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E-FILED

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

Dear Mr. Wruck:

British Columbia Utilities Commission
FortisBC Energy Inc. and City of Surrey Application for Approval of Terms for an Operating Agreement – project no. 1598915

In accordance with the regulatory timetable established by British Columbia Utilities Commission Order No. G-201-17, we enclose the City of Surrey's Response to BCUC IR No. 2.

Yours very truly,

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

CITY OF SURREY'S RESPONSE TO BCUC INFORMATION REQUEST NO. 2
FILED: MARCH 2, 2018

A. UNRESOLVED OPERATING TERMS

12.0 **Reference: Relocation Costs**
Exhibit B1-5, BCUC IR 1.12.2 p. 23
FEI's invoices and relocation costs

In FortisBC Energy Inc.'s (FEI) response to Commercial Energy Consumers Association of British Columbia's (CEC) Information Request (IR) 1.12.2 filed with the British Columbia Utilities Commission (Commission), it stated:

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

12.1 Why has the City of Surrey not paid these invoices and what action has it taken to resolve the outstanding bills?

Response:

The City of Surrey undertook a highway project within the boundaries of an existing highway (168 Street) for which the City obtained an order from the Oil and Gas Commission (OGC) to proceed with. A copy of the Order is included as part of Attachment 2 to Surrey's response to BCUC IR No. 1. Rather than proceeding with the less expensive option to secure its piping to a bridge, which FEI estimated to cost $239,030, FEI chose instead to directionally drill beneath the river which FEI says cost $973,832.91. FEI's invoices do not provide any details or explanation for the amount claimed.

Under section 12(4) of the *Oil and Gas Activities Act* General Regulation, B.C. Reg. 274/2010 in effect at that time (which contained the predecessor cost allocation formula to that currently prescribed in the Pipeline Crossing Regulation), any costs incurred by the pipeline company to accommodate the City's OGC approved project are the responsibility of the pipeline company. The City has also maintained that the work undertaken by FEI was not requested by the City, was not required to accommodate the City's project and that it constituted an upgrade and/or betterment.

12.2 Did City of Surrey ever pay monies to British Columbia Hydro and Power Authority (BC Hydro) for relocations when BC Hydro owned the gas utility? Please discuss.

Response:

BC Hydro divested its natural gas assets and operations in 1988 when the distribution of natural gas in British Columbia was privatized. With approximately 30 years having passed since then, the City of Surrey does not have the requested information readily available and would have to undertake extensive search efforts to obtain such information. That said, given that BC Hydro enjoyed extraordinary privileges under the predecessor to section 32 of the *Hydro and Power Authority Act* (which at the time of first enactment in 1964 appeared as s. 53 of the *British Columbia Hydro and Power Authority Act, 1964*) and given that at that time municipalities were not vested with the soil and freehold of highways and did not have as much control over highways as they do today, the City expects that some monies for relocations would have been paid to BC Hydro during the approximately 20-25 year period BC Hydro operated its natural gas system in the city.

12.3 Will City of Surrey be paying these invoices after the new Operating Agreement comes into force? Please discuss.

Response:

The resolution of any outstanding disputes, including those related to the FEI invoices referenced above and to FEI's refusal to pay the $1.7 million delay claim and the as yet unquantified damages caused by FEI or its predecessors cross boring its natural gas lines through the City's infrastructure referred to in Surrey's response to BCUC IR 1.1.1, is independent of the resolution of the applications for approval of operating terms now before the BCUC in this proceeding. The outstanding disputes will likely be the subject-matter of future discussions between the parties.

CITY OF SURREY'S RESPONSE TO BCUC INFORMATION REQUEST NO. 2
FILED: MARCH 2, 2018

13.0 **Reference: Definition of Relocation Costs**
Exhibit B1-9, City of Surrey IRs 1.3.3, 1.3.4, pp. 23-25; Exhibit B1-12, pp. 1-5
Fairness of FEI's relocation proposal

FEI's response to City of Surrey IRs 1.3.3 to 1.3.4 and section 1.1 of the FEI Rebuttal Evidence further explain how FEI's relocation proposal would work.

13.1 Does City of Surrey have objections to the fairness of the FEI proposals? Please explain any objections and why the City of Surrey proposal would be more fair.

