FORTIS BC

Diane Roy
Vice President, 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: (604) 576-7349
Cell: (604) 908-2790
Fax: (604) 576-7074
Email: diane.roy@fortisbc.com
www.fortisbc.com

December 21, 2017

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

Attention: Mr. Patrick Wruck, Commission Secretary and Manager, Regulatory Support

Dear Mr. Wruck:

Re: FortisBC Energy Inc. (FEI)

Project No. 1598915

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

FEI Rebuttal Evidence

On May 18, 2017, FEI filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-163-17 setting out the Regulatory Timetable for the review of the Application, please find enclosed FEI's Rebuttal Evidence to the Evidence from the City of Surrey (Ex. B2-11) and the Intervener Evidence from Mr. Richard T. Landale (Ex. C1-5).

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): Registered Parties

FORTISBC ENERGY INC.

Application for Approval of Terms for an Operating Agreement with the City of Surrey

FEI Rebuttal Evidence

December 21, 2017

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This Rebuttal Evidence is limited in scope, providing FortisBC Energy Inc.'s (FEI) response to the City of Surrey's (Surrey, the City, or the Municipality) Evidence filed November 30, 2017 (Exhibit B2-11) and to the Intervener Evidence filed by Mr. Landale on November 29, 2017 (Exhibit C1-5).

FEI's silence on other matters raised in the Evidence of Surrey or Mr. Landale should not be treated as agreement.

1. FEI'S REBUTTAL TO SURREY'S EVIDENCE

FEI provides Rebuttal Evidence to Surrey's Evidence which specifically addresses the following matters:

- Surrey has provided information about five recent projects related to costs of system betterment/upgrading (Surrey's Attachment 1) to which FEI provides responses; and
- Surrey has discussed how the allocation of relocation costs (Surrey's Attachment 2) and Operating Fees (Surrey's Attachment 3) are addressed in other jurisdictions. This section of the FEI Rebuttal Evidence:
  - Provides context, particularly with respect to the difference between a franchise agreement and the operating agreements entered between FEI and BC municipalities under the *Utilities Commission Act*;
  - Discusses operating fees in those franchise agreements; and
  - Corrects or clarifies how Surrey has summarized the allocation of relocation costs in the case of AltaGas and the CRTC.

1.1 *FEI'S RESPONSE TO SURREY'S EVIDENCE ON FIVE PROJECTS REGARDING RELOCATION COSTS*

In Surrey's Evidence, Attachment 1, Surrey states, among other things, that:

> …the City is of the position that costs of betterment, upgrading, and/or modifying infrastructure to meet current codes and standards and/or company policies/practices should not be borne by the party requesting relocation of the other party's facilities.[1]

Surrey has incorrectly characterized the implications of FEI's Proposed Operating Terms on this issue as allowing FEI to charge costs to Surrey that are caused by meeting FEI company policies/practices alone. In response to BCUC-FEI IR 1.6.3, FEI explained that, under its proposal, FEI will bear any portion of relocation costs associated with work on Company facilities that

[1] Surrey Evidence (Ex. B2-11), Attachment 1.

exceeds the requirements of applicable Laws. A FEI company policy or practice that requires work in excess of what is required under applicable Laws is to be borne by FEI. FEI's proposal is explained by cost causation – company policies exceeding requirements of applicable Laws are within FEI's control and the associated costs are not caused by the requesting party under the "but for" test inherent in FEI's proposal.

How Gas Main Relocations, and the FEI Operating Terms, Work in Practice:

With respect to Gas Mains, there are, broadly speaking, two types of pipes involved in a relocation. The first type is the actual Gas Main itself. The second type of pipe is the Service Lines, which are the services that connect the individual customers to the Gas Main. Mains and Service Lines requiring relocation can be steel or polyethylene (PE). Using PE pipe has been typical in the industry for a number of years, but FEI still has some steel pipe in Surrey. In virtually all circumstances of relocating a Gas Main, it would be technically feasible to replace the pipe with either steel or PE, but each option carries different total cost implications. Ultimately, FEI's proposal is intended to bill the requesting party the appropriate apportionment of the lowest cost solution to meet applicable Laws (codes and regulatory standards – not company policies/practices). The only case where the Relocation Costs covered by FEI's Proposed Operating Terms would include more than the amount required to meet codes and standards is if the requesting party (Surrey) insists on having FEI install a more expensive alternative or perform additional work for the City's own reasons.

