1.0 Reference: Exhibit B2-1, page 8, and Exhibit A-5, BCUC IR 1.4.2, Operating Fee

The referenced page states:

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. [Emphasis added.]

We also note that Surrey agrees to waive any approval, license, inspection or permit fees, charges and security deposit requirements in respect of FEI's work and occupancy of public places in Surrey, which is on condition of receiving the Operating Fee at 3% of FEI's gross revenues.

1.1 **Is it fair to conclude that Surrey's proposal for an Operating Fee is mainly based on the operating fees paid to the "70 other municipalities in the province"? Please explain.**

RESPONSE:

Yes. The City of Surrey understands that 70 municipalities in the province have operating agreements with FEI that provide for an operating fee of 3% of FEI's gross revenues from the provision and distribution of all gas consumed within the respective municipality. Surrey understands that the operating fee it has requested is identical to that which the Commission has accepted or approved for the 70 other municipalities. We further understand that the Commission has never approved an operating fee calculated on any other basis.

1.2 **Please discuss how Surrey's proposal for an Operating Fee would differ were it to be based entirely on principles of actual costs incurred and cost causation.**

RESPONSE:

An approach based entirely on principles of actual costs and cost causation would have FEI bear all of its own costs, and all of the actual costs incurred by Surrey related to FEI's use and occupancy of Surrey highways and other public places. FEI would be responsible for all of Surrey's costs because FEI caused these costs. But for the FEI facilities occupying Surrey highways and other public places, Surrey would not have incurred these costs.

Surrey's response to BCUC IR 1.4.2 provides a report by Aplin Martin Consultants which estimates some of the costs incurred by Surrey as a direct result of FEI. Under the posited cost causation approach, FEI would be required to compensate Surrey for the costs identified by Aplin Martin Consultants, including by complying with and paying the required fees, charges and security deposits pursuant to applicable Surrey by-laws to cover the related costs incurred by Surrey. FEI would also pay all of its costs to relocate its facilities when requested by Surrey, and all of Surrey's costs to relocate Surrey facilities when requested by FEI, again on the basis that these costs are caused by and would not be incurred but for FEI's use and occupancy of Surrey highways and other public places.

If FEI was responsible for all of its own costs and for Surrey's costs as discussed above, Surrey would agree that the 3% of gross revenue operating fee would not be needed.

2.0 Reference: Exhibit B2-1, page 6, Figure 1, Surrey's Costs to Relocate FEI Gas Mains and Transmission Pipes

2.1 **Does Surrey agree that the costs in the referenced table exhibit large volatility – both in aggregate and for individual components – on a year-to-year basis?**

RESPONSE:

The City of Surrey's costs to reimburse FEI for its relocation costs can be volatile, year-to-year, since these costs are the result of major Surrey projects such as highway widenings and new highways. Most of this volatility is in Surrey's payments to reimburse FEI for relocation of high-pressure transmission pipelines. Such projects occur about every other year. As can be seen in Figure 1 of Surrey's application, there were no high-pressure transmission pipeline relocations in 2011, 2014 and 2015 and therefore $0 for such relocations in those years, as compared to 2013 when these costs were more than $2 million.

Surrey confirms that the volatility as shown in Figure 1 is typical.

2.2 **Can Surrey confirm that the volatility displayed in Figure 1 is typical?**

RESPONSE:

Confirmed. Please refer to Surrey's response to BCOAPO IR 1.2.1.

2.3 **Please explain how the costs shown in Figure 1 are incorporated into Surrey's proposals, especially with respect to the Operating Fee proposal.**

RESPONSE:

The operating fee City of Surrey has requested is calculated based on FEI's gross revenues, and is not directly related to the costs shown in Figure 1 of Surrey's application. Surrey is requesting that its operating fee be calculated on precisely the same basis as every other operating fee FEI is remitting to municipalities in the province. Please refer to Surrey's responses to BCOAPO IRs 1.1.1 and 1.2.4.

