

FortisBC Energy Inc. and City of Surrey
Applications for Approval of Terms for an Operating Agreement
Project No. 1598915

CITY OF SURREY'S RESPONSE TO CEC INFORMATION REQUEST NO. 1

FILED: September 29, 2017

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1. Reference: Exhibit B2-1 page 2 and page 4 and page 8

Surrey's approach to developing operating terms for FEI has been based on the existing operating terms FEI has recently entered into with municipalities in the interior and on Vancouver Island, and adapting those terms for Surrey's circumstances. Unlike the interior and Vancouver Island municipalities, Surrey is a very dense and rapidly growing urban city, as discussed further below. Surrey's objectives for operating terms with FEI relate primarily to: (i) reasonable oversight of FEI's activities in the municipality to efficiently manage the safe use of public places by multiple utilities, Surrey's own use and the public, and (ii) reasonable financial terms, in both cases consistent with provincial standards.

Surrey has a population of approximately 520,000 making it the 2nd largest city in British Columbia and the 12th largest in Canada by population. Surrey is growing quickly. The population grew by 10.6% from 2011 to 2016 (or approximately 2% per year) which was the 4th highest among municipalities with populations over 200,000 in Canada, and 2nd highest among the 10 largest municipalities in B.C. Surrey is expected to become the most populous city in the province, surpassing the City of Vancouver within 10 years. Based on current projections, 25% of Metro Vancouver residents will live in Surrey by 2045.

Surrey is a young city, with 26% of its population 19 years old or younger, compared with just 20% for Metro Vancouver as a whole. Surrey has the largest school district in the province, with 72,000 students, and is one of the few districts with a growing student population.

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.

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. The waiver of fees and charges is provided for in section 5.1 of the requested terms in Appendix B.

1.1 Why are the other municipality terms relevant to the City of Surrey? Please discuss.

RESPONSE:

The essential purpose of the operating agreement is to set out the terms and conditions under which FEI shall exercise its rights under the *Gas Utility Act* and the *Utilities Commission Act* to use municipal highways and other public places in the municipality for conducting its business of distributing natural gas as a public utility.

The nature of the issues to be addressed in an operating agreement will be largely the same for all municipalities, but certain issues and terms will be more important to some municipalities than others. For example, if a municipality has never had a project that requires FEI to relocate its facilities, operating agreement terms related to such relocations might not be important to that municipality. On the other hand, Surrey has many projects that require FEI to relocate its facilities, and in particular its high pressure transmission pipelines, and the parties have had many disputes about relocation projects and costs over the years. Thus, both parties were focused on developing robust procedures and criteria respecting changes to facilities (refer to section 8 of the requested operating agreement).

FEI's recent operating agreements with other municipalities, and the Commission's prior comments and determinations on them, also provide benchmarks for a reasonable level of municipal oversight of FEI's work in the city.

1.2 What are the circumstances in the City of Surrey that require the operating terms to be 'adapted'?

RESPONSE:

Please refer to Surrey's responses to BCUC IRs 1.4.3, 1.5.1 and 1.5.2.

1.3 What types of adaptation are required for the City of Surrey?

RESPONSE:

The adaptations primarily involve more robust procedures and criteria for scoping, cost estimating and coordination of relocation projects, and for approval of FEI work in the City.

Please refer to Surrey's responses to BCUC IRs 1.3.1 and 1.4.3.

2. 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

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.

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

2.1 What has been the typical proportion of relocations initiated by the City of Surrey vs those initiated by FEI for each year over the last 10 years?

RESPONSE:

To the knowledge of both the current and retired Engineering Design and Construction Managers (who combined held the position for the past 18 years), as well as our current Water and Sewer Engineering Operations Managers, over the past 10 years FEI has made zero requests to the City of Surrey for relocation of municipal facilities.

Unlike the City's drainage and sanitary sewers, which are slope/gradient dependent, FEI's gas infrastructure is pressurized such that it is more amenable and easier to deflect gas pipelines over or under municipal utilities to avoid alteration / relocation requests to the City of Surrey. In addition, gas pipelines are generally located shallower than City water mains, drainage and sanitary sewers therefore FEI's infrastructure tends to cross above the City's utilities.

2.2 Please discuss and give examples of the types of codes and standards that might be applicable and required in upgrading/betterment and the costs which would be excluded when the City of Surrey is the Relocating Party and FEI is the Initiating Party.

RESPONSE:

As discussed in Surrey's response to CECBC IR 1.2.1, FEI rarely, if ever, requests that Surrey relocate or alter its municipal utilities.

To help explain the upgrading and betterment issue, Surrey provides the following illustrative example and scenarios.

FEI is installing a gas pipeline (low or high pressure) in Surrey's highway (152 Street) and where the gas pipeline will cross 96 Avenue it will be in direct conflict (vertically) with Surrey's 100mm diameter asbestos cement water main (a 60 year old pipe) that extends east-west along 96 Avenue. If FEI deflects their gas pipeline above the water main there would be insufficient depth/cover (a CSA Z662 code/standard requirement on gas pipelines) and if FEI deflects their gas pipeline below the water main then the pipeline would be in conflict with a BC Hydro concrete encased duct bank, which parallels the water main, at a slightly different elevation. In general terms, without being gas pipeline engineers, Surrey assumes that FEI's engineers would likely assess their options of either:

- (a) installing the gas pipeline at a shallower grade to above the water main and BC Hydro duct bank and develop a design solution to address the depth of cover issue, or
- (b) requesting Surrey to relocate a segment of our 100mm asbestos cement water main, or
- (c) requesting BC Hydro to relocate their concrete encased hydro duct bank, or
- (d) installing the gas pipeline below all of these utilities, which may be at a suitable depth and meet code/standards and service customers.