Response:

Based on FEI's Rebuttal Evidence (Exhibit B1-12) and response to Surrey IR 1.3.4.1, the City of Surrey understands that the following are the key terms of FEI's current proposal for a definition of Relocation Costs for an operating agreement with the City:

	FEI Proposal	Reference
1.	The requesting party will be responsible for the appropriate apportionment of the lowest cost solution to meet applicable Laws (codes and regulatory standards – not company policies/practices).	FEI Rebuttal Evidence, page 3, lines 14-16
2.	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.	FEI Rebuttal Evidence, page 3, lines 16-19
3.	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.	FEI Rebuttal Evidence, page 3, lines 25-33

4.	For Service Lines: • The amount subject to the allocation formula would be the least costly of the code compliant alternatives to reconnect Service Lines.	FEI Rebuttal Evidence, page 4, lines 3-5
5.	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.	FEI Rebuttal Evidence, page 5, lines 2-8
6.	Relocation Costs do not include costs related to relocation of facilities that are already identified for replacement under the owner's asset management plans.	FEI response to Surrey IR 1.3.4.1, Scenario #1

If the above table accurately describes the terms of FEI's current proposal for a definition of Relocation Costs, the City would agree that FEI's proposal is fair in principle, except for FEI's proposal that the definition of Relocation Costs capture the cost of the lowest cost alternative necessary to comply with applicable Laws (codes and regulatory standards). Under FEI's definition, if codes and standards have evolved since the facilities were originally installed, and/or if the facilities were originally installed to sub standards and did not conform to the codes and standards in effect at the time, FEI's cost to upgrade such facilities to bring them into compliance with current codes and standards would be included in Relocation Costs and subject to the allocation methodology.

The City of Surrey remains of the view that it is not fair to require the municipality to pay any portion of incremental costs FEI incurs to upgrade or better its facilities, including to bring its facilities into conformity with current codes and standards. Compliance with codes and standards is the responsibility of the asset owner. If the municipality is only requesting FEI to relocate its facilities, any upgrading or betterment is not required by the municipality's request.

The City further believes that it might be fair to base the Relocation Costs on the lowest cost alternative necessary to comply with applicable Laws (codes and regulatory standards) if the facilities to be relocated already meet the current codes and standards (in which case there is no upgrading/betterment), but not if the existing facilities were installed to sub standards and now FEI is correcting defective or inaccurate installation at the time by bringing the facilities into compliance as part of the relocation project.

To provide clarity and context with respect to the Relocation Cost definition as it relates to including costs to upgrade to "codes and standards", the following are some specific examples that often arise between municipalities and gas companies, including case examples between Surrey and FEI. It is

important to note that CSA Z662 is the Standard/Code often referred to by FEI as a requirement it must follow when designing, constructing and maintaining gas pipelines; however, it is the City's position that Standard CSA Z662 does not set forth mandatory requirements but instead is a Standard to be used by persons competent to make technical judgements in the areas to which the Standard is being applied including engineering, safety and environmental protection. Thus there is no clarity as to whether or not FEI is bound by all the requirements of CSA Z662 and/or if its assets installed prior to mid 1990's, when CSA Z662 was first introduced and in effect, are "grandfathered" from this Standard. Since its first introduction in the mid 1990's, CSA Z662 has been regularly updated every 4 to 5 years and is scheduled for another update in 2019 with its draft pending review.

Example #1:

The City is widening an existing road from a 15m width to a 30m width and all works are being completed within the City's existing road allowance, and at the same road elevation. FEI has a transmission main that was installed in 1958 and the method of installation, depth of cover, type of joint welding and/or other design factors were based on engineering principles and professional judgment at the time and differ from those set out in CSA Z662.