In the following table, FEI provides typical scenarios, which cover the potential circumstances that occur for relocations of Gas Mains and Service Lines. It is important to note the following factors that are consistent for all scenarios:

- For Gas Mains:
    - The amount subject to the allocation formula would be the least costly of the like for like steel or the equivalent capacity replacement PE Gas Main pipe needed to meet codes or regulatory standards.
    - Excavation, remediation, and other work involved in relocating the Gas Main itself remains the same irrespective of the pipe material chosen.
    - If FEI were to decide to increase the Gas Main pipe size to address future needs for increased capacity or otherwise improve the facilities, any such related additional or incremental costs above the least costly alternative (likely PE pipe) are paid by FEI.
    - For example, if FEI could replace a 4 inch steel Gas Main with 4 inch PE pipe at a lower cost than a 4 inch steel pipe (the most likely scenario), the relocation cost subject to the allocation under FEI's Proposed Operating Terms would be all of the labour, equipment, and materials necessary to install a 4 inch PE pipe. If FEI decides to expand the capacity by installing a 6 inch PE pipe instead, then FEI would pay the difference between the cost of the 4 inch PE pipe compared to the 6 inch PE pipe (a 4 inch Gas Main requires the same trench as a 6 inch main, for instance). This would be the case

even if a 6 inch PE pipe could still be installed for less than the cost of a like for like 4 inch steel main.

- For Service Lines:
  - The amount subject to the allocation formula would be the least costly of the code compliant alternatives to reconnect Service Lines.

Existing Material:	Replace with/Connect to Steel	Replace with/Connect to Polyethylene (PE)
Gas Mains: ***Steel***	• Identical steel for steel replacement with same capacity (equivalent diameter) – like for like replacement is possible. • Typically, on average like for like steel pipe replacement is 30 percent higher in cost than replacement with PE due to the higher cost of steel pipe, additional installation equipment and time related to heavier weight of pipe, and additional welding requirements.	• Because PE pipe is now industry standard and much of FEI's system in Surrey is already PE, it is often preferable to replace existing steel pipe with PE pipe in the same or equivalent diameter. • Typically, on average it is 30 percent cheaper to replace existing steel pipe with equivalent PE pipe (due to the higher cost of steel pipe, additional installation equipment and time related to heavier weight of pipe, and additional welding requirements), including the requirement in most cases for PE pipe to need a heavier bonding cable to maintain adequate cathodic protection (code compliance).
Gas Mains: ***Polyethylene (PE)***	• It would be a highly unlikely scenario to replace existing PE pipe with steel. As described above, PE pipe is less costly and is industry standard now.	• Surrey would be charged for the installation of the lowest cost code compliant pipe of equivalent diameter (likely PE pipe).
Service Lines: ***Steel***	• Reconnecting existing steel Service Lines to a new steel Gas Main is a relatively straightforward process and can be completed for reasonable costs given no pipe alterations or modifications are necessary, other than reconnecting and joining the pipes. • Generally this is the least costly alternative.	• Connecting the existing steel Service Lines to the new PE Gas Main does require additional steps to ensure the safety of the service and that the steel is properly protected against corrosion. This may involve the removal of a compression dressor, installing of a magnesium anode, and associated labour. • Typically it would be less expensive to connect steel Service Lines to the PE Gas Main than the alternative, which is to replace the customer Service Lines with PE. • FEI generally prefers to replace steel Service Lines with PE Service Lines, even though it is more costly. The benefits to upgrading steel Service Lines to PE include improved integrity with less likelihood of a future leak impacting the new road surface, reduced maintenance costs for FEI, and increased reliability for FEI customers. Since most of these benefits favour FEI, FEI would view the decision to install PE Service Lines in such circumstances as an improvement that is not required to meet code, standards or applicable Laws. As such, any incremental cost between the less costly option and what FEI installs would be paid by FEI and would <u>not be billed</u> to Surrey.

