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September 8, 2017

BY EMAIL

FortisBC Energy Inc.
16705 Fraser Highway
Surrey, B.C. V4N 0E8

Attention: Ms. Diane Roy
Vice President, Regulatory Affairs

Dear Ms. Roy:

**Re: British Columbia Utilities Commission
FortisBC Energy Inc. and City of Surrey Applications 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-98-17, we enclose the City of Surrey's Information Request No. 1 to FortisBC Energy Inc. for the above-referenced proceeding.

Yours very truly,

LAWSON LUNDELL LLP

A handwritten signature in blue ink that reads 'Ian Webb'.

Ian Webb

Enc.

cc. Commission Secretary, British Columbia Utilities Commission
Anthony Capuccinello, City of Surrey

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REQUESTOR NAME: **City of Surrey**
INFORMATION REQUEST ROUND NO: **1**
TO: **FortisBC Energy Inc.**
DATE: **September 8, 2017**
PROJECT NO: **1598915**
APPLICATION NAME: **FortisBC Energy Inc. and City of Surrey
Applications for Approval of Terms for an
Operating Agreement**

A. General

- 1.1. The City of Surrey requests FEI to provide the following information as context for the Commission's consideration of the present applications. The municipalities identified below, with the exception of City of Surrey, have modern operating agreements with FEI. The Cities of Victoria, Nanaimo and Kelowna have been selected because they are large municipalities. The District of Coldstream has been selected because its operating agreement with FEI was subject of a Commission proceeding and decision (Order No. G-113-12 decision dated August 23, 2012). The Village of Keremeos has been selected because Commission Order No. C-8-14 directed FEI, for future operating agreement filings, to provide analysis of any wording that differs from the Village of Keremeos operating agreement.

For each of the City of Victoria, City of Nanaimo, City of Kelowna, Village of Keremeos, District of Coldstream and City of Surrey, please provide the following information in tabular form:

- (i) kilometres of FEI distribution gas mains within the boundaries of the municipality,
- (ii) kilometres of FEI high pressure transmission pipelines (IP and TP) within the boundaries of the municipality,
- (iii) number of municipal projects that required FEI to realign, raise, lower, by-pass, relocate or protect (collectively, "Relocate") (1) FEI distribution gas mains, and (2) FEI high pressure transmission pipelines for each of the last five years,
- (iv) number of (1) FEI distribution gas main projects, and (2) FEI high pressure transmission pipeline projects that required the municipality to Relocate municipal facilities for each of the last five years,
- (v) total amount FEI has charged to the municipality for reimbursement of FEI costs to Relocate (1) FEI distribution gas mains, and (2) FEI high pressure transmission pipelines for each of the last five years, and

- (vi) the gross operating fee FEI paid to the municipality for 2015 and 2016, and projects it will pay to the municipality for 2017 and 2018.
- 1.2. Please confirm or explain otherwise that the costs presented in Figures 1 and 2 of City of Surrey's application (Exhibit B2-1) are accurate.
- 1.3. The District of Chetwynd did not reach agreement with FEI on operating terms, and by Order No. G-17-06 dated February 2, 2006 the Commission specified the terms for FEI's operating agreement with the District of Chetwynd. The District of Coldstream did not reach agreement with FEI on operating terms, and by Order No. G-113-12 dated August 23, 2012 the Commission specified the terms for FEI's operating agreement with the District of Coldstream.

Has FEI and any other municipality in the province failed to reach agreement on an operating agreement such that the Commission has been required to specify the terms during the last ten years? If so, please provide a list of the Commission orders issued during the last ten years that specified the terms of operating agreements for such municipalities. For greater certainty, this question is not seeking Commission orders that affirmed or accepted for filing operating agreements endorsed by FEI and the respective municipality, only those orders where the Commission was required to specify operating terms because FEI and the municipality did not agree.

B. Operating Fee

The City of Surrey understands that FEI is currently remitting operating fees to approximately 70 municipalities in the province, and that the operating fee paid to each of these municipalities is calculated as 3% of the gross revenues (excluding taxes) received by FEI for provision and distribution of all gas consumed within the boundaries of the respective municipality. Surrey requests FEI to provide the following information to verify Surrey's understanding.