During design, it was determined that FEI's pipeline does not meet the depth of cover recommended under CSA Z662 and the type of welding used in the 1950's was not that which is recommended by CSA Z662 for today's standards for roadways. As such, FEI has taken the position that Surrey ought to expose and inspect, 100% at Surrey's cost, the entire 30m of piping to assess that the pipe and welds can accommodate the traffic loads and if not FEI requires the entire 30m of pipe be altered/relocated or cased and that Surrey ought to pay for the alteration works to bring the pipeline up to standard. Surrey is of the position that it is not responsible for casing any of the pipeline, let alone the entire length, and Surrey's opinion is that these costs should be borne by FEI as it is FEI's obligation and duty to maintain its assets and bring them into compliance with standards and codes as required. Surrey should not be responsible for any of such costs simply because of the mere fact that the City has a project occurring at this location, especially when FEI has 1000's of kilometers of pipelines across the province which are in a similar situation of "grandfathered" non-compliance.

Example #2:

The City is installing a 100m long section of sidewalk directly above an existing FEI gas pipeline, circa 1960's, and the gas pipeline only has 0.3m depth of cover which is insufficient in accordance with the current edition of CSA Z662 Standards. FEI requires the City to expose and lower/relocate the entire 100m of gas pipeline to bring it into compliance with current standards, as FEI is of the opinion that in the 1960's the gas pipeline was likely installed to a standard 2ft 0.6ft bury although there is no survey information, nor as-built plan-profile nor inspection reports/photographs to confirm FEI's position. The City is of the position that it is FEI's sole requirement and cost to bring its pipeline into compliance with the current Standard.

Example #3:

The City is making modifications (raising and/or widening) to an existing roadway bridge to which FEI has an existing gas pipeline attached. FEI requires the City to relocate the gas pipeline prior to the

bridge modifications works being done and as part of such FEI requires the City to add isolation valves on FEI's gas main on either side of the river crossing because that is identified within CSA Z662 standard for river crossings. The City is of the position that if FEI's existing pipeline does not have isolation valves on either side of the bridge then the City should not have to pay FEI's costs to bring FEI's pipeline into compliance with the standard.

Projecting forwards, it is not unreasonable to foresee that as CSA Z662 continually changes, or another standard may come into effect, new standards may be introduced for gas pipelines across rivers in seismically sensitive areas, such as requiring horizontally directional drilling below the river or seismically restraining pipelines to bridge structures. Using the example illustrated above, if any such standard were to come into effect, it would be the City's position that such modifications to FEI's pipelines to meet the new seismic standards, including drilling beneath the river, would be solely the cost of FEI and not Surrey's because of the change in standards as well as the risk management and operational savings that FEI would enjoy.

Example #4:

Surrey is installing a new roadway across a FEI pipeline originally installed in 1958 and FEI requires the entire pipeline across the road allowance to be excavated and inspected for dents and damages, but not the pipeline beyond the new road allowance. FEI indicates this is a "code requirement" under CSA Z662 for proper maintenance of its pipelines in roadways, yet FEI is not completing this along the adjacent pipeline segments (in the non-road locations), nor is FEI completing such work on all of their other pipelines in roadways across the province. The City 's position is that given the City has never dug up nor exposed this FEI pipeline, any dents, damages or defects that may exist are a result of the installation methods in 1958 and not due to the City, and therefore any costs to inspect and repair the pipeline should be part of FEI's operating and maintenance expenditures and should not be borne by the City. Again, FEI's costs should not be imposed on the City based on the mere fact that the City has a project in the area.

In addition to the concerns above in relation to the Relocation Cost definition as it relates to including costs to upgrade to "codes and standards", the City's IR No. 2 to FEI seeks information to understand how FEI proposes to provide transparent information to the City to enable the City to verify that FEI's determination of Relocation Costs for a project complies with the terms proposed by FEI.

CITY OF SURREY'S RESPONSE TO BCUC INFORMATION REQUEST NO. 2
FILED: MARCH 2, 2018

14.0 **Reference: Operating Fees**
Exhibit B1-12, p. 13
Operating fees based on distribution costs

In FEI's Rebuttal Evidence on page 13, FEI states:

> The AltaGas decision is the only one included by Surrey relating to a gas distribution utility. In the AltaGas decision, the Alberta Utilities Commission [AUC] determined that franchise fee should be based on distribution revenues, excluding the natural gas commodity:
>
> > 30 The Commission [AUC] 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.

14.1 Recognizing the similarities between the AUC determination that franchise fees should be charged based on distribution costs and the similar Commission determination in Order C-7-03, does City of Surrey accept that it is more fair to charge Operating Fees related to distribution costs rather than gross costs? Please explain your current position.

