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January 26, 2018

Sent via eFile

**FEI and City of Surrey Applications for Approval of Terms  
for an Operating Agreement Exhibit A-8**

Ms. Diane Roy  
Vice President, Regulatory Affairs  
FortisBC Energy Inc.  
16705 Fraser Highway  
Surrey, BC V4N 0E8  
gas.regulatory.affairs@fortisbc.com

**Re: FortisBC Energy Inc. – Application for Approval of Operating Terms between the City of Surrey and FortisBC Energy Inc. and the Application by the City of Surrey for an Order Pursuant to Section 32(2) of the *Utilities Commission Act* – Project No. 1598915 – Commission Information Request No. 2**

Dear Ms. Roy:

Further to your May 18, 2017 filing regarding the above noted application, enclosed please find Commission Information Request No. 2. In accordance with the regulatory timetable set out in Order G-201-17, please file your responses no later than Friday, March 2, 2018.

Sincerely,

*Original signed by:*

Patrick Wruck  
Commission Secretary

/dg

Enclosure



FortisBC Energy Inc. and the City of Surrey  
Applications for Approval of Terms for an Operating Agreement

**INFORMATION REQUEST NO. 2 TO FORTISBC ENERGY INC.**

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**A. UNRESOLVED OPERATING TERMS**

**12.0 Reference: Rationale for FEI’s Proposal Regarding Operating Fee  
Exhibit B1-1, p. 17  
Inland operating fee**

On page 17 of FortisBC Energy Inc.’s (FEI) application for approval of terms for an operating agreement with City of Surrey (FEI Application) filed with the British Columbia Utilities Commission (Commission), it states that:

Inland Natural Gas [Inland] (one of FEI’s predecessors) began collecting an Operating Fee on behalf of municipalities in the Interior region in 1957, when natural gas was first introduced. The Operating Fee rate since inception in the Interior region has been set at 3 percent of gross revenues received by the Company for the provision and distribution of gas consumed within the municipality. FEI is not aware of any information setting out the basis or methodology used to determine the 3 percent amount, or any supporting information identifying how this amount was determined or derived.

- 12.1 In FEI’s view, could the 3 percent of gross revenues fee have also been considered to be a franchise fee to recognize the exclusive rights granted to Inland to distribute natural gas in the communities?
- 12.2 To what extent should the operating fee reflect the goodwill of the municipality in allowing Inland Natural Gas (Inland) to utilize municipal infrastructure for gas distribution?
- 12.3 Would the Inland operating fees have also recognized the inconvenience and visual impact that cuts to roadways impose?
- 12.4 Did FEI reach out to past Inland employees or Inland’s legal counsel to better understand the basis of the 3 percent of gross revenue operating fee? If not, why not?

**13.0 Reference: Rationale for FEI’s Proposal Regarding Operating Fee  
Exhibit B1-1, p. 17  
Victoria operating fee**

On page 17 of the FEI Application, it states:

The operating agreements on Vancouver Island post-dated the Inland agreements. The Pro-Forma Interim Municipal Gas Operating Agreement (the Interim Vancouver Island Agreement) between 19 municipalities and the Company's predecessors had contemplated that the utility would collect an Operating Fee on behalf of municipalities equal to 3 percent of gross revenues, provided that the fee was authorized by the Legislature. The authorization had been anticipated to occur following repayment of the grants made by the Province related to the Vancouver Island Natural Gas Pipeline Project. The Commission by Order G-13-91, dated February 8, 1991, had approved the Interim Vancouver Island Agreement with the 19 Vancouver Island Municipalities for a term of 21 years on this basis. However, Section 7(5) of the *Vancouver Island Natural Gas Pipeline Act* (VINGPA) had then legislatively precluded municipalities from levying an Operating Fee. On November 25, 2014, Bill 4-2014 was enacted, amending the VINGPA by repealing Section 7(5). In 2015, the Commission approved 26 executed operating agreements with Vancouver Island municipalities, which included the provision for collection and remittance of Operating Fees based on 3 percent of gross revenues.

- 13.1 The Victoria butane utility was originally owned by British Columbia Hydro and Power Authority (BC Hydro), like the situation in the City of Surrey. Was BC Hydro exempt from paying taxes in both communities and is that why there were no operating fees for these communities?
- 13.2 If Victoria allowed a 3 percent of gross revenue operating fee after being acquired by an investor owned utility, does this establish a precedent for other former BC Hydro gas division entities now owned by investor utilities?

14.0 **Reference: Unresolved Operating Terms**  
**Exhibit B1-6, BCUC Information Request (IR) 1.5.3-1.5.4, p. 19**  
**Operating fee based on delivery margin**

In response to Commission IR 1.5.3, FEI provided a table on *FEI Gross Revenue and Delivery Margin for the Municipality of Surrey 2007 to 2016*.