- 2.1 How many municipalities in the province currently receive an operating fee from FEI?
- 2.2 Of those municipalities currently receiving an operating fee from FEI, what percentage of them have their operating fee calculated on the basis Surrey requests for itself in its application (*i.e.*, 3% of gross revenues (excluding taxes) as set out in section 4(i) of Surrey's application)?
- 2.3 Of those municipalities currently receiving an operating fee from FEI, what percentage of them have their operating fee calculated on the basis of 0.7% of delivery margin (*i.e.*, as set out in section 3.3.2 of FEI's application)?
- 2.4 Of those municipalities currently receiving an operating fee from FEI, what percentage of them have their operating fee calculated on the basis of delivery margin as opposed to gross revenues?
- 2.5 Of those municipalities currently receiving an operating fee from FEI, what percentage of them have their operating fee calculated using the methodology set out in section 3.3.3.1 of FEI's application?

- 2.6 Has the Commission previously considered the methodology FEI proposes to apply for Surrey’s operating fee as set out in section 3.3.3.1 of FEI’s application? If so, please provide references to the relevant Commission order(s) and decision(s).
- 2.7 What is the most recent operating agreement FEI has entered into that provides for FEI to remit an operating fee to the municipality calculated on the basis of 3% of gross revenues (excluding taxes). Please provide the name of the municipality, the date of the operating agreement and identify the Commission order, if any, accepting the agreement.
- 2.8 Please complete the second column of the table below for those municipalities currently receiving an operating fee from FEI.

Total amount FEI charged to the municipality in 2016 for reimbursement of FEI costs to realign, raise, lower, by-pass, relocate or protect FEI distribution gas mains and high pressure transmission pipelines	Number of municipalities (receiving an operating fee)
\$0	
\$1 to \$10,000	
\$10,000 to \$25,000	
\$25,000 to \$50,000	
\$50,000 to \$100,000	
More than \$100,000	

- 2.9 Re: FEI’s application, page 20, lines 5 to 9.

What was the original basis for FEI’s decision to apply the 3% of gross revenues operating fee as a 3.09% charge on customer bills (that is, apply the 3% to the customer’s delivery charges + commodity charges + Operating Fee as indicated on page 20, lines 7 to 8 of FEI’s application)? Did the Commission direct FEI to apply the 3% of gross revenues operating fee in that manner? If so, please identify the applicable Commission order.

- 2.9.1 By applying the 3% charge to the customer’s delivery charges + commodity charges + Operating Fee, does FEI collect more revenue pursuant to the charge than it remits to municipalities? If so, what happens to the incremental revenue retained by FEI? If not, please explain.

2.10 Re: FEI's application, page 6, lines 19 to 23; page 14, lines 7 to 9; and page 19, line 39 to page 20, line 3. FEI says that it has an objective of developing an operating fee model based on the amount and nature of the work FEI performs within Surrey and the permitting fees and other administrative costs that Surrey would levy for similar work undertaken by non-utility third parties. FEI also says that operating fees should be "proportional to the nature of the work being done". FEI also says 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 [of Surrey], which is in excess of any reasonable amount that should be paid for the services provided. In addition, the variable factors in the formula for gross revenue (commodity costs) have no association or connection with the costs incurred by the Municipality for the Company's facilities and operations to serve customers in the Municipality." Surrey requests FEI to provide the following information to verify whether the noted associations or connections were considered in the determination of operating fees FEI is remitting to other municipalities.

2.10.1 Did FEI analyse and/or calculate the relationship between operating fee remitted and "amount that should be paid for the services provided", "nature of the work being done" or "costs incurred by the Municipality for the Company's facilities and operations to serve customers in the Municipality" for any of the municipalities in the province that currently receive an operating fee from FEI? If so, please provide the analysis. If not, please fully explain why FEI is now proposing a new approach.

2.10.2 In accepting, approving or determining the terms of FEI operating agreements, has the Commission previously considered such relationships between the operating fee and services provided, work being done or costs incurred? If so, please provide references to the relevant Commission order(s).

2.11 Has FEI estimated the savings it enjoys from placing its facilities on, along, across, over or under public places owned and controlled by Surrey as compared to the cost FEI would incur to purchase or expropriate statutory rights-of-ways ("SROW") on private property? If so, please provide and explain the estimate.