Response:

The City of Surrey believes that the fairest approach to an operating fee is for the City to charge an operating fee to FEI of 3% of FEI's gross revenues (excluding taxes) for provision and distribution of all gas consumed within the municipality because this is the identical basis for an operating fee as the operating fees FEI is currently remitting to 75 other municipalities.

FEI confirmed that 75 municipalities in the province are currently receiving an operating fee from FEI of 3% gross revenues (excluding taxes) and that no municipality in the province is receiving an operating fee calculated on the basis of distribution revenue (refer to FEI's responses to BCUC IR 1.4.1 and Surrey IR 1.2.3). In the context of such a pervasive standard approach to operating fees in the province, the City's opinion is that there is substantial fairness and public interest in the City receiving the same standard operating fee.

The British Columbia Utilities Commission (BCUC) per Order C-7-03 and the Alberta Utilities Commission (AUC) per Decisions 2003-065 and 2003-067 both expressed a preference in 2003 to base gas utility operating / franchise fees on distribution charges to reduce volatility in revenue and utility billings that may be experienced by municipalities and customers respectively, compared to a fee based on both distribution and commodity charges.

Both the BCUC and the AUC in 2003 expressed their preference to base the operating / franchise fees on distribution charges to reduce volatility in the context of the volatile gas commodity prices experiences at that time. The AUC decided in 2003 that franchise fees respecting gas utilities will be based on the gas utility's delivery charges (excluding the cost of gas), and that continues to be the standard basis for gas utility franchise fees in Alberta (refer to AUC Decision 20069-D01-2015 re. AltaGas included within Exhibit B2-11). Electric utility franchise fees in Alberta continue to be based on the electric utility's gross

revenues.

The BCUC in its Order C-7-03 Decision indicated a preference to base operating fees on FEI's distribution charges to reduce volatility in the context of the volatile gas commodity prices experienced at that time; however, such a change was never made largely because municipalities and the Union of BC Municipalities (UBCM) argued that staying with the existing 3% of gross revenues basis for operating fees was better because it avoids the added complexity, costs and communication required for a change in approach (refer to BCUC Orders C-9-06 through C-16-06).

Operating fees based on FEI's gross revenues (both distribution and commodity charges) remain the ubiquitous standard in BC (refer to FEI's responses to Surrey IRs 1.2.15.1 and 1.2.15.2).

Moreover, it appears that FEI's distribution revenues have experienced volatility in recent years (refer to FEI's response to BCUC IR 1.5.3) to the extent that basing operating fees on distribution revenues instead of gross revenues would not appear to materially reduce volatility in revenue and utility billings that may be experienced by municipalities and customers respectively. The City's IR No. 2 to FEI seeks further information on volatility in FEI's distribution and gross revenues.

Please also refer to Surrey's response to BCUC IR 1.2.3 which sets out the City of Surrey's views on the benefits and risks of utilizing gross revenue versus delivery revenue for calculating the operating fee FEI remits to Surrey.

CITY OF SURREY'S RESPONSE TO BCUC INFORMATION REQUEST NO. 2
FILED: MARCH 2, 2018

15.0 **Reference: Operating Fees**
Exhibit B2-8-1, BCUC IR 1.5.3, p. 33
Operating Fee Purpose

In City of Surrey's response to Commission IR 1.5.3, it stated:

> We also note that FEI's General Terms and Conditions for its services, as approved by Commission Order No. G-113-16, provides the following definition for Municipal Operating Fees, which is meant to explain the nature of these fees to FEI customers:
>
> "Means the aggregate of all monies payable by FortisBC Energy to municipalities or First Nations
>
> (a) for the use of the streets and other property to construct and operate the utility business of FortisBC Energy within municipalities or First Nations lands (formerly, reserves within the *Indian Act*),
>
> (b) relating to the revenues received by FortisBC Energy for Gas consumed within the municipalities or First Nations lands (formerly, reserves within the *Indian Act*), or
>
> (c) relating, if applicable, to the value of Gas transported by FortisBC through municipalities or First Nations lands (formerly, reserves within the *Indian Act*)."
>
> …Nowhere in the above definition from FEI's General Terms and Conditions is there any suggestion that the operating fee relates to the municipalities costs or the terms of an operating agreement. The definition provides that the operating fee is for FEI's use of public places within municipalities, or relates to the revenues FEI receives for gas consumed or the value of gas FEI transports through municipalities (or First Nations lands).