In response to Commission IR 1.5.4, FEI stated it believes "the primary benefits of an Operating Fee calculated annually based on delivery margin versus gross revenue are a closer relationship with costs and activity levels in the municipality, and increased stability and predictability for customers and the municipality" and further "that an Operating Fee calculated based on gross revenue does not support the cost causation principle, because it is impacted by costs other than those related to the gas delivery system."

- 14.1 Please update the table provided by FEI in response to Commission IR 1.5.3 to identify the operating fees that would have been collected based on 3 percent of delivery margin.

15.0 **Reference: Unresolved Operating Terms**  
**Exhibit B1-6, BCUC IR 1.7.2, p. 26; Exhibit B1-5, CEC IR 1.3.2 p. 4; Exhibit B1-11, p. 15,**  
**B2-8-1, p. 53**  
**High Pressure Pipelines Relocations**

In response to Commission IR 1.7.2, FEI stated that:

The Company has no record of relocating the City of Surrey facilities over the past 10 years. FEI has made several requests but has been instructed by the City to work around their facilities. Due to grade requirements, the City can be restricted in altering their facilities. As a result, it becomes necessary for FEI to work around the City's facilities with additional costs being incurred by the Company, which ultimately results in higher

costs for all natural gas customers. As such, other than damage repairs to water services and sewer lines, according to the Company's records, FEI has made no payments to the City for relocation of their facilities in the past 10 years.

In response to Commission IR 1.7.1, the City of Surrey stated:

Based on the City's readily accessible records and staff recollection, in the last 10 years the City of Surrey has requested FEI to alter or relocate its High Pressure Pipelines four times. Due to changes to the City's financial system in and around 2012, we cannot quantify the precise number of times the City has requested FEI to relocate its Gas Mains (low pressure), however, we estimate it is on the order of 100 times over the past 10 years.

In response to Commercial Energy Consumers Association of British Columbia's (CEC) IR 1.3.1, FEI stated:

The change to 50/50 for High Pressure Pipelines in FEI's proposal is a concession made by FEI as part of an overall package. Please refer to section 3.2 of FEI's Application and the response to BCUC IR 1.9.1 for further discussion of the Apportionment of Relocation Cost rationale. FEI explains in the latter response why the Commission has jurisdiction to adopt a 100 percent allocation for High Pressure Pipelines as well, should it consider that allocation to be fairer.

On page 15 of FEI's Supplemental Evidence, it states:

Under the 1957 Operating Agreement (and other municipal operating agreements approved with Vancouver Island and Inland municipalities to which Surrey compares itself) the party requesting a relocation bears all of the costs. As such, there is significant cost discipline on the party requesting relocations. FEI's proposed Operating Agreement includes a compromise on High Pressure Pipelines that weakens this discipline in the interests of securing an overall agreement (FEI is proposing equal sharing for High Pressure Pipelines). Surrey's proposal goes further, suggesting the application of the Pipeline Crossing Regulation to both High Pressure Pipelines and Gas Mains, which would involve FEI paying 100 percent of the costs in many circumstances (with the only exception being new roads, where the costs would be shared equally). Surrey's proposal eliminates or materially reduces the present cost discipline on the City when requesting relocations of FEI's facilities for the City's own purposes, including for transmission relocations, the cost of which can be very significant. This outcome increases the potential for the City to initiate very costly relocations so as to reduce its own cost and inconvenience even where the relocation is unnecessary or costs more overall. FEI's experience would suggest it is reasonable to expect Surrey to take this approach. Surrey has never moved its own facilities at the request of FEI, even though it may cost significantly less for the City to move its facilities than to require FEI to work around them. The majority of the costs incurred by FEI on projects usually relates to working around City infrastructure, restoring/paving to City specifications and working under their by-law restrictions (road and hours of work restrictions).

- 15.1 Given the above situation, why would FEI not agree to relocation charges based on 100 percent for High Pressure Pipelines?
- 15.2 Is this truly a "concession", or would Surrey face any added costs when it asks for a relocation of an FEI High Pressure Pipeline? Please discuss.
- 15.3 Does FEI feel strongly about the 50/50 sharing proposal or would it be open to a 100 percent allocation? Please discuss.

15.4 Please give a practical example of how the Pipeline Crossing Regulation to both High Pressure Pipelines and Gas Mains would lead to FEI paying 100 percent of the FEI costs of a relocation required by the City of Surrey for its needs?

