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March 25, 2015

Via Email
Original via Mail

Commercial Energy Consumers Association of British Columbia
c/o Owen Bird Law Corporation
P.O. Box 49130, Three Bentall Centre
2900 – 595 Burrard Street
Vancouver, BC V7X 1J5

Attention: Mr. Christopher P. Weafer

Dear Mr. Weafer:

Re: FortisBC Inc. (FBC)

Multi-Year Performance Based Ratemaking Plan for 2014 through 2019 approved by British Columbia Utilities Commission (the Commission) Order G-139-14 - Annual Review for 2015 Rates (the Application)

Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1

On February 6, 2015, FBC filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-21-15 setting out the Regulatory Timetable for the review of the Application, FBC respectfully submits the attached response to CEC IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC INC.

Original signed:

Diane Roy

Attachments

cc: Commission Secretary
Registered Parties (e-mail only)

1.0 Reference: Exhibit B-1, Page 1

> Under the PBR Plan, some savings were achieved in 2014. Overall, FBC proposes to distribute $0.330 million in earnings sharing to customers in 2015. FBC has achieved these savings over 2014 while maintaining an overall high level of service quality as evidenced by its performance against the Service Quality Indicators (SQIs) that were approved in the PBR Decision.

1.1 Is FBC able to determine when the savings were achieved in 2014?

<u>Response:</u>

Please refer to the response to BCOAPO IR 1.3.3.

1.1.1 If so, please identify in what portion of 2014 calendar year the savings were achieved.

<u>Response:</u>

Please refer to the response to BCOAPO IR 1.3.3.

2.0 Reference: Exhibit B-1, Page 2

> 2. Permanent rates for all customers effective July 1, 2015, resulting in an increase of 2.2 percent compared to 2015 interim rates. The general rate increase will be applied to the Residential Conservation Rate (Rate Schedule 1) in accordance with the pricing principles set out in Order G-3-12[5].

2.1 Please confirm or otherwise explain that the general rate increase will be applied equally to all the rate schedules, including commercial rates.

Response:

Confirmed.

3.0 Reference: Exhibit B-1, Page 3

2(g)	Any proposals for funding of incremental resources in support of customer service and load growth initiatives.	FBC does not have any proposals at this time

3.1 Which departments are responsible for generating proposals in support of customer service and load growth initiatives?

Response:

Customer service initiatives can be sourced from any department that has interactions with customers, including Customer Service, External Relations and Operations.

FBC does not have a goal of increasing load growth, other than by way of normal customer growth; therefore, there are no initiatives or associated O&M expenses for load growth.

3.1.1 Are there vacancies in the departments responsible for customer service and load growth initiatives?

Response:

As noted in the response to CEC IR 1.3.1, customer service initiatives can be sourced from any of several departments, and FBC does not pursue load growth initiatives other than through normal customer growth. Within the departments identified in the response to CEC IR 1.3.1, there are 8 vacancies currently being recruited, all of which are for Power Line Technicians. There are no vacant positions that would have an impact on new customer service initiatives.

3.1.1.1 If yes, please provide the number of vacancies in (each) department and identify whether or not FBC anticipates filling these vacancies.

Response:

Please refer to the response to CEC IR 1.3.1.1.

3.1.1.2 Please quantify the cost savings associated with any of the vacancies that are related to departments responsible for customer service and load growth initiatives.

Response:

There are no material cost savings associated with these vacancies. FBC makes use of overtime labour and/or contract resources to ensure that it continues to provide safe and reliable service while recruiting for these positions.

3.1.1.3 Please provide the costs for customer service and load growth that were anticipated in the PBR filings for 2014 versus the actual cost for the year.

Response:

Under the PBR Plan, O&M Expense is determined by formula at the aggregate level. The PBR formula provides for an envelope of spending rather than on a departmental basis. Therefore, there are no approved costs by department available for comparison. Furthermore, as noted in the response to CEC IR 1.3.1, FBC does not have a particular budget relevant to customer service initiatives, or a goal of increasing load growth and so has no O&M costs related to these activities. FBC provided indicative O&M forecasts by department in its PBR Application, but these are not departmental budgets under the PBR Plan and variances from the projections are not relevant.

4.0 Reference: Exhibit B-1, Page 4

> **1.5 *EVALUATION OF THE PBR PLAN FOR 2015***
>
> Evaluation of the PBR Plan based on 2014 experience is limited due to the timing of the PBR Decision, and also because of a need to focus on normalizing 2014 activities following a lengthy labour dispute with the Company's IBEW staff during the second half of 2013. As the PBR Decision was not issued until September 15, 2014, the Company did not have certainty as to what its approved O&M and capital spending envelopes would be, or, in fact, whether PBR would be approved. During this time, FBC had to operate its business under the assumption that the Commission's decision would enforce significant O&M and capital savings.
>
> FBC was able to realize some savings in O&M expenditures while FBC's capital expenditures were above the capital formula amount. Overall, the savings achieved in 2014 result in $0.330 million of earnings sharing that will be returned to customers in 2015, serving to reduce overall rates for FBC's customers. FBC's performance with respect to SQIs demonstrates that FBC achieved these savings while maintaining an overall high level of service quality with some indicators experiencing lower than threshold results due to a number of factors further described in Section 13.

4.1 When was the labour dispute with IBEW staff resolved?

Response:

Please refer to the responses to COPE IR 1.2.3 and 1.2.4.

4.2 Please elaborate on how the need to focus on normalizing 2014 activities limits the evaluation of the PBR Plan for 2014.

Response:

As the result of the 2013 IBEW labour dispute, the Company's operations were impacted in 2014 in a number of ways, including its capital and O&M activities and projects, and the performance of some of its service quality indicators. As noted in section 7.2.2 of the Application, certain capital projects in the generation, transmission and distribution areas were unable to be completed as scheduled during 2013. These projects were carried forward into 2014 and 2015. Similarly, certain O&M activities were also deferred from 2013 to 2014. Regarding service quality indicator performance, as mentioned in section 13 of the Application, the labour dispute also impacted the performance of the AIFR, Telephone Service Factor and Telephone Abandon Rate SQIs in 2014.

All of these factors, in addition to the late timing of the PBR decision, make it challenging to evaluate the results of the first year of the PBR Plan.

4.3 Please confirm that had the BCUC not approved PBR, that FBC would have 'kept' the savings in 2014 rather than sharing with customers under the Earnings Sharing Mechanism.

Response:

Not confirmed. The savings in 2014 are determined based on the PBR formula O&M approved under the PBR Plan. If the PBR Plan had not been approved, it is uncertain what rates the Commission would have approved for 2014 and, in particular, what level of O&M expense would have been approved. It is therefore impossible to determine whether FBC would have 'kept' or in fact achieved any savings in 2014.

4.4 Why were FBC's capital expenditures above the capital formula amount? Please explain and provide quantification for costs related to any unexpected circumstances that arose.

Response:

Formula capital expenditures were $42.997 million compared to the approved value of $42.193 million. FBC notes that the capital spending envelope is set by way of a formula, and not a forecast. Capital expenditures above the formula amount need not be due to any unexpected circumstances.

As stated on page 5 of the Application, a factor contributing to the higher capital expenditures in 2014 was distribution system line repair expenditures in the fourth quarter of 2014 due to the heavy snowfall throughout the service territory. In addition, customer growth related capital in 2013 was deferred to 2014 as a result of restrictions in 2013 under the essential services agreement which limited new customer services connections.

Also as discussed on page 5 of the Application, contributing to the higher spending was customer growth related capital. Actual customer growth experienced in 2014 was approximately 1.8 percent, but the formula for capital, which utilizes one-half of prior year customer additions, only provided for customer growth of 0.326 percent.

5.0 Reference: Exhibit B-1, Page 4

> In 2014, FBC is projecting O&M expenses excluding items forecast outside of the PBR formula to be approximately $0.699 million lower than formula amounts, representing approximately a one percent variance from the approved amount. The expected savings is an outcome of the regulatory uncertainty experienced in 2014 leading to savings from staff vacancies and timing of spending.

5.1 Please identify the positions which were held vacant as a result of the regulatory uncertainty.

Response:

FBC's approach in 2014 was to maintain its focus on productivity and on prudently managing the Company. With this in mind, FBC considered whether each vacancy that arose during the year needed to be filled or whether an alternative approach could be taken to managing the responsibilities of the position. If a vacancy was not filled, then the responsibilities of that position were spread to other employees or potentially to contract resources.

This IR and others following ask for detailed information on the vacancies in 2014, including detailed information on each position vacated and the timing of when vacancies occurred in the year. FBC has provided information on the net headcount reductions experienced in 2014 in response to Gabana IR 1.4.1 and 1.5. However, FBC does not track savings at a detailed level which would enable it to analyse potential savings attributable to each vacancy, what purpose was fulfilled by that position and how that purpose is being fulfilled now. Positions and responsibilities are not discrete enough to permit that type of analysis and it would take significant time and resources to attempt to produce such an analysis. Moreover, this additional, detailed information would not add any value to the record in this proceeding and is not relevant to setting rates for 2015. FBC therefore declines to provide the requested information.

5.2 Please identify when the positions became vacant, and when and if they were filled.

Response:

Please refer to the response to CEC IR 1.5.1.

5.3 Please discuss the benefits that customers normally receive from having the positions filled for the full year.

Response:

Please refer to the response to CEC IR 1.5.1.

5.4 Please provide the savings associated with each vacancy.

Response:

Please refer to the response to CEC IR 1.5.1.

5.5 Please confirm that each of the vacancies was identified as being vacant (pending regulatory determination) during the PBR process and provide the references as to where they were identified.

Response:

Please refer to the response to CEC IR 1.5.1.

5.5.1 If the vacancies were not identified during the PBR process, please explain why not.

Response:

Please refer to the response to CEC IR 1.5.1.

5.6 Please identify the relevant timing the spending activities and the amounts as well as showing the relevant savings.

Response:

Please refer to the response to CEC IR 1.5.1.

6.0 Reference: Exhibit B-1, Page 5

> Contributing also to the higher spending was customer growth related capital. Actual customer growth experienced in 2014 was approximately 1.8 percent, but the formula for capital, which utilizes one-half of prior year customer additions, only provided for customer growth of 0.326 percent. In 2014, this pressure was mitigated in part due to the timing of projects affected by resource constraints. However, FBC will continue to be challenged to meets its capital formula for the remainder of the PBR Plan.

6.1 Please elaborate further on the ways in which the pressure was mitigated by project timing.

Response:

FBC experienced resource pressures in 2014 due to its inability to complete all of its capital projects in 2013 as a result of the prolonged labour dispute, as explained in response to CEC IR 1.4.4. Although FBC did not defer any major growth projects, adjustments were made to the timing and scope of some projects to relieve some of the pressures. These adjustments did not affect system safety or reliability.

6.2 Will FBC be able to use project timing in the future to address capital formula challenges? Please explain why or why not.

Response:

It is not FBC's intent to use project timing for the purposes of deferring spending to address capital formula challenges. The PBR Plan provides an envelope of capital funding within which FBC will seek to manage its capital expenditures. There are many factors that the Company takes into consideration when evaluating and determining what capital projects need to be undertaken and when. The scheduling and budget for capital projects can be affected and influenced by different circumstances, many of which may not be within the control of the Company. Timing and scheduling for certain capital projects may change depending on specific circumstances that may arise. The Company uses portfolio management strategies and tools to realize opportunities for efficiencies and to evaluate, monitor and re-evaluate the priority of projects within the portfolio taking into consideration changing conditions. Circumstances may arise related to a specific capital project that will require FBC to determine whether a timing or scheduling change is required. A decision by FBC to change an aspect of a capital project would likely involve multiple factors.

6.3 Is it FBC's view that the challenges are so onerous as to justify removing capital altogether from the PBR formula? Please explain why or why not.

Response:

Not at this time. At this time, FBC will continue to seek to manage capital expenditures within the PBR formula amounts over the PBR term.