Existing Material:	Replace with/Connect to Steel	Replace with/Connect to Polyethylene (PE)
Service Lines: ***Polyethylene (PE)***	• It would be a highly unlikely scenario to replace existing PE Service Lines with steel. As described above, PE pipe is cheaper, is industry standard now, and PE Service Lines can be easily and cost-effectively connected to a steel Gas Main.	• Reconnecting PE Service Lines to a PE Gas Main pipe would be the least costly option.

In summary, for all relocation requests it is FEI's intention for the definition of Relocation Costs to capture only the cost of the lowest cost alternative necessary to comply with applicable Laws. That is, the Relocation Costs that are subject to the allocation methodology would include the lowest cost alternative for the Gas Main relocation plus the lowest cost alternative for the Service Line connections. FEI would pay for all additional or incremental costs associated with betterments, upgrades, improvements, or any other discretionary costs not required by applicable Laws. This is consistent with cost causation.

1.1.1 FEI's Response to Surrey's Five Recent Project Examples

FEI reiterates, as noted in its Supplemental Evidence, that FEI disagrees with Surrey's characterization of past projects. FEI considers that an examination of past projects is not of assistance to the Commission in resolving the outstanding matters for determination in the Application. FEI believes that its responses to information requests, its Supplemental Evidence, and this Rebuttal Evidence serve to make clear FEI's position on Relocation Costs and how FEI intends to apply them going forward based on our proposals in our Application. On some of the more recent projects, FEI did agree with Surrey, in good faith, to apply the Relocation Cost principles of FEI's Application, and FEI's invoices to Surrey did reflect that commitment. Some of the older projects referenced by Surrey, which commenced earlier, would have fallen under the terms of the 1957 Operating Agreement and work completed was billed based on those terms. As a result, FEI will not spend the considerable time and effort that would be required to review and itemize the details and events of these past projects. Rather, as a way to assist the Commission in reaching its determination, FEI will highlight how similar circumstances would be handled by FEI under FEI's Proposed Operating Terms with respect to cost responsibility.

The following table provides Surrey's summaries of the five recent projects with the addition of a column providing high-level information on the application of FEI's Proposed Operating Terms for future projects based on the circumstances of the scenarios Surrey has put forward.

In an effort to simplify the information, FEI has consolidated Surrey's four columns into one column consisting of the details of Surrey's five columns:

(1) Project;

(2) Surrey's Description of Works and Difference of Opinion;

(3) Surrey's view of cost FEI requested Surrey pay under the existing framework, and Surrey believes FEI would include in FEI's definition of Relocation Costs;

(4) Surrey's view of cost Surrey believes would be included under Surrey's definition of Relocation Costs (excluding betterment/upgrading); and

(5) Surrey's view of Increase in Costs for upgrade/betterment.

Surrey's Consolidated Columns:	**FEI's Response:**

(1) Eldorbud Sanitary Sewer
(2) The City was installing a sanitary sewer and watermain on Eldorbud Place, south of 60 Avenue, and as part of the project the City requested FEI relocate 210m of its existing 88mm steel distribution pressure (DP) Gas Main. FEI expanded the scope of its relocation project to include upsizing from 88mm to 168mm and replacing existing steel gas services because FEI's internal practice/policy is to no longer have metallic services.
The upsize in Gas Main diameter and the renewal of services are both betterment/upgrading, which were not required to accommodate the City's project.
(3) $90,238.68
(4) $68,038.68
(5) $22,200 (33% increase)
	• According to FEI's records, this project was one where FEI staff verbally agreed to treat the Relocation Costs as would be treated under FEI's Proposed Operating Terms.
	• The actual invoice FEI billed to Surrey was in the amount of $60,237 on December 5, 2017. To date, this invoice has not been paid by Surrey.
	• The upsizing of the Gas Man was <u>not billed to Surrey, nor was Surrey billed for the Service Lines which were upgraded to PE</u>. FEI paid for the additional / incremental cost for this betterment (upgrade).
	• FEI notes that the invoiced amount is even less than what Surrey states in its column (4) which is what Surrey itself believes Surrey's proposed operating terms would result in.
	• In addition, the FEI invoice to Surrey also included a credit (discount) to Surrey in the amount of $4,874 which was an amount calculated for the abandoned pipe as per the 1957 Operating Agreement.
	• Surrey in this case has benefited from both:
	  o the terms of the 1957 Operating Agreement (for which Surrey disputes the scope, validity and enforceability of); and
	  o FEI's Proposed Operating Terms.
	• Going forward based on FEI's Proposed Operating Terms, in a project with similar circumstances, FEI would bill Surrey for the actual relocation costs and NOT for any additional / incremental cost for betterment or upgrade.