15.1 Please provide a clear statement of City of Surrey understanding of the purpose of an Operating Fee to be approved by the Commission in the case of FEI and City of Surrey..

Response:

The City of Surrey and its residents are burdened by direct and indirect costs and inconveniences as a result of FEI's construction activity and operations within the municipality.

The definition of "Municipal Operating Fees" in FEI's General Terms and Conditions, as quoted in the question above, accurately reflects the City of Surrey's understanding of the purpose and nature of an operating fee. The pertinent components of the definition provide that the operating fee is for FEI's use of public places within the municipality to construct and operate its utility business, relating to the revenues received by FEI for gas delivered and consumed within the municipality.

CITY OF SURREY'S RESPONSE TO BCUC INFORMATION REQUEST NO. 2
FILED: MARCH 2, 2018

16.0 **Reference: Operating Fee**
Exhibit B2-8-1, BCUC IR 1.4.2, p. 14, Attachment 1; Exhibit B1-11, pp. 1-14
City of Surrey cost estimates

In City of Surrey's response to Commission IR 1.4.2, City of Surrey included Attachment 1 which is a report titled "Analysis of Costs Incurred by the City of Surrey due to FEI's Presence and Activities within Highways," prepared by Aplin Martin Consultants. Although City of Surrey does not support determination of the Operating Fee based on cost causation, it responds to the FEI cost assessment with the costing study by Aplin Martin Consultants.

In FEI's supplementary evidence, in section 1 it provides a response to City of Surrey's evidence regarding the costs that City of Surrey incurs.

16.1 Please respond to the assertions in the FEI supplementary evidence that the cost estimates made by City of Surrey's consultant are excessive.

Response:

Aplin and Martin is one of the most qualified and experienced civil engineering and municipal infrastructure firms in British Columbia, and this year marks their 50th anniversary of providing these services in the City of Surrey. Their experience in municipal infrastructure planning, design, construction and operation is extensive, and very focused on local aspects within Surrey and Metro Vancouver.

The primary author of the report, David Chan, and their Senior Reviewing Principle, Robert Wridgway, are registered Professional Engineers within the Province of British Columbia and have a combined 60 years of professional engineering experience.

Throughout their extensive years of experience, Aplin and Martin have had direct experience in designing municipal infrastructure in and around other utilities and FEI gas mains, both distribution and transmission; cost estimating and evaluation of contractor's unit rate prices for work, including FEI related activities; and construction administration including avoidance and contractor delay claims and costs associated with FEI utilities.

Aplin and Martin have confirmed their cost estimates were developed based on: (i) their direct experience working in and around gas mains and transmission mains, both in Surrey and other municipalities (ii) their direct experience with geotechnical engineers during design of highway crossings of transmission mains (iii) evaluation of actual contractor's unit rate prices from numerous competitive tenders (iv) information gained at Master Municipal Construction Documents (MMCD) Technical Committee meetings and conferences and (v) direct information and confirmation from various contractors as to direct and indirect actual costs, risk allocation and delay claims.

The City is of the position that the costs provided by Aplin and Martin are accurate and representative of some of the direct and indirect costs the City incurs as a result of FEI's occupancy within municipal highways and other public places in the city.

16.2 Please discuss why principle of cost causation is not relevant to determining operating fee.

Response:

FEI has confirmed that 75 municipalities in the province are currently receiving an operating fee from FEI calculated on the basis of 3% of FEI's gross revenues (excluding taxes) for provision and distribution of all gas consumed within the municipality, and that no municipality in the province is receiving an operating fee from FEI calculated on any other basis (refer to FEI responses to BCUC IR 1.4.1 and Surrey IRs 1.2.2, 1.2.3, 1.2.5, 1.2.6).