6.4 What other mitigation strategies will FBC be planning in order to deal with these challenges?

Response:

FBC experienced challenges due to the 2013 labour disruption, which has now been resolved. FBC will utilize the project prioritization strategies discussed in response to CEC IR 1.6.2 to manage its capital spending for the remainder of the PBR Plan.

7.0 Reference: Exhibit B-1, Page 5

> In summary, while 2014 provides a limited basis on which to evaluate the PBR Plan, it has shown the potential for earnings sharing and for limiting rate increases. Future years of the PBR Plan should provide a more informed basis on which to evaluate FBC's initiatives to achieve efficiencies and the workings of the PBR Plan.

7.1 Is it FBC's view that PBR has been a success based on the limited 2014 results? Please explain why or why not.

Response:

As the PBR Decision was not issued until September 15, 2014, and given that the PBR Plan is designed to provide a longer-term framework, it is too early at this stage to be evaluating the effectiveness of the approved PBR Plan.

Please also refer to section 1.5 of the Application (Exhibit B-1).

8.0 Reference: Exhibit B-1, Pages 10 and 11

As noted above, the Commission approved for FBC a growth factor of 50 percent of the ratio of the average number of customers (AC) one year previous to the average number of customers two years previous expressed as [1 = ((AC_{t-1}/AC_{t-2})/ AC_{t-2}) x 50%)].

The calculation for the Average Customer growth factor is provided in Table 2-2 below.

Table 2-2: Average Customer (AC) Growth Factor Calculation[7]

	Customer Count	City of Kelowna Adjustment	Customers Restated	12 Month Average Customers	AC Factor @ 50%	PBR Year
Jul-12	113,435	14,460	127,895			
Aug-12	113,410	14,460	127,870			
Sep-12	113,485	14,460	127,945			
Oct-12	113,402	14,460	127,862			
Nov-12	113,658	14,460	128,118			
Dec-12	113,915	14,460	128,375			
Jan-13	114,108	14,460	128,568			
Feb-13	114,264	14,460	128,724			
Mar-13	114,283	14,460	128,743			
Apr-13	128,628	-	128,628			
May-13	128,602	-	128,602			
Jun-13	128,619	-	128,619	128,329		
Jul-13	128,689	-	128,689			
Aug-13	128,632	-	128,632			
Sep-13	128,505	-	128,505			
Oct-13	128,524	-	128,524			
Nov-13	128,465	-	128,465			
Dec-13	128,318	-	128,318			
Jan-14	128,768	-	128,768			
Feb-14	128,786	-	128,786			
Mar-14	129,123	-	129,123			
Apr-14	128,955	-	128,955			
May-14	129,430	-	129,430			
Jun-14	129,328	-	129,328	128,794	0.181%	2015

[7] On March 31, 2013, FBC acquired the assets of the electricity distribution utility of the City of Kelowna, as approved by Order C-4-13. An adjustment to the customer count has been made to recognize the addition of the municipal utility's customers to FBC's direct customer base.

8.1 Is the calculation that FBC used to arrive at 0.181 percent as the growth factor the following?

$$= ((ACt\text{-}1 - ACt\text{-}2)/ACt\text{-}2)*50\%)$$

$$\text{I.e. } ((128794 - 128329)/128329)*50\% = 0.001812$$

$$\text{Or equivalently } = ((ACt\text{-}1/ACt\text{-}2) - 1) *50\%$$

$$\text{I.e. } ((128794/128329)\text{-}1)*50\% = 0.001812$$

Response:

The written version of the formula on page 9, line 9 and page 11, line 17 of the Application was shown incorrectly. The correct expression of the formula used to arrive at the growth factor of 0.181 percent is as follows:

$[1 + ((AC_{t-1} – AC_{t-2}) / AC_{t-2}) \times 50\%)]$

i.e. [1 + ((128794-128329/128329) x 50%)] = 0.001812

8.1.1 If not, please provide the detailed calculations as per the formula provided on page 10.

Response:

Please refer to the response to CEC IR 1.8.1.

8.2 Please confirm that the 14,460 customers added as the City of Kelowna (CoK) adjustment is the actual number of CoK customers that were added on March 31, 2013.

Response:

Confirmed.

8.2.1 If not confirmed, please provide the calculation and rationale for the CoK adjustment.

Response:

Please refer to the response to CEC IR 1.8.2.

8.2.2 If not confirmed, please provide the actual number of customers that were added as a result of the acquisition of the assets of the electricity distribution utility of the CoK.

Response:

Please refer to the response to CEC IR 1.8.2.

9.0 Reference: Exhibit B-1, Page 13

> Gross system energy load is a mix of residential, commercial, wholesale, industrial, street lighting and irrigation loads and system losses. In 2014, the residential, commercial and wholesale loads represent the largest portion of the gross load at 79.9 percent. The industrial load was 10.6 percent, while the lighting and irrigation loads account for 1.6 percent of the total gross load. The remaining 7.9 percent of the gross load in 2014 was due to system losses.

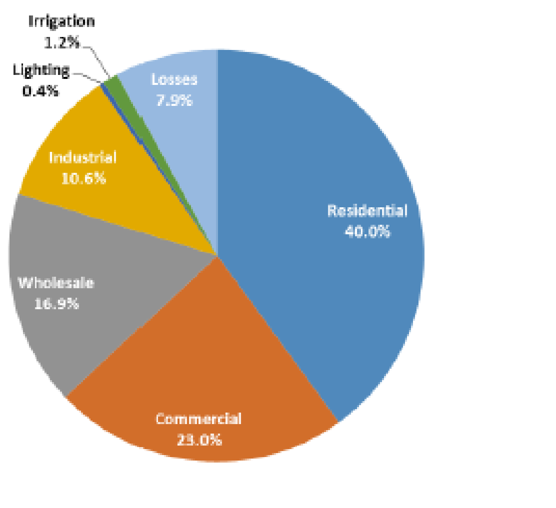
9.1 Please provide the system losses for 2013 and 2012.

<u>Response:</u>

System losses for 2013 and 2012 were approximately the same as for 2014 (7.94 percent and 7.92 percent respectively).

10.0 Reference: Exhibit B-1, Page 13 and 19

Figure 3-1: 2014 Normalized After-Savings Gross Load Energy Composition (%)



Detailed analysis of billing reports of individual accounts for 2011 and 2012 established 8 percent as the gross loss rate to be used over the forecasting period. AMI loss reduction is expected to further reduce the losses in future. Below are the normalized after-savings energy losses from 2009 to 2015.

10.1 Do the system losses of 7.9% in 2014 reflect reductions from as a result of the AMI implementation? Please explain.

<u>Response:</u>

Confirmed. The system losses were calculated using the estimated net and gross loads. AMI implementation began in late 2014, however AMI-related loss reduction due to the deterrence of energy theft may have impacted system losses in advance of complete implementation.

10.2 Please provide the expected reductions in system losses due to AMI, and in what years they are expected to occur.

<u>Response:</u>

The expected reduction in system losses due to AMI for 2012-2032 was forecast in FBC's 2012 AMI CPCN Application and is shown in the table below for the 2015-2019 period.

Year	AMI Loss Reduction (MWh)
2015	4,334
2016	5,866
2017	7,442
2018	9,065
2019	10,735

10.3 What, if any, are the financial impacts of a 1% reduction in system losses? Please explain and provide quantification.

Response:

Please refer to the response to BCUC IR 1.9.7 for FBC's estimate of the total value of losses. For 2014, one percent of this value would be $0.108 million.

10.4 Will FBC continue to forecast system losses of 8% in the event that system losses decline during the PBR period, or will FBC update the forecast of system losses?

Response:

The forecast 8 percent has been very close to the actual estimates in the past few years as shown in the table below

2012	2013	2014
7.92%	7.94%	7.86%

FBC will continue monitoring the system losses and will consider lowering them if evidence suggests that there is a trend of reduced losses. The reduced amount, if any, would likely be quite small.

11.0 Reference: Exhibit B-1, Page 14

The savings are fundamentally based on the 2013 Conservation Potential Review (CPR) Update which estimated the remaining economic potential for DSM measures, programs and sectors. Each measure's economic potential is multiplied by a ramp rate (which simulates a market diffusion curve), then sub-totaled to a program level and modified if necessary to account for past results. The program sub-totals are then added up to produce the three primary sector (residential, commercial & industrial) annual savings goals. Finally the annual sector goals are converted into a cumulative time series, and dis-aggregated into the customer rate classes and commensurate system losses as shown in Table 3-1.

Table 3-1: Forecast 2015 DSM Savings (MWh)

Forecast 2015 DSM Energy	MWh
Residential	9,177
Commercial	8,746
Industrial	1,502
Wholesale	4,462
Lighting	497
Irrigation	985
Loss	2,206
Total	27,575

11.1 Please provide the actual DSM savings for 2013 and 2014.

Response:

The 2014 DSM Annual report will be filed with the Commission by March 31st, 2015 and the draft results for 2014 are as follows.

SECTOR	Approved	Actual	% of Plan Achieved
	GWh		
Residential	5.8	8.7	150%
Commercial	6.2	5.3	85%
Industrial	0.8	0.6	77%
Total Savings (GWh)	**12.8**	**14.6**	**114%**

The 2013 sector level savings were as follows:

Sector	Approved	Actual	% of Plan
	GWh		Achieved
Residential	16.9	16.1	95%
Commercial	12.0	10.9	91%
Industrial	2.6	2.5	98%
Total Savings (	**31.5**	**29.5**	**94%**

11.2 Please explain how the sector goals are disaggregated into customer rate classes and system losses and provide the relevant data for 2015.

Response:

For forecasting purposes FBC disaggregates a number of sub-categories of DSM that are not shown in the plan savings values. For example, “Residential” in the plan savings contain the residential portion of the “Wholesale” savings (for the City of Penticton and the other municipal wholesale utilities in FBC’s territory) presented in the load forecast. Similarly the “Commercial” plan savings contain the “[Street] Lighting” and “Irrigation” values shown in the load forecast.

The following methodology was used to disaggregate the Plan figures into customer rate classes:

- the wholesale disaggregation used 2012 billing data to determine the fraction of electricity sold to FBC’s wholesale customers.
- the residential and commercial portions of wholesale customer use were estimated as a fraction of the use in the City of Kelowna. For example, in 2012 the residential, commercial, and industrial customers in the City of Kelowna used 45 percent, 33 percent, and 22 percent, of total electricity consumption, respectively. These fractions were used as a proxy to the total wholesale usage.
- Similarly, historical DSM savings achieved in the City of Kelowna were utiltized to estimate the fraction of savings by customer class in the rest of the wholesale customers.
- Due to a lack of project data, the “Lighting” and “Irrigation” data presented in the load forecast include wholesale customers as well.
- Reductions to system losses are calculated as a percentage of DSM savings.

Please also refer to the response to BCSEA IR 1.1.1.

12.0 Reference: Exhibit B-1, Pages 13, 14 and 15

> The gross load forecast includes the impacts of forecast energy savings which include Demand Side Management (DSM) savings, and the impacts of the Residential Conservation Rate (RCR), the Consumer Information Portal (CIP) program, the Advanced Metering Infrastructure (AMI) program and future rate changes. These savings are further explained in Section 3.2 - Demand Side Management and Other Savings. The after-savings forecast gross energy consumption for the years 2009 to 2015 is shown below.
>
> This DSM savings forecast is deducted from the before-savings forecast. The residential energy sales are further reduced by other savings from the RCR and CIP, but increased by recovered
>
> sales from the AMI-based revenue protection programs. Rate-driven reductions in load due to price elasticity are also taken into account[8] and deducted from the before-saving loads. All forecast values in this section are shown after being reduced by DSM and other savings unless explicitly stated otherwise.
>
> [8] Forecasts of savings from RCR, CIP, price elasticity and the impact of AMI are based on existing forecast assumptions for these impacts.

12.1 Please confirm that the Consumer Information Portal (CIP) was introduced in connection with, and dependent upon the implementation of the Automated Metering Infrastructure.

Response:

The Customer Information Portal (CIP) as contemplated above has only been partly implemented at this time. Customers are able to view historical billing and consumption data, but are not yet able to view interval (hourly) data from AMI meters. The ability to view interval data from AMI meters is dependent upon the implementation of the AMI project, and is not expected to be available to customers until the project is complete.