16.0 **Reference: Operating Fee Calculation  
Exhibit, B1-5, CEC IR 1.5.1, pp. 6-7  
Cost Breakdown and Cost Causation**

In response to CEC IR 1.5.1, FEI stated:

FEI considers the activity approach based on cost causation to be a fairer approach than km of pipeline because the latter approach may not reflect the construction activity in a municipality. The approach favoured by Surrey in its application and used in other agreements results in an excessive Operating Fee when measured against anticipated costs and activity levels related to FEI's operations in Surrey. FEI's view is that, if there is to be an Operating Fee, it should be based on cost causation and levied as a percentage of delivery margin, such that the percentage should relate to costs. FEI did consider potential options for financial arrangements outside of the Operating Fee model, but landed on the current proposal as the fairest approach to address cost causation.

16.1 If the Commission agrees with FEI that the operating fee should be based on "cost causation," then should it be calculated based on all direct and indirect costs faced by the City of Surrey, including indirect impacts such as traffic inconvenience and visual impacts of road cuts? Please discuss.

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

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

17.0 **Reference: Unresolved Operating Terms  
Exhibit, B1-4, BCOAPO IR 1.8.3, p. 13; Exhibit B1-8, Robinson IR 1.4.1, p. 6  
Collection of Operating Fee**

In response to British Columbia Old Age Pensioners' Organization et al.'s (BCOAPO) IR 1.8.3, FEI stated:

FEI has no evidence to indicate that Surrey ratepayers are willing to pay what will be required under FEI's proposal; however, absent an Operating Fee based on FEI's proposal, we expect that overall costs will go up for all customers as a result of increasing costs of work in Surrey. FEI is sensitive that any rate increases are not desirable for customers. FEI's interests are aligned with customers in that fees added to customer bills represent a competitive challenge. FEI believes its proposal reasonably balances the needs of Surrey while keeping the direct impact to Surrey customers as low as possible.

In response to Randolph Robinson's IR 1.4.1, FEI stated that "an Operating Fee, if one is approved, would be collected by FEI, on behalf of the City of Surrey..."

17.1 Would FEI agree that with a higher operating cost, taxpayers in the City of Surrey might not be significantly disadvantaged if that funding of the municipal budget led to similar reductions in other municipal taxes? Please discuss.

17.2 Would the 3 percent of gross revenue operating fee put FEI at a competitive disadvantage to competing fuels in Surrey and has it impeded FEI's sales in communities where it currently exists? Please discuss.

17.3 Since FEI is only acting on behalf of the City of Surrey in collecting and remitting the Operating Fee, should the Commission place greater emphasis on the costs incurred by Surrey as opposed to the Permit and Cut Fees and efficiencies calculated by FEI at page 16 of the FEI Application? Please discuss.

18.0 **Reference: Unresolved Operating Terms  
Exhibit, B1-9, the City of Surrey IR 1.2.7, p. 7  
Principled Operating Fee**

In response to City of Surrey's IR 1.2.7, FEI stated:

The most recent operating agreement approved by the Commission is between FEI and the Corporation of the Village of Montrose. The Operating Agreement provides for a 3 percent Operating Fee on gross revenues, was entered into by FEI and the municipality on January 30, 2017, and was approved by Commission Order C-4-17 dated April 6, 2017.

18.1 Why would FEI have proposed the Montrose operating agreement as recently as 2017 when it had been negotiating previously with City of Surrey for a more "principled" operating fee?

18.2 Please explain if FEI considers any of the operating agreements with operating fees of 3 percent of gross revenues to be "principled" or based on "cost causation"?

19.0 **Reference: Operating Fee Calculation  
Exhibit, B1-9, the City of Surrey IR 1.2.9, p. 8  
Operating Fee of 3.09 percent**

In response to City of Surrey's IR 1.2.9 which asked "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)?...", FEI stated it "has no knowledge of the original basis for calculating the Operating Fee in this manner other than it has always been done this way in the billing systems of the predecessor companies."

19.1 Has FEI made any attempt to correct the double counting of the existing operating fee calculations as it renegotiated operating agreements? If not, why?

## **B. JURISDICTION**

20.0 **Reference: Highway Dedication  
Exhibit, B2-8-1, BCUC IR 1.10.1, p. 63  
Statutory Rights of Ways**

In response to Commission IR 1.10.1, the City of Surrey stated that it "accepts that the Commission does not have jurisdiction to, by order, require FEI to extinguish its private interests in land in all cases whenever requested by the City of Surrey and without regard to the circumstances of each case."

20.1 Recognizing the above acceptance of FEI's Statutory Rights of Ways (SROW) rights, is there some wording that FEI can propose for the Operating Agreement that could give the City of Surrey comfort that its projects would not be unreasonably delayed? For example, would wording such as "FEI will consider requests by Surrey expeditiously and will only not approve these requests when the FEI SROW change would be vital to the ongoing operations of FEI" be appropriate? Please discuss.