2.4 **Please provide the extent to which FEI's current proposal regarding allocation of relocation costs would have mitigated Surrey's relocation costs had FEI's current proposals been in effect for the years shown in the referenced figure.**

RESPONSE:

In Surrey's view, FEI has historically defined the scope of its relocation projects in its absolute discretion and demanded that Surrey pay whatever amount FEI specified in relation to the project. The cost allocation provisions of the Pipeline Crossing Regulation are modelled after those provisions historically set out in the Pipeline Regulation, B.C. Reg.360/98, which were first promulgated in 1959 (B.C. Reg 451/59) and which were amended to apply to municipalities in 1969 (B.C. Reg. 105/69). Although the Pipeline Crossing Regulation and its predecessor the Pipeline Regulation applied during the years shown in Figure 1, the amounts shown in Figure 1 do not reflect the cost allocations prescribed by the Regulations because FEI demanded that Surrey pay 100% of FEI's relocation costs and Surrey considered that it had no option but to accede to FEI's demands. For the same reasons, Surrey has historically considered that it had no choice but to pay FEI's incremental costs of upgrading and/or betterment of its system. Please refer to Surrey's response to BCUC IR 1.1.1 for additional information on this.

For the allocation of relocation costs for high pressure transmission pipelines, FEI proposes a 50:50 cost allocation contrary to the provisions of the Pipeline Crossing Regulation. For the allocation of relocation costs for distribution gas mains, FEI proposes that Surrey pay 100% of FEI's costs. Surrey understands that FEI proposes that Surrey continue to pay FEI's costs for upgrading and/or betterment, though Surrey has submitted information requests to FEI seeking clarification of FEI's position.

Assuming the above correctly characterizes FEI's proposals, if the proposals had been in effect historically,

- Surrey's costs for relocation of distribution gas mains would have been the same as the amounts shown in Figure 1

- Surrey's costs for relocation of high pressure transmission pipelines would have been half of the amounts shown in Figure 1

2.5 **For each year shown in the referenced figure, please provide the Operating Fee revenues that Surrey would have received had Surrey's Operating Fee proposal been in effect for those years.**

RESPONSE:

The City of Surrey does not have historical data or a forecast of FEI's gross revenues for the provision and distribution of gas consumed within the City's boundaries from which Surrey could calculate estimates of the requested 3% operating fee amount.

FEI states in its application (at page 19, lines 39-40) that "calculating the Operating Fee based on 3.09% of total revenues for 2016 results in a fee of $3.8 million paid to the City". Surrey does not understand why FEI used 3.09% in its calculation (instead of 3%), and cannot verify the accuracy of FEI's calculation.

3.0 Reference: Exhibit B2-1, pp 11-12, Statutory Right of Way (SROW)

Page 12 states:

We understand that FEI agrees to Surrey's wording except that FEI prefers to retain the ability to consider each request for a release of SROW for highways on a case by case basis.

3.1 **To Surrey's knowledge, is there any regulatory precedent with respect to a utility giving up SROW rights on an overall basis?**

RESPONSE:

Yes. The 1956 Agreement between the City of Surrey and British Columbia Electric Company Limited (subsequently assigned to FEI in 1988) required FEI to give up SROW rights. The 1956 Agreement was terminated by Justice Pearlman in *FortisBC Energy Inc.* v. *Surrey (City)* 2013 BCSC 2382.

4.0 General Information

4.1 **Please provide a chart detailing the City's population growth, income, and FEI-asset related spending for the years 2014 to present including YTD.**

RESPONSE:

The population chart below details the City of Surrey's population from 2014 to present. Note that the number shown for 2017 is as at the end of August, 2017.

The revenue numbers presented in the second chart below have been taken from Consolidated Financial Summary statements found in the City of Surrey's Financial Plans which can be viewed at: . http://www.surrey.ca/city-government/3077.aspx#Financial . Where discrepancies exist in numbers, the numbers set out in the most recent Financial Plan were used. The Revenue number for 2017 is the budgeted amount, as opposed to actual amount.

Particulars of FEI's asset related spending is beyond the knowledge of the City and should be requested from FEI.

Population

Year	Total
2014	507,373
2015	516,424
2016	525,224
2017	530,597

Revenue ($ thousands)

Year	Total
2014	$846,848
2015	$853,440
2016	$914,701
2017(budgeted)	$991,044