12.2 Please provide, separately, the savings and forecast savings from RCR and CIP for 2014 and 2015.

Response:

Please find the net savings (in MWh) in the table below:

	RCR	CIP
2014	13,940	
2015	18,817	2,073

12.3 Please provide the recovered sales and forecast recovered sales from the AMI-based revenue protection programs for 2014 and 2015.

Response:

Please refer to the table below for the estimated AMI Recovered Sales in MWh. The sales increase and loss reduction are a function of the difference between the number of high load sites (paying and stealing) under AMI as compared to status quo (no AMI) as detailed in the AMI CPCN proceedings. As such, FBC has no way of providing the actual recovered sales related to AMI.

Year	AMI Recovered Sales (MWh)
2014	6,269
2015	10,231

For further information on AMI benefits, please refer to the response to BCSEA IR 1.2.1.

13.0 Reference: Exhibit B-1, Page 15

> **3.3.2 Residential**
>
> The 2014 residential load accounted for 40 percent of the gross normalized load. Consistent with past practice, the total before-savings energy demand for the residential class is the product of the average annual residential customer count multiplied by the residential use per customer (UPC). Below is the normalized and forecast after-savings residential customer load from 2009 to 2015. The step change apparent between 2012 and 2013 is a result of City of Kelowna integration.

13.1 Please provide the Residential UPC forecast for 2015.

Response:

The before-savings residential UPC forecast for 2015 is 12.44 MWh. For more information please refer to the response to BCUC IR 1.4.2.

13.2 Please provide the Residential UPC for 2009 through to 2014.

Response:

Table 3 of Appendix A4 shows the Residential UPC values from 2009 to 2013 without adjustments to include the City of Kelowna. The normalized after-savings residential UPC adjusted to include the City of Kelowna for the 2009-2014 period, which is used to forecast 2015 UPC, is provided below (the average of values from 2011 to 2013 is used to set the 2014 before-savings UPC at 12.44 MWh). Note that the 2014 value of 12.33 is not actual, but forecast after-savings UPC. The Company is in the process of finalizing the 2014 UPC and will include it in its load forecast for the next Annual Review.

Year	UPC (MWh)
2009	12.74
2010	12.63
2011	12.55
2012	12.28
2013	12.48
2014	12.33

13.2.1 To the extent that the 2015 UPC forecast differs from the UPC for 2014 please explain why this has occurred.

Response:

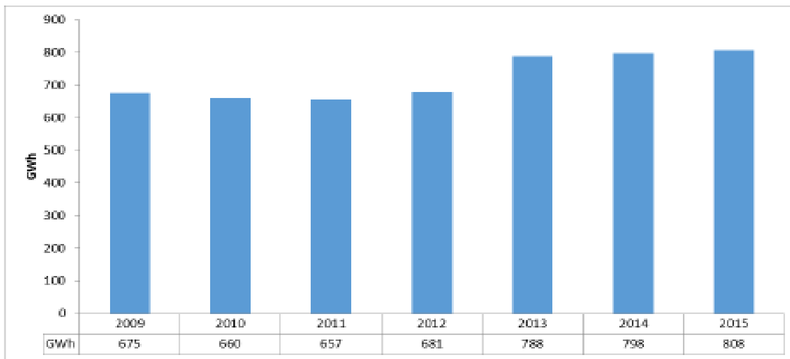
The before savings residential UPC forecast is based on the latest 3 year average of historical UPCs. For this Application, the average of the UPCs in the time period from 2011 to 2013 (adjusted to include CoK as shown in the response to CEC IR 13.2) was used because 2014 UPC information was not available at the time of the forecast. Once the 3 year average is established, it is held constant throughout the forecasting horizon. Thus the before savings residential UPC is 12.44 MWh for both 2014 and 2015. The after savings residential UPC is different between 2014 and 2015 due to the differences in the component savings.

14.0 Reference: Exhibit B-1, Page 17

3.3.3 Commercial

The 2014 commercial load accounted for 23 percent of the gross normalized load. The commercial class is forecast based on a regression of load on the provincial Gross Domestic Product (GDP), supplied by the Conference Board of Canada (CBOC)[9]. Below is the after-savings commercial consumption for 2009 to 2015. The step change apparent between 2012 and 2013 is a result of City of Kelowna integration.

Figure 3-5: Normalized After-Savings Commercial Energy (GWh)



Normalized UPC and After Savings Forecast

MWh/Customer	2009	2010	2011	2012	2013	2014	2015F
Residential	12.90	12.77	12.70	12.41	12.79	12.33	12.24
Commercial	59.97	58.04	57.26	58.33	61.89	56.94	55.95

14.1 Please provide FBC's view as to why Commercial Use Per Customer (UPC) declined by approximately 5% between 2009 and 2014.

<u>Response:</u>

FBC cannot explicitly state what individual factors influence the UPC from one year to the next. DSM programming, natural improvements in efficiency and conservation and efforts to reduce energy use are among the factors acting to reduce UPC. However, the wide range of commercial sectors that comprise the mix of customers in the commercial load class could be influenced in different ways by this broad range of factors. FBC is therefore not able to pinpoint the causes of UPC changes up or down from year to year.

14.2 Were the Use Per Customer rates for both Residential and Commercial customers influenced by the acquisition of the CoK electrical distribution assets?

Response:

Both the Residential and Commercial UPC were affected by the CoK integration as the integration introduced a new mix of customers with a different UPC than FBC's existing customer base.

14.2.1 If yes, please explain in what ways the acquisition affected UPC and why.

Response:

Please refer to the response to CEC IR 1.14.2.

14.2.2 If not, please provide FBC's view of the reason UPC rates for Commercial customers experienced a significant increase in 2013 relative to its historical performance since 2009.

Response:

Please refer to the response to CEC IR 1.14.2

14.2.3 If not, please provide FBC's view of the reason UPC for commercial has dropped below the 2009 to 2012 average.

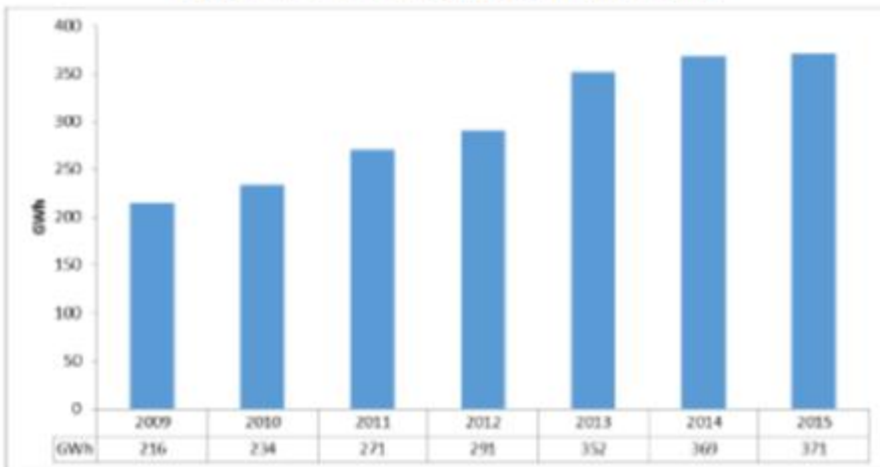
Response:

Please refer to the response to CEC IR 1.14.2.

15.0 Reference: Exhibit B-1, Page 17

> The actual and forecast after-savings industrial consumption for the years 2009 – 2015 are shown below. The step change apparent between 2012 and 2013 is a result of City of Kelowna integration.

Figure 3-6: After-Savings Industrial Energy (GWh)



15.1 The 2015 increase in industrial consumption over 2014 is considerably lower than that experienced in any other year. Please provide FBC's understanding as to why this is likely to occur.

<u>Response:</u>

Close to 50 percent of FBC industrial load is from the forestry sector.

The forestry sector is expecting a substantial slowdown in 2015 due to the impacts from the mountain pine beetle infestation[1]. As a result the CBOC is forecasting the sector GDP to decline from 7.3 percent in 2014 to 1.8 percent in 2015. The industrial surveys received from FBC's customers in the forestry sector reflect this decline and as a result the 2015 increase in consumption is lower than recent years.

15.2 What activities, if any, does FBC undertake to increase industrial load?

[1] p.119, The CBOC Provincial Outlook 2014: Long-term Economic Forecast.

Response:

While FBC is fully supporting existing and potential industrial customers to expand or develop their premises if requested, the Company is actively encouraging customers to engage in DSM activities as it would be one of the most cost effective ways to meet future loads.

16.0 Reference: Exhibit B-1, Page 22

> Table 3-4 below summarizes the approved, projected and forecast revenue for 2014 and 2015.
>
> **Table 3-4: Forecast Sales Revenue at 2014 Approved Rates ($ millions)**

	Approved 2014	Projected 2014	Forecast 2015
Residential	$ 155.283	$ 161.453	$ 170.546
Commercial	70.966	82.444	77.917
Industrial	28.106	30.059	28.427
Wholesale	39.365	43.375	44.245
Total	$ 293.720	$ 317.330	$ 321.134

> Note: Commercial includes Lighting and Irrigation classes.
>
> Variances between the revenue forecast in this section and the actual revenues realized are captured in the Flow-through deferral account.

16.1 Do Flow through deferral accounts attract interest? Please explain why or why not.

Response:

Yes, the Flow-through deferral account attracts interest as a result of Order G-163-14, which clarifies Order G-139-14 on the 2014-2018 PBR Plan, by stating:

> *"With regards to FBC, the Commission Panel determines that the carrying cost allowed on the flow-through deferral account shall be aligned with the FBC 2012-2013 RRA Decision. Therefore, the* ***Commission Panel directs that FBC's flow-through deferral account shall accrue carrying charges based on FBC's short-term interest rate****."* [emphasis added]

16.1.1 If yes, please explain how interest will be calculated on the deferral account and how it will be distributed to customers or the shareholder.

Response:

The interest on the Flow-through deferral account is calculated by applying FBC's approved forecast short-term debt interest rate to the mid-year average balance of the Flow-through deferral account. Since Order G-163-14 states that *"the Commission Panel finds that the appropriate amortization period for both FEI and FBC's flow-through deferral account is one year",* the Flow-through deferral account balance and its related short-term interest return are both recovered in rates in the subsequent year through amortization of deferred charges. This methodology is also consistent with the approved treatment of debt returns on non-rate base deferrals on page 3 of the September 17, 2012 BCUC clarification letter to Order G-110-12 stating: *"The Commission confirms the following: i) With respect to financing costs applicable during the test period, financing costs are to be added to the deferred account and amortized concurrently with principal amounts."*

17.0 Reference: Exhibit B-1, Pages 27 and 28

Table 4-3: 2014 and 2015 Forecast Power Purchase Expense ($ millions)

	Projected 2014	Forecast 2015	Difference
Brilliant	$ 35.742	$ 37.069	$ 1.327
BC Hydro PPA	35.273	45.460	10.187
Waneta Expansion	-	25.808	25.808
Independent Power Producers	0.447	0.164	(0.283)
Market and Contracted Purchases	16.068	9.380	(6.688)
Sale of Surplus Power	(0.320)	-	0.320
CPA Balancing Pool	(1.185)	(0.044)	1.141
Special and Accounting Adjustments	0.311	-	(0.311)
Total	**$ 86.337**	**$ 117.837**	**$ 31.500**
Gross Load (GWh)	3,450	3,499	49

The forecast cost of the Waneta Expansion in 2015 is $25.808 million. This amount includes the cost of the WAX CAPA and an offsetting estimate of potential surplus sales revenue, as well as the forecast revenue from sales to BC Hydro under the RCA.

The IPP expense in 2015 is reduced from 2014 due to a forecast decrease in purchased volumes.

The category of Market and Contracted Purchases in the table above includes actual market purchases for which FBC has contracted for 2015. The decrease from 2014 Projected to 2015 Forecast is mainly due to capacity becoming available from the WAX CAPA as well as a reduced volume of market energy purchases due to a forecast increased use of the BC Hydro PPA energy in 2015.

