice", so details cannot be
8 provided.

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12 5.2 Please confirm that Operating Efficiencies are 'savings' to FEI rather than costs
13 that the City of Surrey would otherwise incur.

14
15 **Response:**

16 Confirmed. These are the savings that FEI is expecting will result from the new Operating
17 Agreement.

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21 5.2.1 If confirmed, please provide the total estimated Operating Efficiency
22 savings that FEI would derive from the Agreement.

23
24 **Response:**

25 As noted in the table in the preamble, FEI estimates the total annual Operating Efficiency
26 savings to be \$150 thousand.

27
28
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30 5.3 Please confirm that Avoidance of Potential Litigation are 'savings' to FEI rather
31 than costs that the City of Surrey would otherwise incur.

32
33 **Response:**

34 Not confirmed. FEI would characterize these as FEI avoided costs, rather than savings
35 because they would be potential costs that may or may not materialize. FEI would agree that
36 avoidance of potential litigation is not a cost to Surrey.

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4 5.3.1 If confirmed, please provide the total estimated Avoidance of Potential
5 Litigation savings that FEI would derive from the Agreement.

6

7 **Response:**

8 Please refer to the response to CEC IR 1.5.3.

9

10

11

12 5.4 Are the litigation costs one time, and/or diminishing as a result of the issues
13 being resolved? Please explain.

14

15 **Response:**

16 Please refer to the response to CEC IR 1.5.3. Litigation costs cannot be characterized as either
17 one time or diminishing as they are not costs that are occurring to date. The expectation is that
18 through the clarity in the Proposed Operating Agreement, potential litigation costs may be
19 avoided.

20

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1 **6. Reference: Exhibit B2-1 page 8**

Surrey requests that the terms for FEI's use of public places within Surrey's boundary limits include an operating fee ("**Operating Fee**") of 3% of the gross revenues (excluding taxes) received by FEI for provision and distribution of all gas consumed within the boundaries of Surrey, other than gas consumed by customers from whom the Commission has not allowed FEI to collect the Operating Fee. Such amount will not include any amount received by FEI for gas supplied or sold for resale.

We understand that this 3% of gross revenues Operating Fee is precisely the same operating fee as FEI collects and remits to 70 other municipalities in the province and, as such, it is the standard in FEI's operating agreements with other B.C. municipalities. Surrey City Council has approved the request for the 3% of gross revenues Operating Fee, the same as 70 other municipalities are now receiving.

2

3 6.1 Please provide the area, population, distribution margins, gross revenues and
4 operating fees paid to each of the 70 municipalities and for the City of Surrey.

5

6 **Response:**

7 Please refer to the response to BCUC IR 1.4.2.

8

9

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11 6.2 Please provide the customer growth and load growth rate for each municipality
12 and the City of Surrey.

13

14 **Response:**

15 The table below shows the 2016 load growth rate for residential and commercial customers
16 compared to the prior year for each of the 75 municipalities (not 70) where Operating Fees are
17 collected identified in the preamble, sorted by premise count, with the addition of the City of
18 Surrey where there currently is no Operating Fee collected.