2.11.1 Would FEI agree that if it had to purchase or expropriate SROW on private property for FEI's 2,685 kilometers of pipes within Surrey's boundaries, this would cost FEI roughly \$2 billion (calculated on the basis of 2,685 kilometers of pipes * 3 meters (average width of SROW) * \$1 million/acre (average assessed value of land in Surrey))? If not, please provide and explain an estimate of what it would cost FEI to purchase or expropriate SROW on private property for FEI's pipes within Surrey's boundaries.

2.11.2 Would FEI agree that by placing its facilities under Surrey's streets, FEI also enjoys savings from having its facilities accessible for operation and maintenance work, and from avoiding having to build and maintain its own roads to access its facilities, as compared to a scenario where FEI's facilities were located on or under private property? If not, please explain why not.

- 2.12 Re: FEI’s application, section 3.3.3.2. FEI argues that the circumstances of Surrey “differ in important respects from those of other municipalities” justifying a different basis for an operating fee. The City of Surrey requests the following information from FEI to better understand the alleged difference.
- 2.12.1 Was FEI remitting operating fees to any Vancouver Island municipalities prior to the 2014 amendments to the Vancouver Island Natural Gas Pipeline Act? Please explain.
- 2.12.2 Please confirm or explain otherwise that after the Vancouver Island Natural Gas Pipeline Act was amended in 2014 to enable Vancouver Island municipalities to levy an operating fee, the Commission recently approved 26 operating agreements between FEI and municipalities on Vancouver Island and the Sunshine Coast which each provide for 3% of gross revenue operating fees.
- 2.12.3 Did FEI support or oppose the recent addition of 3% of gross revenue operating fees for municipalities on Vancouver Island and the Sunshine Coast? If FEI opposed, please provide evidence of such opposition as was submitted to the Commission at the time.
- 2.13 Has FEI opposed a 3% of gross revenue operating fee in any previous proceedings before the Commission? If so, please provide evidence of such opposition as was submitted to the Commission at the time. If not, please fully explain why FEI is now opposing a 3% of gross revenue operating fee for the first time.
- 2.14 Given that City of Surrey pays to FEI the highest average annual amount (of all municipalities in the province) for reimbursement of FEI costs to realign, raise, lower, by-pass, relocate or protect FEI distribution gas mains and high pressure transmission pipelines, and pays more to FEI for such reimbursement than all Vancouver Island, Sunshine Coast and Interior municipalities combined, please explain why FEI takes the position that Surrey should receive an operating fee that is less than the 3% of gross revenue operating fee that FEI remits to other municipalities.
- 2.15 Re: FEI’s application, page 20, lines 14 to 16. FEI says that its proposed methodology for calculating Surrey’s operating fee addresses a Commission directive from its Order No. C-7-03 Decision dated September 3, 2003. A search of the Commission's historical orders indicates that the Commission has not considered the Order No. C-7-03 directive since 2006 when the Commission approved several Terasen Gas Inc. operating agreements that provide for 3% of gross revenues operating fees.
- 2.15.1 Has the Commission considered the Order No. C-7-03 directive since the orders it issued on August 29, 2006 (Order Nos. C-9-06 through C-16-06)?
- 2.15.2 Following Order No. C-7-03, how many operating agreements has FEI entered into that provide for a 3% of gross revenue operating fee?

- 2.15.3 Please confirm that the Commission’s directive at page 5 of Order No. C-7-03 Decision was made in the context of “considerable volatility” in gas commodity costs at that time (*i.e.*, in recent years prior to 2003).
- 2.15.4 Please confirm that the Commission’s Order No. C-7-03 directive was to seek a different method to charge the fee so as to stabilize the costs to utility customers (in the context of considerable volatility in gas prices at the time), and that the Commission made no directive to reduce the value of the operating fee or to calculate unique operating fees for each municipality.
- 2.15.5 Does FEI expect that natural gas prices over the next ten years will be volatile to the extent experienced during the late 1990's and early 2000's? Please explain.

C. Definition of “Relocation Costs”

- 3.1 Re: FEI’s application, page 21, lines 1 to 2.

Please provide references to any regulatory precedents from other jurisdictions (*e.g.*, decisions, orders, regulations, standards, model agreements, etc.) FEI is aware of that align to FEI’s position on responsibility for upgrade/betterment costs incurred during relocation projects, and in particular that employ the “but for” concept employed by FEI.