17.1 Please provide a breakdown of the cost of the WAX CAPA, and the offsetting potential surplus sales revenue and the forecast revenue from sales to BC Hydro under the RCA.

Response:

Please refer to the response to BCUC IR 1.8.1.

17.2 Please discuss whether or not the Sale of Surplus Power, recorded as a line item in 2014, is captured in the Waneta Expansion cost line.

Response:

The potential surplus revenue captured in the Waneta Expansion cost line is due to capacity available under the WAX CAPA that is incremental to FBC's load requirements. The sale of surplus power in 2014 is due to a small amount of energy that FBC had in May, June and July of 2014 that could not be used to meet load requirements. Due to the WAX CAPA, FBC can now make higher value use of this previously surplus energy, rather than selling it to the market during off-peak hours, when market prices are typically lower.

In 2015, FBC is forecasting not to have any surplus energy, since FBC can use that energy with capacity available under the WAX CAPA to meet load. As such, there is no sale of surplus energy in 2015, and it is not captured in the Waneta Expansion cost line.

17.2.1 If not, please explain the difference in the potential surplus revenue captured in the Waneta Expansion cost line and that which was recorded in the Sale of Surplus Power cost line in 2014.

Response:

Please refer to the response to CEC IR 1.17.2.

17.3 Please provide a breakdown of the BC Hydro PPA cost increase by drivers (i.e., rate increase, volume increase)

Response:

Please refer to the responses to BCUC IRs 1.7.2 and 1.7.2.1.

18.0 Reference: Exhibit B-1, Pages 32

Table 5-1: Other Income ($ millions)

	Approved 2014	Projected 2014	Forecast 2015
Apparatus and Facilities Rental	$ 4.156	$ 4.820	$ 4.380
Contract Revenue	1.385	2.076	1.544
Miscellaneous Revenue	0.738	0.820	1.102
Transmission Access Revenue	1.224	1.120	1.189
Investment Income	0.078	0.107	0.057
Total Other Income	**$ 7.581**	**$ 8.943**	**$ 8.272**

5.4 *Miscellaneous Revenue*

Miscellaneous revenue is made up of connection fees, non-sufficient funds (NSF) charges and sundry revenue. The majority of the sundry revenue is a recovery of costs for miscellaneous services, such as street light maintenance charged to municipalities. Overall, miscellaneous revenue is forecast to increase in 2015 due to (non-tariff) fees expected to be earned from performing improvements to a substation on behalf of a municipality.

18.1 In that sundry revenue represents ‘a recovery of costs for miscellaneous services’ such as maintenance performed, are the costs recorded in O&M or netted against the revenue account or some other treatment? Please explain

Response:

The costs of performing the miscellaneous services reside initially in O&M and the recovery of the costs themselves is also credited to O&M for a net zero impact. As approved by Order 139-14, Formulaic O&M is based on the 2013 Base O&M which excluded the costs of performing these miscellaneous services; therefore, the 2015 Formulaic O&M excludes such costs. The margin (revenues less costs) applied on these costs is included in sundry revenue included in Total Other Income. Therefore, sundry revenue is better explained as “the margin applied on the recovery of costs for miscellaneous services”.

19.0 Reference: Exhibit B-1, Pages 34 and 35

6.3 O&M Expense Forecast Outside the Formula

This Formula O&M is then adjusted to add in pension and OPEB expense, insurance premiums, the O&M impact of FBC's Advanced Metering Infrastructure (AMI) Project, and the 2015 Mandatory Reliability Standards (MRS) audit expenses. These amounts are shown in Table 6-3 below along with a comparison to the values for 2014.

Table 6-3: 2015 Forecast O&M ($ millions)

Line No.	Description	2014 Approved	2014 Projected	2015 Forecast
1	Pension/OPEB (O&M Portion)	$ 5.904	$ 5.904	$ 3.925
2	Insurance Premiums	1.460	1.341	1.380
3	Advanced Metering Infrastructure	0.600	0.431	0.452
4	2015 Mandatory Reliability Standards Audit	-	-	0.350
5	Forecast O&M	$ 7.964	$ 7.677	$ 6.107

6.3.2 Insurance Premiums

This expense relates to insurance premium expense allocated to FBC by Fortis Inc.

The 2015 forecast is projected to decrease by $0.080 million or 5.5 percent from what was approved for 2014. Compared to the 2014 Projected insurance premiums, 2015 is forecast to increase by 2.9 percent. This 2015 forecast is based on the average increase for the past five years, and this historical increase reflects both increases in premiums and increases in the value of assets.

Factors affecting insurance premiums include: energy industry and company loss history; growth in asset values; and the potential increases in insurance premiums. The forecast for 2015 assumes normal asset growth.

19.1 What was the increase in insurance for each of the last 5 years?

Response:

The insurance premiums in each of the last five years and associated increases are provided in the table below.

Year	Premium ($ millions)	% Change
2010	1.159	
2011	1.216	4.9%
2012	1.275	4.9%
2013	1.311	2.8%
2014	1.341	2.3%

FBC notes that the average increase is 3.7 percent based on the above table. As FBC stated in the Application, the average increase for the previous five years provides the basis for the forecast, but that other factors have been considered. In the case of 2015, FBC has forecast a lower increase, of only 2.9 percent, compared to 2014 Projection. Any variance between forecast and actual insurance premiums will be captured in the Flow-through deferral account.

19.2 Is the energy industry and company loss history affecting the insurance premiums 'normal' in that it is similar to previous years?

Response:

Insurance premiums for FBC are always affected by what is happening in the insurance market both from an overall perspective and as a result of company loss history. FBC has had a number of losses in the last few years which may have potentially impacted insurance premiums overall. However, the extent to which the FBC losses impact insurance premiums is not something that can be directly correlated as there are other factors that affect premiums. 'Normal' is not a term that can be used in predicting insurance premiums as each and every year insurance underwriters take into account a number of factors to determine rates to be charged to the insureds and each risk is assessed based on its own merits.

19.2.1 If no, please explain in what ways it differs from previous years and the impact it is likely to have had on the insurance premiums.

Response:

Please refer to the response to CEC IR 1.19.2.

19.3 Please explain how the potential increases in insurance premiums affect insurance premiums.

Response:

What was meant by potential increases in insurance premiums affecting insurance premiums is that circumstances affecting insurance premiums for the industry (i.e. electric utilities) have an impact on the premiums for an individual utility. Insurance underwriters typically determine what standard rate increase/decrease should be for insurance premiums within their portfolio as a whole. From there, insurance underwriters will assess each risk on its own merits based on a number of factors including loss history and asset values.

20.0 Reference: Exhibit B-1, Page 35

6.3.3 AMI Costs/Savings

Incremental O&M costs related to the implementation of the AMI project will be offset by post-implementation savings, resulting in a net decrease to O&M Expense during the PBR period. Because of the high variability of AMI costs and savings during this period, net AMI costs, including the costs of AMI-enabled billing options[14], are forecast and tracked outside of the PBR formula and variances are recovered from or returned to customers in the following year by way of the Flow-through deferral account.

2014 AMI-related O&M costs were lower than approved due to delayed project timing following an extensive CPCN review process and the Commission's directive to file for approval of an opt-out program prior to meter installation. Although at the time of filing the PBR Application FBC expected a net reduction in O&M expense during 2015, the forecast savings are now also delayed. Forecast 2015 costs are $0.452 million; the project will be substantially complete during 2015.

[14] Order G-169-14 approved FBC's application for AMI-Enabled Billing Options and directed that the related incremental O&M expenses/savings should be tracked in the AMI deferral account. FBC has two existing deferral accounts related to the AMI project: a rate base deferral account for the capture and amortization of the non-AMI meters, and a deferral account for the costs of the 2007 AMI CPCN application. FBC believes that the Commission intended the incremental expense associated with AMI Billing-Enabled costs to be treated consistently with other AMI-related O&M impacts, which are excluded from the PBR formula O&M and captured in the Flow-through deferral account.

20.1 Please provide the original and revised forecast savings for AMI by year.

Response:

Please refer to the response to BCUC IR 1.11.1.

20.2 Please provide the original and revised forecast net costs for AMI by year.

Response:

Please refer to the response to BCUC IR 1.11.1.

20.3 Please confirm that all variance from AMI cost/benefit forecasts are being flowed through to customers via deferral account and specify which forecast base is used to determine variances, original or revised.

Response:

FBC confirms that all AMI variances are captured in the Flow-through deferral account. The variances reflect the differences between actual costs and benefits and the costs and benefits approved for inclusion in each year's revenue requirements. For example, in 2014, FBC's revenue requirements included a net cost of $0.600 million, and the actual net cost was $0.431 million (please refer to the response to BCUC IR 1.11.1). The variance of $0.169 million is included in the Flow-through deferral account at Line 7 of Table 12-3.

21.0 Reference: Exhibit B-1, Page 36

6.3.4 2015 Mandatory Reliability Standards (MRS) Audit

FBC's tri-annual MRS audit is scheduled for August 2015. This audit will review, at a minimum, all applicable reliability standards identified in the Actively Monitored List issued in November of 2014. These include Critical Infrastructure Protection (CIP) and Operations and Planning (O&P) standards. The audit is scheduled with the Western Electricity Coordinating Council (WECC) auditors over a two week period – one week off-site and one week on-site to perform interviews and visit specific critical assets. However, preparation of evidence takes several months. As many as ten to fifteen people attend as WECC auditors or observers in a compliance audit. Preparation will impact various business groups including human resources, facilities, security, information systems, system control, operations, generation, engineering and planning (transmission/resource), who will be called upon and required to provide evidence to prove compliance. In Order G-139-14 the Commission confirmed that as a non-recurring expenditure, MRS audits should not be included in Base O&M.[15]

The Company continues to work towards maintaining compliance 24/7 and self-certifies on an annual basis. As a result of this effort, the 2015 audit costs are anticipated to be lower than 2012 and are forecast to be $0.350 million.

21.1 Please provide FBC's best estimate of the 2014 savings and 2015 forecast savings it has been able to generate in the MRS audit as a result of its continued efforts towards maintaining compliance and annual self-certification.

<u>Response:</u>

While the 2015 audit costs are anticipated to be lower than the audit costs in 2012, there are no savings generated in the Compliance Audit. As FBC is required to undergo an audit by the BC MRS administrator every three years, the audit costs are excluded from the PBR formula and are incremental to normal operating activities and costs for MRS. The Company expects the costs of the 2015 audit to be lower than for the 2012 audit, which was FBC's first Compliance Audit. Experience gained in the 2012 audit has been used to understand the level of evidence and processes required to maintain compliance. However the degree of effort required by the utility is not the same for each audit; it is dependent on the number and complexity of the standards being audited, the existence of revisions to those standards since the last audit, the nature of requests from the auditors, and the level of detail required to prove compliance. FBC's estimate is based on past experience, discussions with other utilities subject to mandatory reliability standards and expectations of what the auditors will be requesting.

21.2 Does FBC believe it is able to continue to maintain lower audit costs for the future, or is this a one-time effort? Please explain.

Response:

Although the ongoing compliance activities and self-certification requirements may facilitate the periodic audits, as FBC explains in the response to CEC IR 1.21.1, each audit has unique requirements. Therefore it is not possible to determine whether subsequent audits can be completed at the lower cost.

21.2.1 Please provide quantification of any increases in audit costs that FEI anticipates for the future.

Response:

FBC is unable to forecast the costs of future audits at this time. The reasons that MRS audit costs will vary are explained in the response to CEC IR 1.21.1. In particular, the scope of the audit will not be known until the Annual Implementation Plan is issued by the Commission which is typically November of the year prior.

21.3 Would FBC be able to reduce the costs of a future audit further with additional efforts?

Response:

No, at this time FBC is not aware of any additional effort that would necessarily reduce audit costs in the future. Compliance Audit costs are variable as explained in the response to CEC IR 1.21.1.

21.3.1 If so, please estimate the additional savings that might be available in future audits.

Response:

Please refer to the response to CEC IR 1.21.3.