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Res./Comm. Municipality	Premise Count			Consumption Quantity		
	2015	2016	Growth	2015	2016	Growth
Surrey	112,583	114,009	101.3%	12,566,089	13,681,766	108.9%
Kelowna	40,058	40,809	101.9%	4,178,262	4,348,137	104.1%
Kamloops	33,070	33,419	101.1%	3,289,900	3,413,637	103.8%
Prince George	30,508	30,787	100.9%	3,638,277	3,692,181	101.5%
Vernon	18,084	18,304	101.2%	1,635,691	1,671,756	102.2%
Nanaimo	16,686	17,195	103.1%	1,435,458	1,528,656	106.5%
Saanich	13,660	14,082	103.1%	1,145,409	1,239,058	108.2%
Penticton	11,464	11,687	101.9%	1,056,683	1,120,648	106.1%
Victoria	10,297	10,601	103.0%	1,872,711	1,966,189	105.0%
Cranbrook	9,344	9,408	100.7%	1,030,327	1,074,423	104.3%
Quesnel	7,668	7,702	100.4%	808,706	809,520	100.1%
Campbell River	7,495	7,745	103.3%	546,975	593,020	108.4%
Salmon Arm	7,423	7,557	101.8%	721,789	753,182	104.3%
Williams Lake	7,315	7,333	100.2%	733,635	748,943	102.1%
Courtenay	6,007	6,178	102.8%	421,938	460,304	109.1%
Parksville	5,346	5,545	103.7%	338,054	372,682	110.2%
Nelson	5,239	5,352	102.2%	543,242	557,579	102.6%
Langford	4,407	4,782	108.5%	327,296	358,974	109.7%
Winfield	4,284	4,449	103.9%	349,763	375,167	107.3%
Kimberley	4,151	4,190	100.9%	410,769	418,484	101.9%
Castlegar	4,144	4,203	101.4%	345,408	352,120	101.9%
Coldstream	3,937	3,972	100.9%	315,198	341,958	108.5%
Summerland	3,843	3,928	102.2%	316,209	329,454	104.2%
Fernie	3,762	3,812	101.3%	443,070	457,864	103.3%
100 Mile House	3,758	3,795	101.0%	327,823	342,124	104.4%
Comox	3,749	3,857	102.9%	182,866	200,249	109.5%
Powell River	3,697	3,794	102.6%	289,584	304,472	105.1%
Merritt	3,532	3,545	100.4%	436,106	375,474	86.1%
Duncan	3,524	3,621	102.8%	298,828	316,844	106.0%
Trail	3,438	3,459	100.6%	317,507	319,921	100.8%
Port Alberni	3,236	3,343	103.3%	263,727	298,822	113.3%
Sechelt	3,003	3,089	102.9%	181,450	203,043	111.9%
Creston	2,955	2,985	101.0%	231,403	243,760	105.3%
Osoyoos	2,907	2,947	101.4%	268,004	288,330	107.6%
Qualicum Beach	2,877	2,961	102.9%	181,912	192,925	106.1%
Colwood	2,733	2,839	103.9%	186,832	196,994	105.4%
Gibsons	2,595	2,687	103.5%	164,041	179,082	109.2%
Peachland	2,498	2,536	101.5%	167,824	176,680	105.3%
Central Saanich	2,440	2,508	102.8%	202,090	221,405	109.6%
Grand Forks	2,325	2,365	101.7%	204,930	206,312	100.7%