It is apparent that every one of these 75 municipalities is not incurring costs due to FEI precisely equal to 3% of FEI's gross revenues for provision and distribution of all gas consumed within the respective municipality. Moreover, the standard 3% of gross revenues operating fee has been approved for 75 municipalities without regarding to the individual circumstances or costs of each particular municipality. As recently as April 6, 2017, pursuant to Order C-4-17, the BCUC approved an operating agreement for FEI and the Village of Montrose that includes the 3% of gross revenues operating fee without considering the principle of cost causation or Montrose's costs or circumstances.

The City's research of the BCUC orders since 1990 that approved FEI operating agreements indicates that no municipality has submitted cost information in support of the operating fee. Additionally, FEI is not able to confirm whether the original 3% of gross revenues operating fee put in place some 60 years ago was designed based on a principle of cost causation.

Accordingly, while the operating fee clearly is used by the municipality to offset the municipality's costs, to date the operating fee amount has not been determined on the basis of the individual municipality's actual costs due to FEI. It is not clear why in this current proceeding it is being suggested that the City of Surrey's operating fee should be determined on an actual cost causation basis when such principle has not been relevant or applied before. The City has submitted IRs to FEI seeking information to understand why FEI for the first time in this current proceeding is arguing that municipalities should have unique operating fees determined on the basis of the individual municipality's costs and circumstances.

To the extent that the Commission might now consider the specific circumstances and costs of the municipality as relevant to the operating fee amount, the City relies on the facts that (i) Surrey hosts more FEI pipes within its boundaries than any other municipality in the province, including 114 kms of high pressure transmission pipes, and (ii) Surrey incurs more costs as a result of FEI's use of public places within the city's boundaries than all other municipalities in the province combined. Given that Surrey is the outlier in the province with respect to the extremely high costs and burden it bears as a result of FEI's use of public places in the city, in Surrey's view it is reasonable for Surrey to receive a 3% of gross revenue operating fee, the same as 75 other municipalities do even though they have much less FEI infrastructure within their boundaries and much lower costs and burden due to FEI. Please refer to Surrey's responses to BCUC IRs 1.5.3 and 2.16.6.

Please also refer to Surrey's response to BCOAPO IR 1.1.2 for the City's views on how an operating agreement might be structured if it was to be based entirely on principles of actual costs and cost causation.

16.3 Please discuss how City of Surrey tracks costs related to FEI's operation in City of Surrey.

Response:

The City of Surrey does not separately track its direct and indirect costs due to FEI's activities within the municipality. For example, the City has data on the number of permits issued in a given year and can identify the number of permits issued to FEI, but City staff do not track their time spent processing and issuing permits to FEI. Similarly, the City has aggregate data on its costs to process and issue permits but the data does not identify the portion of the costs attributed to FEI.

For the purposes of this proceeding, City staff reviewed project files for information and made reasonable cost apportionment assumptions to answer the IRs about costs. As the City does not separately track its costs due to FEI, the City asked Aplin Martin Consultants to prepare a report on the anticipated costs to the City as a direct result of FEI's gas infrastructure occupying highways and FEI conducting its gas utility business in Surrey. Aplin Martin's report is attached to Surrey's response to BCUC IR 1.4.2. The report provides a detailed analysis, description of costs, key cost drivers/factors, and assumptions. Given the limited time constraints, Aplin Martin's assessment did not include a cost quantification of the City's operating costs due to FEI.

16.4 Please provide a detailed cost breakdown by category in relation to FEI operating in City of Surrey for the last 24 months. Please provide this breakdown in a workable Excel format.

Response:

The City of Surrey does not have the requested information beyond what has already been provided in the Aplin Martin report attached to Surrey's response to BCUC IR 1.4.2 and in the City's responses to other IRs in this proceeding.

16.4.1 Please discuss which costs, if any, would be reduced if an operating fee is put in place.

Response:

The operating fee is revenue and it would not by itself reduce costs. The City of Surrey has agreed that with the addition of a 3% of gross revenues operating fee, the City will waive collection of permit/pavement cut fees from FEI. Waiving the permit/pavement cut fees will reduce the City's revenues. The City also anticipates that avoiding the effort to process and collect permit/pavement cut fees would save the City $50,000 in staff time / costs, which is in addition to the savings FEI would realize as a result of reduced staff time and courier charges and avoidance of the fees. Refer to Surrey's responses to BCUC IRs 1.2.2 and 1.2.4.