21.3.1.1 Please identify the types of activities that would be needed to reduce the costs of future audits further, and provide FBC's best estimate of the expected costs that would be associated with the additional effort needed to achieve the savings.

Response:

Please refer to the response to CEC IR 1.21.3.

21.3.2 If not, please explain why not.

Response:

Please refer to the response to CEC IR 1.21.3.

22.0 Reference: Exhibit B-1, Page 37

> The costs related to generation unit inspections are included within formula Base O&M. These costs are for annual inspections of FBC's generating units, which have been the subject of upgrades and/or life extensions beginning in 1998. The inspections are expected to cost approximately $0.350 million per unit, depending on unit condition. The majority of FBC's generating units have similar characteristics and, as such, the estimate of $0.350 million is based on typical equipment in average operating condition. FBC expects to undertake one inspection per year.
>
> The Commission indicated on page 197 of the PBR Decision that the actual expenditures related to generation unit inspections should be monitored through the Annual Review process:
>
> *"Given the background and assurances provided by FBC, the Commission Panel finds that the proposal to include the $350,000 within the Base O&M is reasonable and is not persuaded there is a need to make it a flow through item at this time. However, in consideration of the concerns raised and the magnitude of the estimate, actual expenditures should be monitored through the Annual Review process."*

22.1 Please confirm that 'average operating condition' refers to the average condition of FBC's operating equipment, and not an industry 'average'.

Response:

Confirmed that the 'average operating condition' refers to FBC's operating equipment and the estimated cost of $0.35 million is based on FBC's typical equipment.

22.1.1 If not confirmed, please explain and provide a characterization of FBC's equipment relative to industry.

Response:

Please refer to the response to CEC IR 1.22.1.

22.1.2 How many generation units does FBC have?

Response:

FBC has 15 generating units at its four plants.

22.1.3 Please provide the age of each generation unit.

Response:

The in-service date and age of each generating unit is:

Plant	Unit	In Service Date	Age
Lower Bonnington	LBO-1	1924	90
	LBO-2	1924	90
	LBO-3	1924	90
Upper Bonnington	UBO-1	1914	100
	UBO-2	1907	107
	UBO-3	1907	107
	UBO-4	1916	98
	UBO-5	1940	74
	UBO-6	1940	74
South Slocan	SLC-1	1928	86
	SLC-2	1928	86
	SLC-3	1928	86
Corra Linn	COR-1	1932	82
	COR-2	1932	82
	COR-3	1932	82

22.2 How does FBC determine its inspection schedule as to which unit(s) to inspect and when they should be inspected? Please explain.

Response:

In general, the industry best practice is for a major inspection to be done for each unit approximately every 80,000 operational hours. The inspection schedule for each year is based on a combination of manufacturer's guidelines and equipment condition derived from condition observations made during annual unit outages. This criterion is considered in conjunction with the operating hours of each unit since the last upgrade and life extension (ULE). In summary, the first step is to determine the operating hours and then, using information on actual condition, develop a priority listing of units to be inspected.

22.3 Does FBC have an expectation as to which units it will inspect over the PBR period?

Response:

Yes.

22.3.1 If so, please identify the units that are likely to be inspected and provide a rough condition assessment of each, from prior known information as may be available.

Response:

During 2015-2019 the following units are expected to be inspected: Corra Linn Unit 3, Lower Bonnington Unit 1, Upper Bonnington Unit 5, South Slocan Unit 2 and Lower Bonnington Unit 3.

The annual inspections for these units do not point to any significant deviation from the norm so it is likely that the units will be found in average operating condition without a need for any major additional work during the major inspections.

22.3.2 Please provide the number of inspections that FBC has undertaken each year over the last 5 years.

Response:

As noted on page 125 of the PBR Application, since the initiation of the ULE program, no major overhauls (inspections) were completed on any of the units. In 2014, the first inspection on Lower Bonnington Unit 2 was completed and Corra Linn Unit 3 is scheduled for 2015.

22.4 Is there a regulator setting inspection cycles or is the selection of inspection frequency determined by FBC? Please explain.

Response:

The selection of inspection frequency is determined by FBC. Please also refer to the response to CEC IR 1.22.2.

22.4.1 If the inspection frequency is determined by FBC, does FBC have some marginal latitude to modify its inspection frequency schedules? Please explain.

Response:

Yes, based on the condition assessment. For example, if two units both have 80,000 operating hours (which is the principal basis on which inspection frequency is determined), then FBC would first inspect the unit expected to be in worse condition. Please also refer to the response to CEC IR 1.22.2.

23.0 Reference: Exhibit B-1, Pages 37 and 38

FBC completed a major unit inspection on Lower Bonnington Unit 2 (P1U2) on November 19, 2014. As background, P1U2 had experienced an upper guide bearing oil leak in 2012 that was fixed, but the residual oil from that event continued to drip (from areas that could not be cleaned), over the components adjacent to and directly below the upper guide bearing. The unit was taken offline on October 27th and by inspecting and testing was found to be in good mechanical and electrical condition, although dirty. The scope of the inspection included dismantling of the unit at the coupling, removing the rotor and performing in-depth mechanical and electrical inspection as well as a thorough cleaning of the unit. The unit was successfully restored back into service.

FBC gained some efficiencies through condition-based assessments of the various components resulting in some of the mechanical tasks, which were originally anticipated, not being required. The savings that resulted from the condition-based assessment of the various components was offset by the extra effort required to thoroughly clean the unit.

The project was successful and by performing this project the unit should continue to provide a dependable source of power.

Table 6-5: 2014 Unit Inspection Costs, Lower Bonnington Unit 2 (Expense in $ millions)

	Budget			Actual		
	Hours			Hours		
	Electrical	Mechanical	Expense	Electrical	Mechanical	Expense
Project Total	1,064	2,311	$ 0.307	1,072	2,029	$ 0.300
Contingency			0.046			-
Total	3,375		$ 0.353	3,101		$ 0.300

From the table above it can be seen that the actual project cost was close to the pre-contingency estimated amount. Had this unit been in poor condition, from either an electrical or a mechanical perspective, the project would have utilized some, if not all, of the contingency and potentially more. Actual costs for the other units will likewise reflect the actual condition of the unit when taken out of service. FBC believes that the initial estimate of $0.350 million per unit remains a reasonable estimate of the average unit cost of these major inspections.

23.1 When did FBC determine it was necessary to inspect unit P1U2?

Response:

FBC determined it was necessary to inspect unit P1U2 as part of the 2012 annual planning process.

23.2 Was there any reason to expect that the unit would be in poor condition based on the unit's age or other factor? Please explain.

Response:

At the end of 2011, the unit had exceeded 80,000 operating hours and based on industry best practice a major inspection was required.

23.3 Please provide the $/hour for each of mechanical and electrical.

Response:

The actual rates in 2014 were: $86.67/hr for Electrical and $79.29/hr for Mechanical.

23.4 How did FBC calculate its contingency estimate?

Response:

A 15 percent contingency was used for both labour and materials.

23.5 Please confirm or otherwise explain that a $53,000 savings in O&M (against what would otherwise be expected to be spent) would effectively result in a $26,500 contribution to the shareholder, excluding consideration of other factors influencing the overall results.

Response:

Under the PBR Plan, the O&M funding envelope is determined at the aggregate level. There is no line-by-line forecast against which to compare actual expenditures. The $350 thousand estimate is the expected average cost of a major unit inspection, which FBC used to adjust its Base O&M Expense for the purpose of determining the O&M formula.

FBC confirms that if the total O&M variance were $53,000, this amount would be shared equally between customers and the shareholder by way of earnings sharing.

24.0 Reference: Exhibit B-1, Page 41

- The PCB Compliance – Substations project is a major non-recurring expenditure required to meet the requirements of federal regulation for the removal of substation equipment with PCB concentrations exceeding 500 mg/kg and was approved by Orders G-195-10 and G-110-12. 2015 expenditures of $0.200 million will complete the project at a total forecast cost of $24.245 million, lower than the original forecast of $29.522 million, as a result of lower material and construction costs and scope reductions where conditions allowed.

24.1 Please provide quantification of the savings that were achieved as a result of the reduction in scope for 2014 and forecast for 2015.

Response:

This and subsequent questions assume that there is a distinction between the impact of lower material and construction costs (i.e. unit costs) and the impact of scope reductions on PCB project costs. FBC did not mean to say that unit costs for labour and materials are materially different than those used in the forecast, but rather that the lower material and construction costs are the result of scope reductions. The response to this question reflects the total cost variances from the estimate from all sources.

Savings in the program were achieved from the onset of the project and continued to the end of 2014 and into 2015. Below is a breakdown of savings achieved.

- *2011 to October 2012 – PCB oil testing/Scope Definition*
  - An equipment specialist was hired on behalf of FBC to develop a list of suspected PCB contaminated equipment. This allowed FBC to investigate each piece of equipment through manufacturer research, oil testing, and risk analysis. During this timeframe, certain pieces of equipment were removed from the program which allowed the Company to reduce the forecast by approximately $2.511 million, from $29.522 million to $27.011 million.
- *October 1, 2012 to December 31, 2014 – PCB Oil testing continued, apparatus and or oil exchange, transformer oil containments system installations, and equipment removals*
  - During this period FBC continued with oil testing and commenced with the exchange portion of the program. Additional savings were discovered as some transformer work allowed scope reductions as efficiencies were realized. FBC was therefore able to reduce the forecast from $27.011 million to $24.245 million.
- *December 31 to March 1, 2015 – Remaining work and Project closeout*
  - An estimate of $0.200 million is forecast to complete the project.

24.2 Please estimate the $ savings, and the % savings that were achieved for 2014 and forecast for 2015 as a result of the lower material and construction costs than were anticipated.

Response:

As explained in the response to CEC IR 1.24.1, the lower material and construction costs are the result of scope reductions. Please refer to the response to CEC IR 1.24.1 for the total cost variances from the estimate from all sources.

24.3 What factors contributed to the lower material and construction costs than originally anticipated?

Response:

Please refer to the response to CEC IR 1.24.1.

24.4 What was the cost for PCB compliance anticipated in the forecasts used to support FBC's PBR application compared to the actual costs anticipated in the excerpt above?

Response:

At the time of filing FBC's PBR Application in 2013, the anticipated total forecast for the project was $27.055 million. Through scope reductions, as explained in the response to CEC IR 1.24.1, the total project estimate was reduced to $24.245 million in 2014 as noted in the excerpt from the Application above. $0.200 million was carried forward to complete the remaining work in 2015.

25.0 Reference: Exhibit B-1, Page 44

> **8.2 *Capital Structure and Return on Equity***
>
> The Company finances its investment in rate base assets with a mix of debt and equity, as approved by the Commission from time to time. Pursuant to Order G-75-13, the Commission approved a benchmark ROE of 8.75 percent for FEI, effective January 1, 2013 until December 31, 2015, with an Automatic Adjustment Mechanism (AAM) in place. Order G-47-14 further approved a capital structure of 60.0 percent debt and 40.0 percent equity with an equity risk premium of 40 basis points over the benchmark ROE for FBC. The AAM was not triggered for 2014 or 2015, such that the ROE percentage remains as approved in Orders G-75-13 and G-47-14. FBC has therefore prepared this Application using an ROE of 9.15 percent and a common equity percentage of 40 percent.

25.1 Please explain how the AAM could be triggered, and what would be the effects if it were.

<u>Response:</u>

The AAM would have been triggered if the Long Canada bond yield had reached or exceeded 3.8 percent.

If triggered, the ROE would have been adjusted by the following formula as noted in Commission Order G-20-12:

ROE = Base ROE (8.75%) + 0.50 x (LCBFt – BaseLCBF) + 0.50 x (UtilBondSpreadt – BaseUtilBondSpread)

Where:

LCBFt is the Long Canada Bond Forecast for the test year, with a floor of 3.8 percent. The Base LCBF is 3.8%.

UtilBondSpreadt is the average spread of 30 year A-rated Canadian Utility bond yields over 30 year Government of Canada bond yields and BaseUtilBondSpread will be determined.