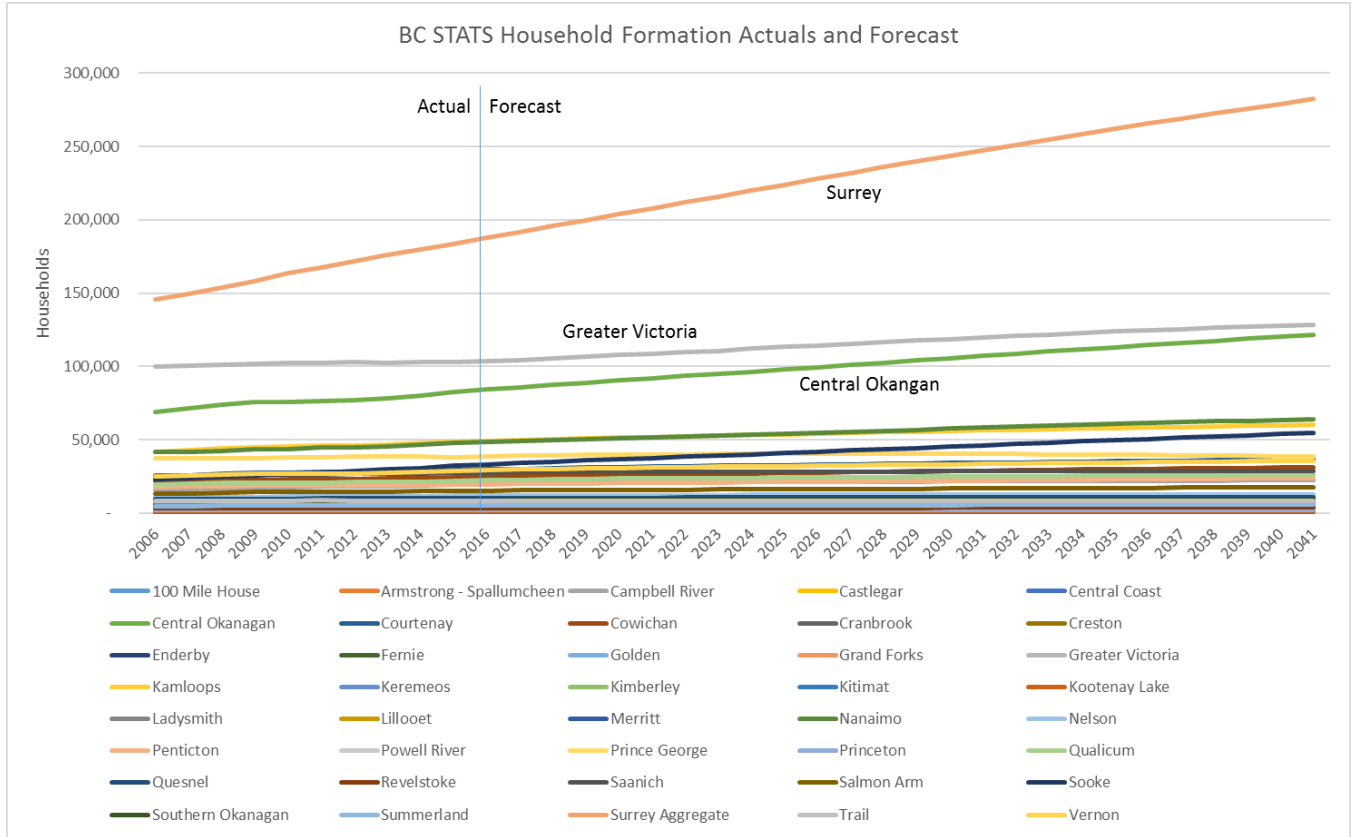
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Res./Comm. Municipality	Premise Count			Consumption Quantity		
	2015	2016	Growth	2015	2016	Growth
Oliver	2,139	2,203	103.0%	228,012	240,971	105.7%
Sidney	1,987	2,114	106.4%	136,719	146,065	106.8%
Ladysmith	1,967	2,033	103.4%	103,782	117,647	113.4%
Armstrong	1,940	1,962	101.1%	172,926	174,632	101.0%
Sparwood	1,936	1,936	100.0%	220,189	223,953	101.7%
Mackenzie	1,711	1,720	100.5%	202,008	200,912	99.5%
View Royal	1,627	1,669	102.6%	105,199	120,425	114.5%
Roseland	1,609	1,638	101.8%	121,017	133,390	110.2%
Revelstoke	1,605	1,667	103.9%	214,190	192,706	90.0%
Chase	1,456	1,462	100.4%	99,486	103,132	103.7%
Chetwynd	1,455	1,463	100.5%	233,594	221,330	94.7%
Enderby	1,422	1,437	101.1%	122,286	119,724	97.9%
Princeton	1,352	1,363	100.8%	133,218	142,669	107.1%
Spallumcheen	1,304	1,328	101.8%	199,285	205,314	103.0%
Lumby	1,228	1,241	101.1%	103,523	106,793	103.2%
Sooke	1,084	1,167	107.7%	54,475	61,793	113.4%
Elkford	1,070	1,075	100.5%	131,742	131,109	99.5%
Fruitvale	1,018	1,024	100.6%	77,498	79,917	103.1%
North Saanich	1,008	1,063	105.5%	132,997	143,601	108.0%
Keremeos	967	983	101.7%	65,539	72,844	111.1%
Logan Lake	897	904	100.8%	88,869	94,657	106.5%
Ashcroft	735	732	99.6%	65,352	71,144	108.9%
Cumberland	711	740	104.1%	37,907	42,554	112.3%
Cache Creek	621	619	99.7%	60,855	60,928	100.1%
Salmo	490	495	101.0%	38,254	39,129	102.3%
Lantzville	469	485	103.4%	26,958	28,615	106.1%
Montrose	462	466	100.9%	27,448	27,334	99.6%
Hudson's Hope	379	382	100.8%	43,413	49,561	114.2%
Clinton	324	327	100.9%	28,686	30,773	107.3%
Greenwood	298	310	104.0%	21,171	21,562	101.8%
Midway	230	242	105.2%	18,941	19,470	102.8%
Metchosin	147	150	102.0%	33,434	33,801	101.1%
Highlands	60	80	133.3%	17,589	19,093	108.5%
North Cowichan	22	30	136.4%	772	1,523	197.4%

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3 The following table shows the Household Formation data from BC STATS for the municipalities
4 for which Operating Fees are collected. The chart shows that Surrey is forecast to have the
5 highest growth rate as well as the largest number of household formations through 2041.