Surrey's Consolidated Columns:	**FEI's Response:**
(1) Barnston Drive Road Widening (2) The City was completing road and utility works in the area of 168 Street and Barnston Drive, which required FEI to relocate a segment of its gas main. In the same area FEI had an abandoned gas main which it left in the ground/roadway rather than removing at the time of abandonment. Kinder Morgan, who also has a pipeline in the area, requested FEI to remove its existing abandoned metallic gas main from the road as the pipe was in proximity of the Kinder Morgan pipe. FEI complied with Kinder Morgan's request and passed its costs to remove the abandoned pipe onto Surrey because the City had a project nearby where FEI was relocating a segment of its gas main. (3) $16,499.49 (4) $0 (5) $16,499.49	• FEI believes this project is related to Abandonment rather than Relocation Costs. • The removal of this pipe was a condition of the Kinder Morgan permit to allow Fortis to relocate the live Gas Main for the City storm project. Costs were communicated to and approved by the City. • Going forward based on FEI's Proposed Operating Terms, in a project with similar circumstances, FEI would be responsible for the abandon pipe removal in accordance with section 14.2 of FEI's Proposed Operating Terms.
(1) 72 Ave Road Widening (2) The City widened 72 Avenue between 192 Street and 196 Street. During construction, the City discovered segments of FEI's gas main had 0.2 to 0.5m of cover, which is not in compliance with CSA Z662. Other segments, which did have sufficient cover to meet CSA, needed to be relocated as a result of the road widening. FEI requested the City pay for FEI's costs to relocate the entire 220m of gas main to meet CSA Z662 requirements, even though the City's roadworks were only impacting a portion of the 220m length of gas main. (3) $63,000 (4) $40,222 (5) $22,778 (57% increase)	• FEI maintains that the Gas Main on this project was installed at proper depth in 2008/09 and due to road construction activity which has taken place in the years following, the depth of cover over this Gas Main has changed. • Changes in depth of cover after installation is not within FEI's control. • This type of unknown construction activity is our biggest concern when moving Pipelines out of SROW and into City road allowance. • As for the specific cost on this project the City was only invoiced to lower 197 meters of the Gas Main and FEI paid for the additional 72 meter of Gas Main to be lowered. • Going forward based on FEI's Proposed Operating Terms, in a project with similar circumstances, FEI would bill Surrey for the actual Relocation Costs for the appropriate segment of Gas Main involved and NOT for any additional / incremental cost for betterment or upgrade.

Surrey's Consolidated Columns:	**FEI's Response:**
(1) 105 Avenue Road Extension (2) The City is planning to construct a new road across FEI High Pressure Pipeline in the 10500 block of 105 Avenue near 140 Street. The existing High Pressure Pipeline has been located and is not in conflict with the City's project, nor does the pipeline need to be relocated or altered as a result of the City's project. Furthermore, the City has proven to FEI that there is sufficient depth of cover to comply with CSA Z662 for a road across the pipeline. FEI has requested the City expose the pipeline such that FEI can inspect the pipeline for dents, damages and defects as well as complete maintenance inspections of the joints as the standards for welding in 1957 when the pipeline was installed are different from current standards. FEI's request is for the City to pay the costs to expose the pipeline and 100% of FEI's estimated cost of $323,175 to inspect and maintain the pipe, none of which is required to accommodate the City's road project. (3) $323,175 (4) $0 (5) $323,175	• This crossing is in SROW and the required work is driven by a change in land use. In other words, what was installed in a farmer's field in 1957 does not necessarily meet the load and stress requirements today for underneath a new Highway. • Going forward based on FEI's Proposed Operating Terms, in a project with similar circumstances, FEI would bill Surrey for the actual Relocation Costs involved. This is because "but for" the City's project to change the land use and construct a new road, FEI's pipe would not need to be inspected and maintained. As a result, the costs incurred to inspect, maintain, and ensure the pipeline is compliant with codes/applicable Laws in these changing land use circumstances are driven by Surrey's new road project, and Surrey would be responsible for the costs.