26.0 Reference: Exhibit B-1, Page 45

> Credit spreads on new long-term debt are based on current indicative rates, on the assumption that the current credit ratings of FBC are maintained. As a result of the debt refinancing that occurred in 2014, the current embedded cost of long term debt is lower in 2015 as compared to 2014.

26.1 Have FBC's credit ratings been stable over the last 10 years?

Response:

FBC has had ratings upgrades from both DBRS and Moody's Investors Service over the past 10 years. For comparative purposes, in March 2005 FBC's credit ratings on its senior unsecured debentures were Baa3 and BBB(high) from Moody's Investors Service and DBRS respectively. As at March 15, 2015, FBC's ratings are Baa1 and A(low) from Moody's Investors Service and DBRS, respectively.

Detailed FBC credit rating history for unsecured debentures over the last 10 years is provided below:

Moody's Senior Unsecured Debenture Rating

Rating	Effective
Baa1	5/6/2010 to present
Baa2	6/21/2007 to 5/6/2010
Baa3	11/16/2004 to 6/21/2007

DBRS Senior Unsecured Debenture Rating

Rating	Effective
A(low)	10/1/2010 to present
BBB(high)	11/18/2004 to 10/1/2010

26.1.1 If not, please provide FBC's credit ratings over the last 10 years.

Response:

Please refer to the response to CEC IR 1.26.1.

27.0 Reference: Exhibit B-1, Page 45

> FBC uses interest rate forecasts to estimate future interest expense. Forecasts of Treasury Bills and benchmark Government of Canada Bond interest rates are used in determining the overall interest rates for short-term debt and for rates on new issues of long-term debt, respectively. The forecasts are based on available projections made by Canadian Chartered banks.
>
> Credit spreads on new long-term debt are based on current indicative rates, on the assumption that the current credit ratings of FBC are maintained. As a result of the debt refinancing that occurred in 2014, the current embedded cost of long term debt is lower in 2015 as compared to 2014.
>
> FBC's short-term borrowing rate is based on the rate at which it issues Bankers' Acceptances (or the Canadian Dealer Offered Rate or CDOR) plus an Acceptance Fee Rate, and on the Prime Lending Rate.
>
> Since CDOR is not forecast by economists, a forecast needs to be derived by FBC; therefore, the Company must first obtain the 3-Month T-Bill rate forecast then convert it to a CDOR forecast. FBC does this by taking the 3 year historical spread between CDOR and the 3-month T-Bill rate which is calculated as 0.29 percent from 2009 to 2013. At the time of filing this Application, the 3-month T-Bill rate is projected to increase from 0.91 percent in 2014 to 1.36 percent in 2015. The Company then layers on the Acceptance Fee Rate which is 1.0 percent based on the pricing arising from the Company's April 2014 renewal of its operating credit facility agreement and its current credit ratings.
>
> The Prime Lending Rate is projected to increase from 3.00 percent in 2014 to 3.41 percent by 2015. Based on the pricing arising from the April 2014 extension of FBC's operating credit facility agreement and its current credit ratings, there is no prime rate margin associated with Prime Rate Margin borrowings.

27.1 From which Canadian Chartered Banks does FBC obtain its 3 month T-Bill rate forecast and its Prime Lending rate forecasts? Please provide sources and any analysis, such as averaging, that FBC undertakes.

<u>Response:</u>

FBC obtains 3 month T-bill rate forecasts from the following banks: Scotiabank, TD, CIBC, BMO, RBC or National Bank. FBC will also use the BC Ministry of Finance and Conference Board of Canada forecasts when recent updates are available. For forecast updates, FBC will use the most recent forecasts with the applicable information from 3 or more of these sources and take an arithmetic average.

27.2 What is the current 2 month T-Bill rate projection, if different from that at the time of filing?

Response:

FBC assumes the question is regarding the 3 month T-bill projection rather than the 2 month T-bill projection. FBC's current 3 month T-bill rate projection for 2015 is 0.47 percent.

27.3 When were the forecasts for the Prime Lending Rate made?

Response:

The prime rate forecast was made as at June 2014.

27.3.1 Please provide any updated forecasts for the Prime Lending Rate if available, and identify to when they are current.

Response:

Based on updates to underlying inputs as at February 19th, an updated Prime Lending Rate for 2015 is 2.63 percent.

28.0 Reference: Exhibit B-1, Page 51

> FBC proposes to distribute $0.330 million to customers in 2015 as a reduction in 2015 revenue requirements through amortization of the projected 2015 opening balance in the Earnings Sharing deferral account.
>
> As part of the 2015 Annual Review to set 2016 rates, the earnings sharing for 2014 will be subject to a true-up. This true-up will account for the actual O&M and capital expenditure amounts for 2014, as well as impacts, if any, associated with non-performance of Service Quality Metrics, based on final 2014 results.

28.1 What is the opening balance in the Earnings Sharing deferral account?

Response:

The January 1, 2015 balance of the Earnings Sharing deferral account is a $246 thousand liability owing to customers in 2015 shown in line 26, column 26 in Schedule 22, Section 11 of the 2015 Application. The deferral account balance includes the addition of the estimated 2014 Earnings Sharing amount of $330 thousand, as shown in Table 10-1: Calculation of Earnings Sharing for 2015 on page 51, Section 10 of the Application, plus a debt financing credit and less a net of tax entry.

28.2 When will the true up be undertaken?

Response:

The true up of the earnings sharing for 2014 will occur as part of the Annual Review for 2016 Rates and will be included in the 2016 rate calculation along with the estimate of 2015 earnings sharing.

29.0 Reference: Exhibit B-1, Page 84

> **12.3.2 Discontinuation of Debt Financing of Pension and OPEB Funding Liabilities**
>
> FBC is requesting discontinuation of the practice of recording a debt return on the pension and OPEB funding liability account, which is currently treated as non-rate base. The existing treatment is inconsistent with the nature of these accounts and may lead to stranded financing credits.
>
> In the Commission's clarification letter from September 17, 2012 regarding Order G-110-12, FBC was ordered to add the debt financing costs to non-rate base deferral costs and amortize them concurrently with the principal amounts. This debt financing principle has been broadly applied to many accounts without necessarily considering the individual economic nature of each one. The PBR Decision reiterated the requirement to finance many deferrals or flow-throughs with debt financing, including the pension and OPEB funding liabilities.

29.1 Please provide FBC's view of the individual economic nature of each of the deferral accounts for which it proposes different treatment.

<u>Response:</u>

The only account for which different treatment is being proposed is the Pension and OPEB Funding Liability account. The economic nature of this account was explained in Section 12.3.2 of the Application. Also refer to the response to the BCUC IR 1.17 series.

30.0 Reference: Exhibit B-1, Pages 85 and 86

> Accordingly, FBC has proposed the following new deferral accounts be financed using either the short term interest (STI) rate where recovery is over a one-year period; or the weighted average cost of debt (WACD) for longer-term deferrals.

> On May 15, 2014, FBC filed an application for approval of a Residual Capacity Agreement (RCA) with BC Hydro. The application was reviewed through a written public hearing. Order G-161-14 approved the Company's Rate Schedule 111 and the RCA as Tariff Supplement 10. FBC incurred $0.110 million ($0.082 million after tax) in costs related to the RCA application and proceeding in 2014. These costs are primarily legal fees, Commission expenses and intervener funding.
>
> FBC is seeking approval of a deferral account attracting a STI return, to capture costs related to the RCA proceeding incurred in 2014. FBC proposes to amortize the costs over one year, in 2015.

30.1 What is the current STI rate?

Response:

Please refer to the response to BCUC IR 1.14.1. FBC will update the rate in its compliance filing following the Commission's Decision in this proceeding

30.2 What is the current WACD rate?

Response:

The 2015 forecast WACD in the Application is 5.30 percent, calculated as shown below.

		($ millions)	Source
1	Return on Long Term Debt	$ 37.545	Section 11, Sch 27, Line 5
2	Return on Short Term Debt	2.763	Section 11, Sch 27, Line 11
3	Return on Debt	$ 40.308	
4			
5	Senior and Unsecured Debt	685.000	Section 11, Sch 27, Line 1
6	Short Term Debt	75.330	Section 11, Sch 27, Line 5
7	Total Debt	760.330	
8			
9	WACD (Line 3 ÷ Line 7)	5.30%	

FBC will update this rate, in its compliance filing following the Commission's Decision in this proceeding.

30.3 Please confirm or otherwise explain that FBC considers the need for rate stability and the goal of disposing of the deferral account expeditiously in determining the amortization period.

Response:

Primarily, FBC believes that there should be some causal relationship between the recovery period and the benefits of the expenditure, and that it is most reasonable, and is accepted regulatory practice, for the recovery term of regulatory application cost deferral accounts to align with the term over which the decisions apply. This is consistent with the principle that the amortization period for a deferral account should consider the timing of associated benefits.

However, FBC does also consider the need for rate stability and the goal of disposing of the deferral account expeditiously when determining the amortization period. In the case of the RCA, given the size of the deferral account ($82 thousand), matching the amortization period to the term of the agreement would result in an annual amortization expense of $8 thousand. FBC believes it is more reasonable to fully amortize the account in one year, which has no material impact on 2015 rates.

30.4 What additional factors, if any, does FBC consider in determining the amortization period?

Response:

Please refer to the response to CEC IR 1.30.3.

30.5 Why is FBC deferring the decision on the amortization percentages until the next annual review?

Response:

The deferral account for which FBC will propose the disposition of the remaining balance in the next annual review is the 2014 Interim Rate Variance deferral account. Because the balance of this account at December 31, 2015 will be $(17.945) million, as shown in Section 11, Schedule 22, Line 27, the amortization profile of this account has the potential to impact rates significantly. To reduce the degree of potential rate volatility, it is therefore necessary to determine 2016 revenue requirements before proposing the amortization of this account.

31.0 Reference: Exhibit B-1, Page 86

> The Company will file its 2016 Long Term Electric Resource Plan (LTERP) on or before June 30, 2016, as directed in Order G-110-12. Consistent with historical and approved practice, FBC proposes to collect the incremental costs of preparing the LTERP, including expert and consulting fees, public consultation and incremental staff expenses, in a deferral account. FBC anticipates it will incur $0.461 million ($0.339 million after tax) of costs in 2015 to begin preparing the 2016 LTERP.
>
> FBC will apply for disposition of the account in a future annual review. Consistent with the Commission's direction for deferral accounts with recovery periods longer than one year, the Company proposes that this account will attract a WACD return.

31.1 How frequently does the Company file an LTERP?

<u>Response:</u>

Generally, FBC expects to file a long term resource plan approximately every five years. FBC submitted its last Long Term Resource Plan to the Commission in June 2011. Prior to that, FBC submitted its Long Term Resource Plan in 2005.

31.2 What are the total expected costs that FBC anticipates to incur (2015 and 2016) to file its LTERP?

<u>Response:</u>

Please refer to the responses to BCUC IR 1.20.2.

31.3 In which annual review does FBC anticipate applying for disposition of this deferral account?

<u>Response:</u>

FBC typically requests disposition of deferral accounts of this type at the time of the regulatory review process. The LTERP is expected to be filed in 2016, and FBC would expect to apply for recovery of the deferred amounts in its Annual Review materials filed in the fall of 2016, for recovery beginning with 2017 rates.

32.0 Reference: Exhibit B-1, Page 87

The 2014 Interim Rate Variance deferral account was approved by Order G-182-14 regarding FBC's Application for Approval of 2014 Permanent Rates and 2015 Interim Rates filed with the Commission on November 14, 2014 (2015 Interim Rates Application). In the 2015 Interim Rates Application, FBC reviewed a number of amortization options for this deferral account and concluded "FBC believes that amortizing this variance over a three-year period beginning in 2015 best balances the goal of reducing rate volatility with minimizing the duration and volume of deferral accounts. The Company will request approval of the annual amortization amounts for this deferral account in its Annual Review to set 2015 rates."