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1 **7. Reference: Exhibit B2-1, page 11**

Subsection 3(6) of the Pipeline Crossing Regulation provides for the prescribed cost allocation rules to be varied by agreement between the municipality and the pipeline permit holder; however, Surrey does not agree to such a variance for the purposes of operating terms. Surrey's position is that the Commission does not have jurisdiction to order cost allocation terms that are inconsistent with the Pipeline Crossing Regulation, in the absence of the municipality and the pipeline company agreeing to such variance. We also note that the Commission made a ruling on this issue in its Order G-113-12 Decision (at page 9) regarding operating terms for the District of Coldstream. A copy of the Pipeline Crossing Regulation is provided in Appendix D of this Application.

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3 7.1 Please comment on the City of Surrey's statement that the Commission does not
4 have jurisdiction to vary the cost allocation terms in the absence of an agreement
5 between the municipality and pipeline company.

6

7 **Response:**

8 Please refer to the response to BCUC IR 1.9.1.

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1 **8. Reference: Exhibit B-1-1 page 10 and 11**

8.2 Changes to Company Facilities

- (c) Despite the cost allocation provisions of the Pipeline Crossings Regulation (B.C. Reg. 147/2012), the Municipality shall reimburse FortisBC for the Relocation Costs in the following amounts:
 - (i) 100% of the Relocation Costs when the affected Company Facilities are Gas Mains;
 - (ii) 50% of the Relocation Costs when the affected Company Facilities are High Pressure Pipelines.
- (d) This section 8.2 is an agreement between the Municipality and FortisBC for the purpose of section 3(6) of the Pipeline Crossings Regulation.

As the proposed section 8.2 treats Gas Mains differently from High Pressure Pipelines when it comes to apportionment, FEI deals with each scenario separately below.

2 The *Oil and Gas Activities Act* prohibits a party from crossing a high pressure pipeline except when authorized, and allows the Lieutenant Governor in Council to address cost allocation by regulation. The Lieutenant Governor in Council has addressed cost allocation in the *Pipeline Crossing Regulation* by providing a default allocation that can be varied by agreement. The specific sections of the *Pipeline Crossings Regulation* are set out below:

(3) Subject to an order issued under section 76 (6) of the Act and to subsections (4) to (6) of this section, a specified enabled person is not responsible for any costs incurred by a pipeline permit holder as a result of the carrying out of an enabled action.

(4) The costs referred to in subsection (3) must be shared equally between the specified enabled person and the pipeline permit holder if

(a) the specified enabled person is a municipality, and

(b) the enabled action is the construction of a new highway within the boundaries of that municipality on either an existing right of way or a newly dedicated right of way.

(5) The costs incurred by a pipeline permit holder as the result of the carrying out of an enabled action must be shared equally between the enabled person and the pipeline permit holder if the enabled action is the construction of a new road for a subdivision within a municipality.

(6) The cost allocation rules set out in subsections (2) to (5) may be varied by agreement between the parties.

3
4 8.1 Please confirm that the Pipeline Crossing Regulation allocation cited on page 11
5 is the BC Reg 147/2012 referenced on page 10.
6

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1 **Response:**

2 Confirmed.

3

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1 **9. Reference: Exhibit B-1-1 page 11**

2 Under FEI's Proposed Operating Terms, Surrey will be better off than any other Inland or
3 Vancouver Island municipality with an FEI operating agreement. The Interior and Vancouver
4 Island operating agreement terms state that, with respect to apportionment of costs, where the
5 City requires changes to the Company's facilities, the City is responsible for and agrees to pay
6 100 percent of the costs related to such changes. The Interior operating agreement terms
7 related to relocation costs are covered in Section 8, which states:

8 9.1 Is it only with respect to apportionment of costs that the City of Surrey has
9 beneficial terms relative to the other municipalities, or does the City of Surrey
10 have beneficial terms overall? Please explain and provide quantification where
11 possible.