Surrey's Consolidated Columns:	**FEI's Response:**
(1) 144 Street Culvert (2) The City is replacing a culvert across 144 Street, at 82 Avenue. The City's works require raising approximately 8m of FEI's 60mm distribution gas main. FEI requested the relocation work include (i) relocate 13m length of the 60mm gas main, well beyond the City's work limits, (ii) install 15m of new 60mm gas main in parallel, and (iii) replace two existing metallic services, as the services were originally installed on a diagonal and do not conform to FEI's current perpendicular standards. FEI requested the City to pay $45,893 + GST for all three components of FEI's work, as compared to a very similar project in 2016, in the same general area of the City, which only cost in the order of $6,000 for gas main raising to accommodate a sanitary sewer. The betterment of service replacements and twinning / parallel gas main is to meet FEI's current practices and is not required to accommodate the City's project. (3) $45,893 (4) $6,000 (5) $39,893 (665% increase)	• This was work performed on an urgent basis at the City's request because of a collapsing City culvert. On Oct 20th, FEI completed the Gas Main abandonment and relocated the two Service Lines that were tied in to that abandoned section of Gas Main. To our knowledge the culvert still has not been replaced. • The abandonment work was several meters back from the actual culvert location as discussed on site and agreed to by the contractor and City. It allowed the City room to remove the existing culvert safely and replace it with a much larger concrete box culvert. • Aside from the increased damage potential of running the services on 7 to 10 meters diagonal in City property, the decision to turn the one Service Line into a Gas Main and tee the other service off of it was more cost effective. Doing so reduced the amount of trenching, and resulted in one less road cut and transition weld tie-in. Both services were PE, not steel, which made the rest of the work straightforward. • The City's use of another Gas Main alteration in the area as a comparator without specific details about the address or circumstances is not useful. Each case has many different variables that will affect the scope of work, activities, and materials required and, therefore, the costs can vary significantly. Based on the cost difference, very clearly the scope of work between these two alterations is completely different. • Going forward based on FEI's Proposed Operating Terms, in a project with similar circumstances, FEI would bill Surrey for the actual Relocation Costs involved.

1.2 FRANCHISE AGREEMENTS VS. OPERATING AGREEMENTS

Surrey has included in Attachments 2 to 4 discussion and materials related to agreements that are in place between utilities and municipalities in other jurisdictions. There are key differences between the framework in BC and what occurs in other jurisdictions. In BC, a utility's right to operate within a municipality is conferred by the CPCN granted by the Commission, and having a municipal franchise is unnecessary. All of FEI's operating agreements (including the 1957 Operating Agreement with Surrey) set out agreed terms of use of municipal spaces, but do not purport to confer the right to operate *per se*. There is no municipal grant of exclusivity to the utility. The Alberta and Ontario agreements that Surrey has included in its evidence are exclusive franchise agreements, not operating agreements.

1.2.1 Alberta Agreements are Exclusive Franchise Agreements

The Alberta agreements that Surrey has attached in relation to FortisAlberta and AltaGas are franchise agreements, not operating agreements. They were granted under section 45 of the *Municipal Government Act*.[2] They convey the exclusive right to operate in the municipality. They contain other related rights, such as the right of the municipality to purchase the utility assets (Article 10).[3] As the AUC says in the FortisAlberta decision included in Surrey's Attachment 4, the franchise fee "is the consideration paid by the utility for the exclusive right to provide service to the residents of the municipality." (para 28) The first recital in the FortisAlberta Franchise Agreement Template states:

> The Municipality desires to grant and the Company desires to obtain an exclusive franchise to provide Electric Distribution Service within the Municipal Service Area on the terms and conditions herein contained.

[2] C. M-26 The Municipal Government Act states in part:

45(1) A council may, by agreement, grant a right, exclusive or otherwise, to a person to provide a utility service in all or part of the municipality, for not more than 20 years.