- 3.2 Please provide copies of any FEI internal documents that set out FEI's policies and/or practices with respect to Relocating FEI facilities to accommodate municipal projects, defining the scope of FEI’s work in such circumstances, and/or recovering costs associated with such FEI work.

- 3.3 Please provide any FEI asset management guidelines / practices / procedures that specify and/or discuss when end-of-life distribution gas mains and transmission pipelines are to be excavated and replaced with new pipe. How long does FEI expect that distribution gas mains and transmission pipelines that were installed in the 1960’s and 1970’s will last before they need to be excavated and replaced?

- 3.4 Re: FEI’s application, page 21, lines 21 to 23. FEI says that its proposed definition of Relocation Costs “recognises the possibility of necessary improvements, without extending the recoverability of costs beyond those costs associated with improvements required by law or sound engineering practices.” The City of Surrey requests the following information from FEI to better understand the operation of the underlined wording above.

3.4.1 Please explain in as much detail as possible what, if any, costs would be excluded pursuant to FEI’s proposed definition of Relocation Costs per the underlined wording above.

3.4.2 Please explain why Surrey should reimburse FEI for FEI’s costs of “necessary improvements” given that FEI system improvements are to the benefit of FEI customers.

- 3.4.3 If Surrey needs FEI to move a distribution gas main to accommodate a municipal water main upgrade project, the gas main is 50 years old and fully depreciated, and FEI takes the opportunity of the excavation to replace the gas main with new pipe, is it FEI's position that Surrey should pay 100% of FEI's costs of the new pipe? If so, please fully explain why and please explain whether it would be relevant to FEI if the gas main was due or overdue for replacement pursuant to FEI's asset management guidelines / practices / procedures. If not, please explain how FEI would propose to allocate its costs.
- 3.4.4 If Surrey needs FEI to move a distribution gas main to accommodate a municipal water main upgrade project, and upon excavation FEI discovers that its gas main was not installed with a sufficient depth of cover to meet Code requirements, is it FEI's position that Surrey should pay 100% of FEI's cost to bring the gas main into compliance with Code requirements? If so, please fully explain why. If not, please explain how FEI would propose to allocate its costs.
- 3.4.5 If Surrey needs FEI to move 500 meters of steel distribution gas main 30 centimeters to accommodate a municipal water main upgrade project, and upon excavation FEI discovers that its gas main is leaking due to premature failure and that 1000 meters of gas main needs to be replaced, is it FEI's position that Surrey should pay 100% of FEI's cost to replace the entire 1000 meters of gas main? If so, please fully explain why. If not, please explain how FEI would propose to allocate its costs.
- 3.4.6 If FEI decides to replace the leaking steel gas main referenced in the question above with PVC pipe and in FEI's opinion this will also require all of the connected customer service lines to be upgraded from steel to PVC, is it FEI's position that Surrey should pay 100% of the costs to replace the entire 1000 meters of gas main and 100% of the costs to replace the customer service lines? If so, please fully explain why. If not, please explain how FEI would propose to allocate the costs.
- 3.4.7 If FEI decides to replace the leaking steel gas main referenced in the question above with an upgraded larger capacity gas main in anticipation of load growth, is it FEI's position that Surrey should pay 100% of FEI's costs for the larger pipe? If so, please fully explain why. If not, please explain how FEI would propose to allocate its incremental costs for the upgraded pipe.
- 3.4.8 If FEI's decision to replace the leaking gas main with an upgraded larger capacity gas main also requires FEI to upgrade other facilities (such as compressors), is it FEI's position that Surrey should pay 100% of FEI's costs for the associated upgrades and work? If so, please fully explain why. If not, please explain how FEI would propose to allocate its incremental costs for the ancillary facility upgrades.

3.5 Please confirm or explain otherwise that when FEI takes the opportunity presented by a facility relocation project to upgrade FEI facilities (*e.g.*, by installing higher capacity pipes and/or pipes made of technologically advanced materials with longer service lives), FEI and its customers are the beneficiaries of the system improvement. Is it not appropriate that those benefitting from system improvement pay the costs of the upgrading/betterment of the system? Please explain.

D. Apportionment of Relocation Costs

No questions.

E. Release of Statutory Rights of Way

No questions.