12 **Response:**

13 Please refer to the response to BCUC IR 1.4.5.

14 9.2 What circumstances, if any, make it appropriate for the City of Surrey to have
15 better provisions than any other Inland or Vancouver Island municipality with an
16 FEI operating agreement?

17 **Response:**

18 As discussed in Section 3.2.3 of FEI's Application, there are some unique circumstances with
19 Surrey which were taken into account in the concessions FEI considered appropriate to the
20 balance of interests between all FEI customers, FEI customers in Surrey, FEI's relationship with
21 the City of Surrey, and the operations of the Company.

22 In particular, as discussed in Section 3.2.1 of FEI's Application, close to 20 percent of FEI's
23 High Pressure Pipelines and gas mains, which serve customers in other Lower Mainland
24 municipalities, are located in the City of Surrey. Given the City's size and rapid growth rate,
25 relocation costs are an important issue in Surrey. On average, approximately 90 percent of
26 FEI's intermediate pressure and transmission pressure relocation costs incurred in the Lower
27 Mainland are incurred in Surrey (on average \$500 thousand per year). This aspect was one of
28 the items FEI considered in the balance of interests that took place during negotiations for new
29 operating terms.

30 The fact that FEI has made concessions on other areas make it all the more appropriate for the
31 Operating Fee to be based on a methodology that does not confer a windfall on Surrey at the

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1 expense of FEI customers. FEI believes that the 0.7 percent of Delivery Margin approach
2 strikes the right balance.

3
4
5
6 9.3 Please confirm that the costs and benefits accruing to the City of Surrey as a
7 result of the FortisBC's operation in the municipality are not affected by the
8 Operating Terms with other municipalities.

9
10 **Response:**

11 Confirmed.

12
13
14
15 9.3.1 If not confirmed, please discuss how the Operating Term with other
16 municipalities affect the costs and benefits accruing to the City of
17 Surrey.

18
19 **Response:**

20 Please refer to the response to CEC IR 1.9.3.

21
22
23
24 9.4 Is it FEI's expectation that other municipalities would examine the Operating
25 Terms with the City of Surrey with a view to improving their own circumstances?
26 Please discuss.

27
28 **Response:**

29 FEI is aware and understands that other Lower Mainland municipalities are monitoring this
30 proceeding and interested in its outcome.

31

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1 **10. Reference: Exhibit B1-1, page 20 and Exhibit B2-1 page 9 and 10**

Another outstanding issue is the treatment of costs for any improvements or upgrades made to a party's facilities during the course of relocation work requested by the other party. FEI's position is that relocation costs paid by the party requesting relocation should exclude the value or incremental costs of any upgrading and/or betterment of the party's facilities or the facilities of third parties *"beyond that which is required to comply with applicable Laws or sound engineering practices"*. FEI submits that the inclusion of the quoted caveat is fair, reasonable and reflects cost causation.

2 Surrey proposes that these exclusions apply reciprocally, equally to whichever party is relocating their facilities at the request of the other party. Surrey believes this is appropriate because the Initiating Party simply needs additional space to accommodate their work. If the Relocating Party decides to take the opportunity presented by excavation of their facilities to upgrade their facilities or the facilities of their customers, either on the basis of economics or to meet current codes and standards, the upgrading or betterment is to the benefit of the Relocating Party and its customers and not to the Initiating Party that simply needs additional space to accommodate their work. Surrey has experienced situations where it asked FEI to relocate their facilities, and at the time of relocating FEI decided to upgrade its facilities to larger

3 capacity and also replace other facilities and customer facilities not directly impacted by Surrey's work, and FEI asked Surrey to pay for the costs of the upgrades and other work. Surrey does not oppose FEI taking the opportunity of an excavation to undertake such upgrading and work; however, Surrey has opposed and continues to oppose reimbursing FEI for its incremental costs of such work. The benefit of such upgrading and betterment is to FEI and its customers. Surrey requests that this be specifically provided in the operating terms. Other jurisdictions, including the Ontario Energy Board in its model franchise agreement, specifically exclude the value of upgrading from relocation costs.¹⁰