(2) The agreement may grant a right, exclusive or otherwise, to use the municipality's property, including property under the direction, control and management of the municipality, for the construction, operation and extension of a public utility in the municipality for not more than 20 years.

…

46 When a person provides a utility service in a municipality under an agreement referred to in section 45, the council may by bylaw prohibit any other person from providing the same or a similar utility service in all or part of the municipality.

[3] The *Municipal Government Act* conveys the right on municipalities to purchase the assets that are subject to a franchise agreement: "47(1) An agreement referred to in section 45 that is not renewed continues in effect until either party, with the approval of the Alberta Utilities Commission, terminates it on 6 months' notice.

(2) If notice to terminate has been given under subsection (1), the municipality has the right to purchase the rights, systems and works of the public utility.

A similar recital appears in the AltaGas Standard Franchise Agreement Template included in Surrey's Attachment 4. In both agreements, the grant of franchise, including the exclusivity, is set out in Article 4.

The AUC's approval is required for municipal franchise agreements in Alberta on a similar basis as franchise agreements in BC under section 46 of the *Utilities Commission Act*.[4]

In this proceeding, when asked by the Commission whether the operating agreement is a franchise agreement, in response to BCUC-Surrey IR 1.8.2, Surrey responded in part:

> In the present applications, Surrey is not granting FEI a franchise or concession within the meaning of section 45 of the UCA. FEI already has CPCNs and pursuant to the Gas Utility Act has rights to operate and expand its gas distribution system in Surrey, subject to the UCA and on the conditions that FEI and Surrey agree to.

1.2.2 Ontario Agreements Are Franchise Agreements

The Ontario Energy Board Model Franchise Agreement included in Surrey's Attachment 4 is also a franchise agreement, which is evident from Clause 2 of the Agreement. The municipality is granting consent to operate:

> The consent of the Corporation [municipality] is hereby given and granted to the Gas Company to distribute, store and transmit gas in and through the Municipality to the Corporation and to the inhabitants of the Municipality.[5]

The Ontario Energy Board must issue a CPCN to approve a franchise agreement.[6]

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[4] *Gas Utilities Act*, R.S.A. 2000, c. G-5, Section 49(1) No privilege or franchise granted to any owner of a gas utility by any municipality within Alberta is valid until approved by the Commission.

(2) Approval shall be given when, after hearing the parties interested or with the consent of the parties, the Commission determines that the privilege or franchise is necessary and proper for the public convenience and properly conserves the public interests.

[5] There is an alternate clause provided as an option, but it has the same grant of consent.

[6] Municipal Franchises Act R.S.O. 1990, c. M55. Section 8 provides in part:

8 (1) Despite any other provision in this Act or any other general or special Act, no person shall construct any works to supply, (a) natural gas in any municipality in which such person was not on the 1st day of April, 1933, supplying gas; or (b) gas in any municipality in which such person was not on the 1st day of April, 1933, supplying gas and in which gas was then being supplied, without the approval of the Ontario Energy Board, and such approval shall not be given unless public convenience and necessity appear to require that such approval be given.

(2) The approval of the Ontario Energy Board shall be in the form of a certificate.

1.3 *OPERATING FEES*

The AltaGas decision is the only one included by Surrey relating to a gas distribution utility. In the AltaGas decision, the Alberta Utilities Commission determined that franchise fee should be based on distribution revenues, excluding the natural gas commodity:

> 30 The Commission finds that basing the franchise fee on the distribution charges will reduce the volatility in revenue and utility billings that may be experienced by municipalities and customers respectively compared to a franchise fee that is based on both distribution and commodity charges. The Commission considers this will lead to rates that are just and reasonable.

1.4 *RELOCATION COSTS IN OTHER JURISDICTIONS*

Surrey's Attachment 2 summarizes the allocation of costs in various jurisdictions and under various legislative frameworks. Although FEI believes the Commission should be assessing the allocation based on cost allocation principles identified by FEI, FEI has provided some comments in this section on Surrey's evidence. Surrey's description of the allocations is generally correct, except in the case of the line "AUC Franchise Agreement Template for Electric". FEI has also clarified two other descriptions that Surrey has provided.