In the event FEI does not want to install their pipeline beneath all utilities and they select Option (b), to request the City relocate a 15m length of 100mm asbestos cement water main, Surrey would then assess and determine an engineering design solution that meets the codes/standards for the water main.

Scenario #1

The City removes the segment of 100mm asbestos cement water main and replaces it with a 15m long 100mm ductile iron (or plastic) water main at a lower elevation to accommodate FEI's pipeline. The change in pipe material is because Surrey, and most municipalities nationwide, do not support the reuse of asbestos cement pipes. The new water main and relocation is restricted to a 15m length as that length is sufficient to facilitate FEI's gas pipeline trench crossing and construction area. On both sides of FEI's work (i.e. beyond the FEI work limits), Surrey would connect the new 15m segment of ductile iron (or plastic) pipe to the existing asbestos cement pipe. In this scenario, it is Surrey's opinion and definition of Relocation Costs that there is no "betterment" as asbestos cement pipes are no longer installed in

municipal applications.

Scenario #2

Same as Scenario #1, however, rather than replacing only the 15m segment of water main across FEI's work zone, Surrey decides to relocate a 80m length of water main along 96 Avenue, as Surrey wants to complete all works at the time to minimize impacts to the busy intersection. In this scenario, it is Surrey's opinion and definition of Relocation Costs that there is a "betterment" in terms of new water main not required to accommodate FEI's project, and as such the incremental costs for the additional 65m of water main are not Relocation Costs and should be to Surrey's account.

Scenario #3

Same as Scenario #2, however, in addition to installing the 80m length of water main Surrey also replaces service connections because they too are made of a material no longer used (e.g., Poly B piping). So not only has Surrey now lengthened the extent of new water main, we have also expanded the scope of work to include service connections, which are not related to the physical conflict that triggered the request for relocation. In this scenario, it is Surrey's opinion and definition of Relocation Costs that there is a "betterment" in terms of new water main not required to accommodate FEI's project and service connection installations, and as such the incremental cost for the additional 65m of water main and new service connections are not Relocation Costs and should be to Surrey's account. Only the costs for the base 15m relocation should be considered Relocation Costs.

Scenario #4

Rather than replacing the 15m of water main with 100mm pipe (to match the existing infrastructure), the City decides to replace it with 200mm diameter pipe because Surrey's 2016 Engineering Standards require water main to be a minimum of 200mm diameter. In this scenario, it is Surrey's opinion and definition of Relocation Costs that there is upgrading and/or betterment in terms of the water main pipe diameter and as such only the equivalent costs for the 100mm water main should be considered Relocation Costs and the incremental cost (pipe, material, labour, additional trench excavation and backfill) to upsize to a 200mm water main should not be. The incremental cost should be to Surrey's account.

Scenario #5

Same as Scenario #4, however, in addition to replacing the 15m segment of water main with 200mm pipe, Surrey also adds a new water main across 96 Avenue with new 200 mm water main, thus increasing the capacity, looping and redundancy of the City's water system. In this scenario, it is Surrey's opinion and definition of Relocation Costs that there is both upgrading and betterment, with the betterment being the new looped water main connection and the upgrading being the change from 100mm to 200mm for the 15m length. In this scenario, only the equivalent costs for the 15m of 100mm water main should be considered Relocation Costs and the incremental cost of upgrading and betterment should not be.

Please also refer to Surrey's response to BCUC IRs 1.6.2 and 1.6.4.

3. Reference: Exhibit B2-1, page 8

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. The waiver of fees and charges is provided for in section 5.1 of the requested terms in Appendix B.

We understand that FEI does not support an Operating Fee at 3% of gross revenues, and prefers an Operating Fee at a significantly lower percentage applied only to delivery revenue (that is, excluding commodity revenue). We will leave it to FEI to explain their position.

3.1 Please provide an estimate or range of the expected fees that the City of Surrey would be waiving if the Operating Fee of 3% of gross revenues was approved.

RESPONSE:

Please refer to Surrey's response to BCUC IR 1.2.4.

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3.2 Does the City of Surrey believe that its costs are directly related to FEI's gross revenues? Please explain why or why not and provide quantification of any evidence that the City of Surrey has available.

RESPONSE:

No, the City of Surrey's costs are not directly related to FEI's gross revenues from provision and distribution of gas consumed within the city.

Surrey's response to BCUC IR 1.4.2 provides a report by Aplin Martin Consultants which assesses the nature of costs Surrey incurs and estimates some of the costs incurred as a direct result of FEI.

3.3 Please explain why the City of Surrey believes it is appropriate to include the gas commodity revenues in a calculation of Operating Fees.

RESPONSE:

The City of Surrey understand 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 provision and distribution of all gas consumed within the respective municipality, including the gas commodity revenue, and that none of the 70 municipalities have costs that are directly related to FEI's gross revenues. 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 on any other basis.

Please refer to Surrey's response to BCUC IR 1.2.3 for Surrey's views on the benefits and risks of utilizing gross revenue versus delivery margin as the basis for calculating the operating fee, and to Surrey's response to BCUC IR 1.5.3 for further information on FEI operating fees. Please also refer to Surrey's response to BCOAPO IR 1.1.2 for Surrey's views on what a cost causation approach would look like.