4 10.1 Please identify any instances over the last 5 years in which FEI has requested
5 the City of Surrey to pay for upgrades and other work that was not required by
6 'applicable laws' and provide the costs for each instance. Please identify whether
7 the City of Surrey paid the costs.
8

9 **Response:**

11 Analyzing job details for the last five years for compliance to applicable Laws is not practical
12 given the time frame and the amount of work involved to do so. FEI's relocation practice is to
13 replace like-for-like whenever possible. However, on larger segments of relocation it is more
14 cost effective to use Polyethylene (PE) pipe on Gas Main relocations.

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1 In reviewing the last five years of history FEI replaced five steel mains with PE mains, which is a
2 code-compliant alternative that saved the City money. Of those five mains, three were upsized
3 which, again while not required by Law, was done at no incremental cost to the City when
4 compared to the size-for-size steel alternative. There were also several service alterations
5 associated with these projects, five of which were conversions to PE. However, without
6 understanding the site specific conditions at the time of the alterations, FEI cannot comment as
7 to whether these conversions were a less expensive alternative to complying with Laws.
8 Converting services to PE is not required by Law; however, it has been FEI's practice to do so
9 because it is a more cost-effective alternative than installing steel pipe, and bringing steel
10 services into compliance has more ongoing maintenance and inspection requirements, which
11 results in overall higher costs for all of FEI's customers, and potential for more remedial
12 construction activity impacting Surrey and its residents.

13 FEI's proposed approach is explained in detail in the response to Surrey IR 1.3.4.1.

14
15
16
17 10.2 Please provide the applicable laws being referenced and identify whether the
18 laws would require the company to modify, upgrade or better the facilities
19 regardless of whether or not they were being relocated (Eg. Seismic upgrades
20 required for safety reasons) or if they are only required during a relocation or
21 other such event. (grandfathered)
22

23 **Response:**

24 Please refer to the response to BCUC IR 1.6.1 for applicable Laws. FEI has a proactive Gas
25 Main and distribution system replacement program that is based on the risk associated with the
26 original construction methodology and condition of the piping. If a portion of the distribution
27 system is identified for replacement, FEI will try to coordinate its work with the City's work for
28 efficiency and to minimize disruption to the public. However, if coordination is not possible, as
29 in most cases, FEI will move forward with its work as required.
30
31

32
33 10.3 To the extent that the applicable laws might require FEI to upgrade its facilities at
34 some point regardless of the relocation, would FEI consider it appropriate to
35 exclude the value of such incremental costs? Please explain why or why not.
36

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1 **Response:**

2 FEI is unclear of what is meant by the question. The provisions of the Proposed Operating
3 Agreement are only triggered in the case of a request to relocate facilities. FEI's position is that
4 if a legal requirement to upgrade is triggered by a requested relocation that occurs prior to the
5 end of the service life of the asset, then the cost would be paid by the requestor (Surrey) in the
6 case of Gas Mains and shared 50-50 for High Pressure Pipelines.

7

8

9

10 10.4 Would it be reasonable for FEI to provide the City of Surrey with information
11 regarding the expected time frame under which the beneficial upgrades would
12 otherwise be required absent the relocation request?

13

14 **Response:**

15 Yes, FEI can provide a five-year plan of projected distribution system capacity upgrades and
16 pipe replacements. Currently, FEI does review municipal upgrade plans to try and coordinate
17 FEI upgrade work to help reduce cost to both parties and minimize inconvenience to the public.
18 However, FEI's plans need to be established much earlier than municipal plans appear to be
19 and this tends to lead to misalignment.

20

21

22

23 10.5 Would it be appropriate for FEI to modify its request for reimbursement based on
24 the expected time frame under which the beneficial upgrades would be required
25 absent the relocation request? Please explain why or why not.

26

27 **Response:**

28 FEI does not replace its facilities based on a definitive formula or financial depreciation. Many
29 factors influence the future projection of an asset's fitness for use including material type, soil
30 conditions, pipe coating, cathodic protection and ongoing maintenance. Using continual
31 monitoring programs, FEI projects asset longevity segment by segment. It is possible that
32 facilities could last indefinitely.