In the 2015 Interim Rates Application, the three year amortization options that FBC reviewed that achieved the Company's stated goal of avoiding a rate increase no higher than 5 percent resulted with a 2015 amortization percentage ranging between 16.7 percent and 30 percent. Now that FBC has finalized its proposed 2015 rates, the Company proposes to amortize 20 percent of the deferral account balance in 2015. As shown in the table below, this would keep the proposed rate increase in 2015 to below 5 percent.

Table 12-1: Amortization of Interim Rate Variance Deferral Account

	2015	2016	2017
Before Amortization of 2014 Interim Rate Variance			
Revenue Requirement ($ thousands)	341,985	368,738	378,278
Rate Increase	17.0%	7.6%	1.8%
Amortization of 2014 Interim Rate Variance			
Pre-tax amount amortized ($ thousands)	(5,928)	(14,821)	(8,892)
Percentage amortized in each year	20.0%	50.0%	30.0%
After Amortization of 2014 Interim Rate Variance			
Revenue Requirement ($ thousands)	336,057	353,918	369,385
Rate Increase	4.6%	4.7%	3.6%

At this time, FBC is only requesting approval of the 2015 amortization percentage. The 2016 and 2017 amortization percentages will be finalized when FBC files its annual review material to determine 2016 rates.

32.1 Please confirm that the 3 year amortization could theoretically be extended if necessary.

Response:

FBC confirms that Commission Order G-182-14 did not specify an amortization period for the 2014 Interim Rate Variance deferral account.

32.2 Is the range of 16.7% to 30% for 2015 still applicable in avoiding a rate increase no higher than 5%?

Response:

To respond to this question, FBC provides below a comparison of its proposed 20 percent amortization in 2015 to a scenario where 16.7 percent is amortized in 2015 (Case 1) and where 30 percent is amortized in 2015 (Case 2). The results are then evaluated against whether the resulting rates are within the desired 5 percent threshold.

Case 1, though it passes the threshold test of 5 percent during 2015-2017, generates a cumulatively higher rate impact over the 2015-2017 period than FBC's proposal.

Case 2 fails to pass the threshold limit of 5 percent rate Impact in 2017.

This analysis supports FBC's proposal as being appropriate, based on current expectations of future revenue requirements.

Sensitivities:	2015	2016	2017	Cumulative	Remarks
Amortization Schedule - As Filed	20.0%	50.0%	30.0%	100.0%	Cumulatively generates lower rate impact
Rate Impacts	4.6%	4.7%	3.6%	13.5%	(13.5% versus 14.1%) than Case-1
Amortization Schedule - Case 1:	16.7%	60.0%	23.3%	100.0%	Within 5% threshold, but cumulatively (2015-2017)
Rate Impacts	5.0%	3.5%	5.0%	14.1%	generates higher rate impact than the "As Filed" Case
Amortization Schedule - Case 2:	30.0%	58.0%	12.0%	100.0%	
Rate Impacts	3.7%	5.0%	5.8%	15.2%	Test Fails: Crosses the threshold of 5% in 2017

32.2.1 If not, what is the range of amortization for 2015 that would keep the rate increase to no higher than 5%?

Response:

As shown in the table provided in response to CEC IR 1.32.2, the minimum and maximum ranges of amortization at which customer rate impacts during 2015-2017 are forecast to be contained within a 5 percent threshold would be 16.2 percent in 2015 (Case A) and 27 percent in 2015 (Case B), respectively.

However, in both these cases, the cumulative rate impact is higher than FBC's proposal (which is 13.5 percent 2015-2017).

32.3 Please provide the revenue requirements and rate increases that would occur from the following amortization schedules:

a) 33%, 33%, 33%;

b) 25%, 50%, 25%; and

c) 30%, 40%, 30%.

Response:

The requested data has been provided in the table below.

Sensitivities:	**2015**	**2016**	**2017**	**Cumulative**
Amortization Schedule - Case a:	33%	33%	33%	**100%**
Revenue Requirement ($000s)	332,099	358,904	368,440	
Rate Impacts	3.4%	7.5%	1.9%	**13.3%**
Amortization Schedule - Case b:	25%	50%	25%	**100%**
Revenue Requirement ($000s)	334,570	353,933	370,916	
Rate Impacts	4.2%	5.2%	4.0%	**14.0%**
Amortization Schedule - Case c:	30%	40%	30%	**100%**
Revenue Requirement ($000s)	333,087	356,918	369,428	
Rate Impacts	3.7%	6.6%	2.7%	**13.5%**

33.0 Reference: Exhibit B-1, Page 92 and Appendix B

> On February 4, 2015, the Commission issued Order G-14-15 (included in Appendix B) approving the Consensus Recommendation. As part of the Order, the Commission rescinded the Determination made in the Decision accompanying Order G-139-14 which stated: "Performance outside of this range would be unacceptable representing a serious degradation of service which would be subject to consequences".

> Based on how the Parties have established the thresholds and performance ranges, the Parties do not consider performance inferior to a threshold to necessarily
>
> - represent a "serious degradation of service", or
> - warrant adverse financial consequences for FortisBC
>
> but rather they consider that this circumstance warrants examination at an Annual Review to determine whether further action is warranted. However, performance inferior to a threshold is a factor the Commission may consider in determining whether there has been a "serious degradation of service" and whether adverse financial consequences for FortisBC are warranted.
>
> For clarity, the Parties did not come to any agreement on the implications of circumstances where there is performance inferior to the benchmark in non-consecutive years, or where the average performance over the PBR term is below the benchmark. The Parties have differing views on these matters. However, the Parties agree that nothing in this Consensus Recommendation is intended to limit (a) any right that a Party would otherwise have to raise these matters before the Commission or (b) any right that a Party would otherwise have to object to the matter being raised, or to oppose the substance of the arguments raised.

33.1 Please confirm that performance inferior to the threshold, while not necessarily representing a serious degradation of service could be considered indicative of 'serious degradation of service'.

Response:

Not confirmed.

As outlined in the Consensus Recommendation:

> *"…. the Parties do not consider performance inferior to a threshold to necessarily represent a "serious degradation of service", or warrant adverse financial consequences for FortisBC but rather they consider that the circumstances warrants examination at an Annual Review to determine whether further action is warranted."*

The wording states that performance inferior to a threshold warrants further examination at an Annual Review but that it is not necessarily representative of a serious degradation of service.

The Consensus Recommendation also indicates that performance inferior to the threshold is a factor that the Commission may consider in determining whether there is a "serious degradation of service," but not that it could be considered indicative of a "serious degradation of service."

33.1.1 If not confirmed, please explain why not.

Response:

Please refer to the response to CEC IR 1.33.1.

33.1.2 Please confirm that performance inferior to the threshold could be used to justify the application of financial consequences.

Response:

Not confirmed.

As outlined in the Consensus Recommendation:

> *"However, performance inferior to a threshold is a factor the Commission may consider in determining whether there has been a "serious degradation of service" and whether adverse financial consequences for FortisBC are warranted."*

The wording states that performance inferior to a threshold is a factor the Commission may consider in determining whether there has been a serious degradation of service and whether adverse financial consequences are warranted.

However, it does not state that performance inferior to a threshold could be used to justify the application of financial consequences, without the Commission first determining that there has been a serious degradation of service. The determination of a serious degradation of service by the Commission would only occur after further examination at an Annual Review of the circumstances to determine whether further action is warranted and after a stakeholder initiates a complaint with the Commission.

33.1.2.1 If not confirmed, please explain why not.

Response:

Please refer to the response to CEC IR 1.33.1.2.

34.0 Reference: Exhibit B-1, Page 93

Table 13-1: Approved SQI, Benchmarks and Actual Performance

Performance Measure	Description	Benchmark	Threshold	2014 Results
Safety SQIs				
Emergency Response Time	Percent of calls responded to within two hours	93%	90.6%	91%
All Injury frequency rate (AIFR)	3 year average of lost time injuries plus medical treatment injuries per 200,000 hours worked	1.64	2.39	2.58
Responsiveness to the Customer Needs SQIs				
First Contact Resolution	Percent of customers who achieved call resolution in one call	78%	72%	73%

2014 performance was 91 percent and within the performance range (the benchmark is 93 percent and the threshold is 90.6 percent). There are many variables affecting the response time including time of day (during business hours or after business hours), number of events (i.e. widespread outages), available resources and location (travel times and traffic congestion) conditions. Year to date performance indicates that that trouble calls and/or unplanned system interruptions are being addressed in a prompt and timely manner.

34.1 Please provide the results for Emergency Response Time for the last 5 years.

Response:

The table below shows the emergency response times for the last five years.

2010	2011	2012	2013	2014
95%	92%	91%	94%	91%

34.1.1 Please provide greater details with respect to the variables that occurred that resulted in the Emergency Response Time being 2% points below the Benchmark level established by the Commission in 2014.

Response:

During 2014, the months of August and November were challenging from an emergency response time perspective due to the number of trouble events. August had the highest number of trouble events recorded, which were 160 percent greater than the average number per month in 2014. On November 25th and 26th a widespread snowfall event throughout the service territory resulted in an abnormally high number of trouble events. Due to the high number of trouble events during these two days, the November emergency response time was at the lowest level of 2014 at 76 percent. Without these two months' results, the emergency response time for 2014 would have been 92.4 percent.

34.1.2 In that FBC has characterized performance below Benchmark as being 'prompt and timely', please provide FBC's interpretation as to the Commission's meaning and role of the Benchmark in this performance objective for FBC.

Response:

As discussed on page 149 of the FBC PBR Decision, the role of the benchmarks set by the Commission is to set a point around which a satisfactory performance range can be established.

34.1.3 Is it FBC's view that performance below Benchmark is acceptable on an ongoing basis? Please explain.

Response:

As discussed on page 149 of the FBC PBR Decision, the role of the benchmarks set by the Commission is to set a point around which a satisfactory performance range can be established. The range around the benchmark has been set through the negotiated threshold levels for each SQI as approved by the Commission. Results between the benchmark and the threshold represent satisfactory performance.

34.1.4 What plans, if any, does FBC have to ensure that the Emergency Response Time is at Benchmark or above in 2016? Please discuss.

Response:

FBC is actively recruiting to fill PLT vacancies throughout the service territory. Additional PLT resourcing will support Emergency Response Times during outage events and during periods of high trouble calls when standby personnel become challenged with the number of events.

34.1.5 What plans, if any, does FBC have to ensure that the Emergency Response Time does not drop below Threshold in 2016? Please discuss.

Response:

Please refer to the response to CEC IR 1.34.1.4.

35.0 Reference: Exhibit B-1, Page 91

Table 13-1: Approved SQI, Benchmarks and Actual Performance

Performance Measure	Description	Benchmark	Threshold	2014 Results
	Safety SQIs			
Emergency Response Time	Percent of calls responded to within two hours	93%	90.6%	91%
All Injury frequency rate (AIFR)	3 year average of lost time injuries plus medical treatment injuries per 200,000 hours worked	1.64	2.39	2.58
	Responsiveness to the Customer Needs SQIs			
First Contact Resolution	Percent of customers who achieved call resolution in one call	78%	72%	73%

The three-year rolling average of the annual results including 2014 results is 2.58, which is outside the performance range (the benchmark is 1.64 and the threshold is 2.39). The three-year rolling average was affected by the 2013 (2.82) and 2014 (3.21) annual AIFR results. During 2013 and 2014, the number of recordable safety incidents was 11 and 14, respectively, representing an increase from the prior year 2012 when a total of 8 incidents were recorded.

During 2013, the company experienced a labour disruption with the IBEW union which represents the majority of the field workforce. The disruption lasted six months and ended on December 20, 2013 with a binding arbitration agreement. The arbitration process continued into 2014 and concluded on November 14, 2014 with an arbitrated collective agreement. These unusual events have been challenging and created a distraction that may have compromised the ability to maintain a safety focus and mind on task and thereby contributed to the increased incidents.

During the first half of 2013, a period of challenging labour negotiations and partial IBEW job action, there were 10 employee injuries and medical treatment incidents recorded, up substantially from the five recorded in the first half of 2012. Similarly, in 2014, a noticeable number of safety incidents, eight in total, were recorded in the latter half of 2014, a time when the organization was anxiously awaiting a decision from the binding arbitration process.