1.4.1 AltaGas Allocation Clarification

One clarification with respect to the AltaGas agreement is that there is a process whereby the utility can propose alternative approaches to relocation that will reduce costs. (Article 14). This provides some protection against requests to relocate that will result in excessive costs to the utility. The municipality must also give AltaGas one year's notice.

1.4.2 CRTC Allocation Clarification

The allocation approach used by the CRTC has a staged allocation based on the number of years the equipment has been installed. The CRTC is clear that the staging starts at 100 percent for a period over which the City can reasonably plan. It is based on an assessment of useful life, with the end of the staging coinciding with "the shortest length of the useful life of Bell Canada's assets that are likely to be affected by relocation initiated by the City over the lifetime of the MAA [agreement]." (Decision, paragraphs 49-50). Applying the CRTC's logic to the present circumstance would result in a significantly different allocation from that which Surrey has attributed to the CRTC. There are two points of difference.

First, the City has a 10-Year Servicing Plan[7] for development within the Municipality. Applying the CRTC's logic to the present circumstances would result in a longer period during which the costs would be allocated 100 percent to the requesting municipality (the period over which the City can reasonably plan).

Second, FEI has described in responses to IRs that its assets have a much longer life. As noted in the response to Surrey-FEI IR 1.3.3, were it not for third party requests to relocate, much of FEI's system would not have to be replaced for a very long time. The most recent depreciation study estimates the financial end of life of distribution mains at 64 years and 65 years for transmission pipelines, but the financial end of life is shorter than the actual useful life of the assets. The financial life is shortened by the fact that there are many relocation requests. FEI explained that the life would be much longer if third parties were not requesting relocations. The CRTC's logic, applied to the long-lived pipeline assets would suggest a much slower decline from 100 percent in terms of the proportion recoverable from the City for FEI's assets.

Also, there is a proviso in the CRTC's allocation that should be noted for the sake of completeness:

> Consistent with Previous Commission determinations, where costs directly attributable to a Municipality-initiated requirement to relocate a Company facility are incurred as a direct result of work undertaken by or on behalf of the Municipality for beautification, aesthetics, or other similar purposes, such costs are to be entirely borne by the Municipality. These costs include, but are not limited to, the depreciation, betterment and salvage costs. (Decision, para. 52)

[7] Surrey's 10-Year Service Plan is available at http://www.surrey.ca/files/10-YearServicingPlan.pdf contains maps and identifies specific details about projects, including location, work it plans to perform, and cost estimates related to its infrastructure works and services required related to transportation, water, sanitary sewer, and stormwater,drainage services.

2. FEI'S REBUTTAL TO MR. LANDALE'S INVERVENER EVIDENCE

FEI cannot comment on any aspects of Mr. Landale's Intervener Evidence regarding the City of Surrey. FEI cannot speak to whether the City's information contained in Mr. Landale Evidence is accurate or properly characterized, and whether the assumptions and conclusions he has drawn are factual or reasonable. However, on other matters FEI generally disagrees with the accuracy and / or applicability of Mr. Landale's analysis, calculations, and assumptions. This evidence identifies some general points of disagreement, but is not exhaustive.

1. Number of Customers:

Item 1. Preamble:

Mr. Landale concludes that the number of eligible electoral voters in Surrey (which he has rounded to 300,000) "represents the same number of natural gas customers FortisBC serves". He then challenges FEI to place on the record the actual numbers. FEI has already provided on the record in this proceeding the number of customers it serves in Surrey. In FEI's Application[8] it noted approximately 113 thousand customers, and in FEI's response to BCUC IR 1.11.39, FEI confirmed it had 113,158 customers as at June 30, 2017.