33

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1 11. **Reference: Exhibit B-1-1, page 25**

Section 32 of the Act, and alternatively section 33, provides the Commission with the jurisdiction to implement the Proposed Operating Terms as provided in Appendix A. A Commission-approved agreement based on FEI's Proposed Operating Terms will facilitate day-to-day operations, provide the parties with greater cost and operational certainty, and establish a better dispute resolution process. The proposed approach to Pipeline Relocation Cost allocation is a reasonable compromise, and places the City in a better position than it is today as well as in a superior position relative to most municipalities. The contemplated Operating Fees payable to the Municipality are fair to the City and the FEI customers from whom the fees are recovered. FEI has taken a reasonable position regarding the other outstanding issues.

FEI submits that the Commission's determinations should explicitly recognize that the settled terms, and even FEI's proposals, are the product of negotiation and compromise between the parties that reflect the different objectives of the parties in attempting to reach an agreement. The Proposed Operating Terms should thus be treated as a package, with only the disputed items to be determined. Moreover, some or all of the operating terms are not necessarily terms that FEI would agree to with any other municipality.

11.1 Please elaborate on the Commission's jurisdiction to vary any or all of the terms and conditions of the proposed Operating Terms, and comment on how a Commission rejection with reasons would affect the FEI and City of Surrey negotiations.

Response:

With respect to the effect of the Commission not approving the proposed Operating Agreement, please refer to the response to BCUC IR 1.1.2.

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1 **12. Reference: Exhibit B2-1, page 6 and page 9**

As shown in Figure 1 below, Surrey has reimbursed FEI \$5.4 million over the last six years (2010 to 2015) related to relocating FEI facilities to accommodate Surrey's projects (primarily highway widenings, water and sewer works).

Figure 1 – Surrey's Costs to Relocate FEI Gas Mains and Transmission Pipes

Gas Pipeline Type*	2010	2011	2012	2013	2014	2015
Distribution	\$403,372	\$358,361	\$183,479	\$541,773	\$757,626	\$135,582
Transmission	\$76,293	\$0	\$959,325	\$2,019,032	\$0	\$0
Total Cost	\$479,665	\$358,361	\$1,142,804	\$2,518,533	\$799,898	\$135,582

2 Surrey requests that the terms for FEI's use of public places within Surrey's boundary limits define such Relocation Costs as specifically excluding the value or incremental costs of any upgrading and/or betterment of facilities a Relocating Party might undertake while relocating their facilities to accommodate the Initiating Party's work. Surrey further requests that such value or incremental costs of upgrading and/or betterment of facilities be excluded whether or not they are required by applicable codes and standards.

3 Surrey proposes that these exclusions apply reciprocally, equally to whichever party is relocating their facilities at the request of the other party. Surrey believes this is appropriate because the Initiating Party simply needs additional space to accommodate their work. If the Relocating Party decides to take the opportunity presented by excavation of their facilities to upgrade their facilities or the facilities of their customers, either on the basis of economics or to meet current codes and standards, the upgrading or betterment is to the benefit of the Relocating Party and its customers and not to the Initiating Party that simply needs additional space to accommodate their work. Surrey has experienced situations where it asked FEI to relocate their facilities, and at the time of relocating FEI decided to upgrade its facilities to larger

4 12.1 What has been the typical proportion of relocations initiated by the City of Surrey
5 vs those initiated by FEI for each year over the last 10 years?
6
7

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1 **Response:**

2 Please refer to the response to BCUC IR 1.7.2.

3

4

5

6 12.2 Please provide the equivalent figures for FEI costs of relocation.

7

8 **Response:**

9 Please refer to the response to Surrey IR 1.1.2 which provides slightly different amounts for
10 Figure 1 as compared to Surrey's Application (Exhibit B2-1). Based on the existing 1957
11 Operating Agreement, these costs were invoiced 100 percent to the City of Surrey, so there are
12 no FEI costs for these relocations. However, there remain long outstanding invoices for
13 completed work totalling approximately \$900 thousand which Surrey has to date refused to
14 pay. Such costs, if not recovered from Surrey, are ultimately borne by all natural gas
15 customers.

16