While the increase in the safety incidents is a concern, FBC does not believe it has impacted the quality of service being provided to its customers. FBC notes that it was not under PBR in 2013 and was awaiting the PBR Decision for three quarters of 2014 when the majority of the safety incidents occurred.

35.1 For whom did the unusual events create a 'distraction' such that it may have compromised the ability to maintain a safety focus? Please explain.

Response:

Please refer to the response to COPE IR 1.2.6.

35.2 Please provide FBC's views as to why waiting for a decision from the binding arbitration process should influence or result in eight safety instances.

Response:

Please refer to the response to COPE IR 1.2.6.

35.3 Please confirm that FBC either anticipated being under PBR or was under PBR for nearly all of 2014.

Response:

Not confirmed.

As indicated in Section 1.5 of the Application, the Company operated for much of 2014 without certainty as to what its approved O&M and Capital spending envelopes would be, or, in fact, whether PBR would be approved. While it awaited the PBR Decision, FBC was not under a PBR Plan, as it was operating under interim rates and the PBR Plan had not been approved. The excerpt from Section 1.5 is provided below.

> Evaluation of the PBR Plan based on 2014 experience is limited due to the timing of the PBR Decision, and also because of a need to focus on normalizing 2014 activities following a lengthy labour dispute with the Company's IBEW staff during the second half of 2013. As the PBR Decision was not issued until September 15, 2014, the Company did not have certainty as to what its approved O&M and capital spending envelopes would be, or, in fact, whether PBR would be approved. During this time, FBC had to operate its business under the assumption that the Commission's decision would enforce significant O&M and capital savings.

35.4 Please confirm that FBC was aware that it would likely be operating under PBR for 2014 and would be potentially generating rewards for performance undertaken during 2014.

Response:

Not confirmed.

Please refer to the response to CEC IR 1.35.3.

36.0 Reference: Exhibit B-1, Page 94

> Safety is a core value for FBC and prevention of injury remains a key focus. In 2015, FBC will continue to focus on fundamentals in safe work planning, hazard identification and proper body positioning through detailed crew observations of all field employees. FBC has a number of effective safety management programs in place and for the last three years maintained a Certificate of Recognition (COR) through audits performed annually, providing validation of the effectiveness of the Company's safety programs. The COR, administered by the Partners in Injury and Disability Prevention Program of WorkSafeBC, is a voluntary initiative that recognizes and rewards employers who meets the requirements of the Occupational Health and Safety

36.1 Please confirm or otherwise explain that FBC anticipates improvement in performance in the AIFR such that it is better than threshold in 2015 and beyond.

Response:

Yes, FBC anticipates improvements in the annual AIFR results. FBC continually reviews its safety management system comprised of many programs and initiatives and including review of current and past year's injuries in an effort to prevent recurrences. A focus on worker awareness and supervisory coaching and monitoring will be employed.

FBC has conducted a review of its major safety program areas with several programs re-launched in their updated format over the past year. The new incident management system provides a consistent platform for incident investigations across the Company. The visibility of all incident reviews provides a valuable learning tool for supervisors and workers. Further, there is also a corrective action / continuous improvement component built into the system that documents accountabilities for corrective action to be taken. Regardless of the magnitude of an injury, attention will be paid to all causal factors, large and small, such that the correct planning focus is consistently applied to avoid injuries.

The Safe Work Planning program, established in 1996, is continually reviewed and improved. In 2015, and beyond, this program will continue to be a focal point. The program ensures that all elements of work are reviewed and understood based on risk assessments and hazard identification. The program requires barriers to be in place in order that work may be safely performed.

A renewed focus on ergonomic awareness and safe work practices has been launched across the Company. Communication will focus on personal accountability and the benefits of the program which better support preparing and strengthening workers' bodies before work commences in an effort to reduce injury.

These efforts will be supported by the Work Site Observation program which will be used by all levels of management to:

- Increase value added supervisory time in the field
- Improve employee safety and proficiency;
- Create opportunities to recognize positive behavior in the field: “What gets recognized will be repeated”;
- Increase opportunities for employees to discuss any safety concern contributing to the safety culture;
- Reinforce established safe work practices including ergonomics.

36.1.1 If yes, please provide a description of the types of activities that FBC proposes to undertake to improve performance on this measure.

Response:

Please refer to the response to CEC IR 1.36.1

36.1.2 If not, please explain why not.

Response:

Please refer to the response to CEC IR 1.36.1.

37.0 Reference: Exhibit B-1, Page 95

> *First Contact Resolution*
>
> First Call Resolution (FCR) measures the percentage of customers who achieve resolution in one contact with FBC. The Company determines the first contact resolution results using a customer survey methodology, tracking the number of customers who responded that their issue was resolved in the first contact with the Company.
>
> 2014 performance was 73 percent, above the energy industry call centre average of 70 percent and within the performance range (the benchmark is 78 percent and the threshold is 72 percent). The FCR rate is impacted by factors such as the quality and effectiveness of the Company's coaching and training programs. The FCR rate is also heavily influenced by the composition of the different call drivers as some call types are simpler to resolve in the first call than others. For example, a move call is simpler to resolve in one call than a high bill call. A high bill call may require a site visit to the customer in order to provide the right resolution or it may require more in-depth investigation.
>
> The 2014 result was consistent with the performance observed in 2013 since the Company started tracking the FCR rate (i.e. 73 percent in 2013).

37.1 Does FBC anticipate improving the score for First Contact Resolution so that it is closer to achieving benchmark performance in 2015? Please explain why or why not.

Response:

Yes, FBC is actively trying to improve the scores for First Contact Resolution so that it is closer to achieving the benchmark. Reducing repeat calls is not only a driver of customer satisfaction but also can reduce call volumes and therefore reduce costs.

37.2 If not, please provide FBC's views as to the Commission's intention for the role of the Benchmark in this performance objective.

Response:

Please refer to the response to CEC IR 1.37.1.

37.3 If yes, what activities does FBC intend to undertake to move its performance in this area closer to Benchmark? Please explain.

Response:

FBC is focusing coaching activities on achieving first call resolution. This includes reviewing customer feedback on interactions identified as not being resolved on the first call to look for process constraints, CSR coaching and / or additional training requirements. This is an ongoing process as feedback from customers is received each day.

38.0 Reference: Exhibit B-1, Pages 96 and 97

Telephone Service Factor (Non-Emergency)

The Telephone Service Factor (Non-Emergency) measures the percentage of non-emergency calls that are answered in 30 seconds. It is calculated as:

$$\frac{\text{Number of non-emergency calls answered within 30 seconds}}{\text{Number of non-emergency calls received}}$$

2014 performance was 48 percent, below the benchmark of 70 percent approved by the Commission and outside of the performance range (the benchmark is 70 percent and the threshold is 68 percent). The TSF is a measure of how well the Company can balance costs and service levels with the overall objective to maintain a consistent TSF level. This ensures the Company is staying within appropriate cost levels and maintaining adequate service for its customers. Principal factors influencing the TSF results include volume of inbound calls received and the resources available to answer those calls. Staffing is matched to the calls forecasted based on historical data in order to reach the service level benchmark desired. Other factors that can influence the TSF are billing system related issues and weather patterns that may generate high numbers of billing related queries. Additionally, the complexity of the calls can also influence TSF results as more complex calls require more time for the Company's representatives to resolve. Examples of complex calls include high bills queries, meter reading estimate concerns and collections calls.

The 2014 result was negatively impacted by a number of items including first verified meter readings occurring after the IBEW labour disruption ended in December of 2013, introduction of the Residential Conservation Rate, and the integration of the City of Kelowna customers. As a result of these items, call volumes at the contact centre in the first part of 2014 were more than double the normal volumes. Recruiting and training more resources for such a short duration was not a practical alternative to mitigate these results. Instead, FBC extended additional hours to existing part time and full time staff and offered overtime to handle the increased volume. Despite the lower TSF results, customer satisfaction and first contact resolution results remained stable indicating that although wait times were longer than normal, customers' issues were being resolved in a timely fashion. The TSF results have improved during the last half of 2014.

38.1 Please provide the TSF results from the last half of 2014.

Response:

Please refer to the response to BCUC IR 1.24.1.

38.2 What plans does FBC have to bring TSF results above threshold in 2015?

Response:

For 2015, FBC is not anticipating the same call volume levels that were experienced in 2014 since the main factor impacting the volumes in 2014 (i.e. the first actual reads in six months causing larger than normal catch-up bills) is not a factor in 2015. Due to the drop to more normal call volumes, FBC anticipates being able to improve the TSF result to bring it closer to 70 percent in 2015.

In addition, FBC has adjusted its resourcing strategy to handle larger peak volumes in the future if they occur unexpectedly. First, FBC has hired more temporary staff in December 2014. The hours of other part time and temporary staff were reduced so that overall FTE levels remain stable, but there now exists more capacity available to extend hours if more than expected call volumes occur. Second, a group of CSRs in the Prince George contact centre has been trained to answer electric calls, and may do so if required. This will be helpful in large outage situations or if FBC experiences high absence rates in the electric contact center.

38.3 What is a normal range of call volumes and that experienced in the first half of 2014?

Response:

A normal range is approximately 55,000 to 64,000 calls answered in the first half of the year. In the first half of 2014, there were approximately 100,000 calls answered. When comparing the first quarter only, a normal volume range is approximately 28,000 to 30,000 calls. In the first quarter of 2014, approximately 60,000 calls were received.

These numbers do not include outbound calls made to follow-up on customer concerns. Outbound calls are not tracked. However, due to the complexity of the calls experienced during the first half of 2014, more additional follow-up than normal was required.

38.4 How often does FBC experience situations in which the number of call volumes doubles for an extended period of time? Please explain and relate to FBC experience over the last 5 years.

Response:

Prior to 2014, FBC had only experienced such a significant increase from forecast call volumes for short periods of time (1 to 3 days) due to large outages. Due to the short duration of these unanticipated volumes, the annual TSF average was not significantly impacted.

38.5 Is FBC able to speculate on what the performance level would have been in the absence of doubled call volumes in the first half of the year? If so, please provide.

Response:

It is difficult to speculate as to what the performance level would have been in absence of doubled call volumes as this does not take into account the types of calls received and the average duration of those calls. FBC had staffed to meet 70 percent based on forecast volumes and so if the volumes and types of calls had been comparable to forecast, the TSF would have expected to achieve 70 percent.

39.0 Reference: Exhibit B-1, Pages 97 and 98

> *Telephone Abandon Rate*
>
> The Telephone Abandon Rate, an informational indicator as approved by the Commission, measures the percent of calls abandoned by the customer before speaking to a customer service representative. Abandon rates are not always an indication of a negative experience.
>
> Customers may abandon due to waiting times, or due to them receiving their required information through informational messages in our Interactive Voice Response (IVR) system such that the customer no longer needs to speak to an agent.
>
> The 2014 result was 13 percent, higher than previous years' results (i.e. 2012 at 1.9 percent and 2013 at 2.0 percent).
>
> The 2014 result was negatively impacted by the events described above, including first verified meter readings occurring after the IBEW labour disruption ended in December of 2013, introduction of the Residential Conservation Rate, and the integration of the City of Kelowna customers. As noted above, as a result of these items, call volumes at the contact centre in the first part of 2014 were more than double the normal volumes. Recruiting and training more resources for such a short duration was not a practical alternative to mitigate these results. Instead, FBC extended additional hours to existing part time and full time staff and offered overtime to handle the increased volume In order to help customers during the longer than normal wait times, answers to common questions were provided within hold messaging. This helped customers to receive the answers they needed without having to speak to a representative. Although this service was helpful to customers, it did impact the abandon rate, increasing it overall. The abandonment rate has improved during the last half of 2014.

39.1 Please provide the abandonment rate for the last half of 2014.

Response:

Please refer to the response to BCUC IR 1.25.1.

39.2 Does FBC anticipate the telephone abandonment rate to decline to 2012 and 2013 levels in 2015? Please explain why or why not.

Response:

Yes, FBC anticipates that the telephone abandon rate in 2015 will decline to more normal levels such as those that were experienced in 2012 and 2013.