The terms of the proposed operating agreement have many significant improvements (benefiting both parties) as compared to the legacy 1957 Agreement between the parties and other recent FEI operating agreements. The clear and robust contract language in the requested operating agreement should enable both parties to improve the efficiency of their business processes and reduce the number of disputes going forward, reducing costs for both parties. Consistent with FEI, the City estimates this savings equates to $100,000 per year (refer to Surrey's response to BCUC IR 1.4.3).

In Order G-113-12 and accompanying Reasons for Decision, the Commission ordered that amendments in the operating agreement between FEI and the District of Coldstream be incorporated into future operating agreements between FEI and municipalities.[1] In Order C-7-14, the Commission approved a further amended version of the operating agreement (Standard Operating Agreement) between FEI and the Village of Keremeos.[2] The Standard Operating Agreement has an operating fee of 3% gross revenue (excluding taxes), and City of Surrey is proposing the same operating fee at 3% gross revenue (excluding taxes).

16.5 Does City of Surrey believe the Standard Operating Agreement's operating fee of 3 percent of gross revenues (excluding taxes) was based on cost causation?

Response:

The City of Surrey's research has not identified the original basis for the 3% of gross revenues (excluding taxes) operating fee in the FEI "Standard Operating Agreement". FEI stated that its predecessor Inland Natural Gas began collecting a 3% of gross revenues operating fee for municipalities in the Interior region in 1957. FEI also stated that it is not aware of any information setting out the basis or methodology used to determine the 3% of gross revenues amount approximately 60 years ago.

Please refer to Surrey's response to BCUC IR 2.16.2.

[1] FortisBC Energy Inc.- Operating Terms between the District of Coldstream and FEI-Order G-113-12 with reasons for decision
[2] FortisBC Energy Inc.-Operating Agreement with the Village of Keremeos-C-7-14

16.5.1 If not, what does City of Surrey believe the Standard Operating Agreement's operating fee of 3 percent of gross revenues (excluding taxes) was based on?

Response:

Please refer to Surrey's responses to BCUC IRs 2.16.2 and 2.16.5.

16.6 If the Commission were to use cost causation to determine the operating fee in the FEI and City of Surrey Operating Agreement, please provide what the approximate operating fee value would be relevant to the services provided by City of Surrey to FEI.

Response:

In response to BCUC IR 1.4.2, the City of Surrey provided a study by Aplin Martin engineering consultants dated September 22, 2017 that estimates the costs incurred by the City for FEI's use and occupation of highways and other public places within the city. As identified in their study, Aplin Martin quantified $3,342,258 / year in direct costs, based on 2017 dollars, incurred by the City and this provides a reasonable forecast of such costs for the next 10 years based on the City's 10-year Engineering Servicing Plan.

Due to limited time constraints, Aplin Martin did not estimate operational costs incurred by the City; nor those for traffic disruption and inconvenience; nor those for park and public amenity disruption and temporary loss of use; nor social costs associated with visual trench patches and cuts in the roads.

Based on our experience and cost estimates derived for other third party utility impacts, the City estimates that its operational costs incurred as a result of FEI's use and occupation in highways and other public places in the city is in the range of $300,000 to $500,000 / year. These operational costs include items such as, but not limited to:

- emergency services, such as trench, pothole and sidewalk repairs above FEI installations;
- repair of damages to City utilities such as those caused by FEI cross bores;
- tree replanting and maintenance due to FEI installations; and
- additional costs due to presence of gas mains when the City is completing service connections, water main tie-ins and municipal utility repairs.

Due to limited time constraints, the City does not have an estimate for indirect costs due to traffic inconvenience, temporary loss of park amenities, public acceptance with visual trench patches and road cuts, and other similar matters. The City believes that such costs are material though difficult to quantity.

The costs estimated in Aplin Martin's report and those identified and quantified in this response sum to $3.64 million to $3.84 million, exclusive of indirect costs due to traffic inconvenience, temporary loss of park amenities, public acceptance with visual trench patches and road cuts, and other similar matters. This suggests that if the City's operating fee was designed to recover actual costs as a result of FEI, the operating fee value would probably be more than $4 million / year in 2017 Canadian dollars.