Item 2. Evidence:

Mr. Landale makes several unsupported assertions as follows:

a) Options 1, 2, 3:

- Mr. Landale states that the average home natural gas billing is $1,200 (presumably annual), referencing FEI's response to Mr. Landale's IR 1-8. FEI has not provided evidence that $1,200 represents an average customer residential annual bill in Surrey on the record in this proceeding. FEI believes that Mr. Landale has used the sample bill FEI provided in response to Landale-FEI IR 1.8, which was provided in response to his request to provide the format of how an Operating Fee would show up on an FEI customer bill. As noted in that response FEI provided a sample bill from a Vancouver Island municipality where an Operating Fee is currently collected. Mr. Landale seems to have taken that sample monthly bill amount and multiplied it by 12 months to arrive at his presumed $1,200 annual average. This calculation is incorrect for three reasons. First, the sample bill is not for a Surrey customer, so does not represent an average Surrey customer monthly bill. Second, the sample bill is for a Vancouver Island municipality which, at the time of the sample bill, had different delivery rates compared to the Lower Mainland due to the phase in to common rates which was still in progress. Third, it is incorrect to assume that natural gas consumption occurs equally throughout the year, when in fact, natural gas bills would be higher in winter months. Based on 2016 consumption data for Surrey, the average

[8] Ex. B1-1, page 9, line 26.

[9] Ex. B1-6, page 38, line 22.

annual use for a Surrey residential customer was 92 GJs (as was set out in BCUC-FEI IR 1.5.2 to calculate the residential bill impacts). Based on the 2016 delivery and commodity rates in place, and the 92 GJ average residential annual use, the annual bill of a typical residential natural gas customer in Surrey would have been approximately $990 including applicable taxes.

- Mr. Landale states that calculating an average annual operating fee based on an assumed average annual home natural gas bill, then multiplying by FEI's customers (rounded 110,000) assumes all of FEI's customers are residential. In fact, FEI has residential, commercial, and industrial customers. An Operating Fee, if the Commission approves one, would apply to all of FEI's natural gas customers in Surrey, not just residential customers.
- Mr. Landale makes a calculation by Surrey's electoral voters using an assumption that has no basis or relevance to the facts nor the approvals sought by either FEI or Surrey in this proceeding. Further, Mr. Landale asserts that this calculation represents the range of Operating Fee revenue Surrey would receive if the Commission approves one. This is inaccurate. The number of electoral voters is not an input in the calculation of the operating fee proposed by either FEI or Surrey.

b) Option 1: City of Surrey Application

- Mr. Landale's assertions and assumptions do not correctly represent the City's proposed Operating Fee.
- Mr. Landale calculates a range of between $4 million to $11 million as what Surrey is "hoping the Commission will approve", which is incorrect. In FEI's response to BCUC IR 1.4.2[10], FEI calculated an Operating Fee based on Surrey's Application which results in $3.4 million (based on FEI's 2016 total Gross Revenue in Surrey). The detailed calculation is provided in FEI's response to BCUC IR 1.5.3[11] identifying FEI's Gross Revenue in Surrey for 2007-2016 and the resulting Operating Fee revenue based on Surrey's proposal which is 3 percent of Gross Revenue. The result for 2016 would have been $3,383,343 (column 5) had Surrey's proposal been in place at the time.
- As noted above, Mr. Landale's calculation based on Surrey electoral voters has no relevance, as the number of electoral voters is not an input in the calculation of the operating fee proposed by either FEI or Surrey.

c) Option 2: FortisBC Application

- Mr. Landale's assertions and assumptions do not correctly represent FEI's proposed Operating Fee.
- Mr. Landale calculates a range of between $1 million to $2.6 million as what Surrey "could possibly receive if the Commission so directs" under FEI's proposal, which is incorrect. FEI's response to BCUC IR 1.5.3[12] provides a table identifying FEI's

[10] Ex. B1-6.

[11] Ex. B1-6.

[12] Ex. B1-6.

Delivery Margin Revenue in Surrey for 2007-2016 and the resulting Operating Fee revenue based on FEI's proposal (0.7 percent of Delivery Margin Revenue) which for 2016 would have been $498,436 (column 6) had Surrey's proposal been in place at the time.

- As noted above, Mr. Landale's calculation based on Surrey electoral voters has no relevance.

d) Option 3: Median Average

- Mr. Landale's calculation of a "Median Average" between all municipalities for which FEI currently collects Operating Fees is an inappropriate metric, in part because it does not account for the fact that FEI does not collect Operating Fees in any Lower Mainland Municipality. If the "Median Average" were an appropriate calculation for Lower Mainland municipalities, which FEI says it is not, then it would result in zero.

FEI already has systems in place to administer the collection and remittance of Operating Fees effectively, as it does for 75 other municipalities.