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September 25, 2015

**Via Email**  
**Original via Mail**

Industrial Customers Group  
c/o #301 – 2298 McBain Avenue  
Vancouver, BC V6L 3B1

Attention: Mr. Robert Hobbs

Dear Mr. Hobbs:

**Re: FortisBC Inc. (FBC)**

**Application for a Certificate of Public Convenience and Necessity (CPCN) for  
the Kootenay Operations Centre (the Application)**

**Response to the Industrial Customers Group (ICG) Information Request (IR)  
No. 1**

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On July 9, 2015, FBC filed the Application referenced above. In accordance with Commission Order G-124-15 setting out the Regulatory Timetable for the review of the Application, FBC respectfully submits the attached response to ICG IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

**FORTISBC INC.**

***Original signed by: Ilva Bevacqua***

**For:** Diane Roy

Attachments

cc: Commission Secretary  
Registered Parties (email only)

FortisBC Inc. (FBC or the Company) Application for a Certificate of Public Convenience and Necessity (CPCN) for the Kootenay Operations Centre (the Application)	Submission Date: September 25, 2015
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1   **1.0   Reference:   Exhibit B-1, p. 7, lines 11-14**

2           **“The Kootenay region does not currently have a centralized and dedicated**  
3           **Emergency Operations Centre (EOC) to manage all transmission, distribution and**  
4           **generation emergency events, and this presents certain challenges associated**  
5           **with emergency response communications and situational awareness.”**

6           1.1   How has FortisBC considered the advantages of distributed emergency  
7           locations? Please discuss whether a centralized “Emergency Operations Centre”  
8           would suffer from a condition of having “all one’s eggs in single basket”, and if  
9           not, why not?

10

11   **Response:**

12   Centralized EOCs have several advantages when compared to distributed EOCs. Centralized  
13   EOCs enable rapid collaboration and coordination of planning, and simplify decision making. A  
14   centralized EOC in the KOC further enables and improves communications and coordination by  
15   being located with key staff in contact with external emergency organizations, the Provincial  
16   balancing authority (BC Hydro) and all field crews. Please refer also to the response to CEC IR  
17   1.6.1. The “all eggs in one basket” issue does not arise because there is a backup EOC.

18

19

20

21           1.2   Please discuss how a centralized center could be functionally separated in the  
22           future, as was the trend in vertically-integrated utilities in the 1990’s and 2000’s.  
23           How could the proposed Kootenay Operation Center be structured to facilitate  
24           functional separation of the utility’s functions in the future? Please explain how  
25           this has been considered in this Application.

26

27   **Response:**

28   In British Columbia, the trend towards functional separation of vertically-integrated utilities  
29   ended in the late 2000s and there is no indication of fundamental changes in policy that would  
30   alter this in the foreseeable future. Given this, and in the context of a centralized EOC, future  
31   separation has not been considered in this Application.

32

FortisBC Inc. (FBC or the Company) Application for a Certificate of Public Convenience and Necessity (CPCN) for the Kootenay Operations Centre (the Application)	Submission Date: September 25, 2015
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1    **2.0    Reference:    Exhibit B-1, p. 26, Trail Office Building**

2            **“The building was constructed, and FBC’s predecessor entered into a lease**  
3            **agreement for the space, in 1993. In 2013, FBC exercised its option to purchase**  
4            **the building, which was approved by Order G-110-12. The site has one structure.”**

5            2.1    Was the original construction of the Trail Office Building subject to any regulatory  
6            application? If so, please provide the original application and the expected useful  
7            life of the building.

8  
9    **Response:**

10    The sale and leaseback of the Trail Office Building was approved by Order G-41-93. As  
11    confirmed in the Decision accompanying Order G-41-93, FBC had requested and received  
12    confirmation that a CPCN was not necessary for the construction of the building.<sup>1</sup>

13    The lease provided for an initial term of 20 years, with an option after year 20 to purchase the  
14    building or to renew the lease for a further 10 years.

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<sup>1</sup> Order G-41-93 in the matter of a rate Application by West Kootenay Power Ltd., June 9, 1993, page 17.



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1    **4.0    Reference:    Exhibit B-1, p. 48, lines 20-22**

2    **“The alternative of “do nothing” ie maintaining the status quo, is not a feasible**  
3    **option for the Generation Facilities given the age, condition and location issues of**  
4    **the Generation Facilities and the potential of failure of key mechanical and**  
5    **electrical systems.”**

6    4.1    Please identify key mechanical failures or key electrical system failures that have  
7    occurred in the past five years.    If any, please comment on whether any such  
8    failures have affected reliability or safety?  
9

10    **Response:**

11    A HVAC failure in 2011 caused the upper floor of the Generation Administration Office to be  
12    without heat and affected the indoor air quality for the occupants.    There were no reliability  
13    issues and the safety issues were addressed by providing temporary heaters.

14  
15

16  
17    4.2    Please comment on whether the employees to be relocated to the Kootenay  
18    Operation Centre are within the same organizational group.    If not, please  
19    comment on whether the organizational chart is expected to change after  
20    relocation of employees to the Kootenay Operation Centre.    Please also identify  
21    on the organizational chart the reporting responsibilities of the employees at the  
22    Generation Facilities, the yard at the Castlegar District Office, the Castlegar  
23    District Office, and the Kootenay Station Services group at the Warfield Complex.

24  
25    **Response:**

26    The employees moving into the KOC fall under various managers/supervisors from the following  
27    groups:

- 28    •    Kootenay Station Services  
29    •    Generation  
30    •    SCC  
31    •    MRS (identified in the Application Space Programs under the SCC group)

32  
33    The organizational chart and reporting structure will not change as a result of this move.    The  
34    reporting responsibilities of the various employees will remain the same.

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4.3 Please identify the number of employees expected to be relocated for each of the alternatives considered, together with the number of employees to remain at current work-sites.

**Response:**

9 Alternatives 2 and 3 propose renovations and replacements of the buildings at the existing sites,  
10 so they involve minimal permanent relocation of staff to other sites. The table below provides  
11 the existing and proposed number of employees for both Alternative 2 and Alternative 3. For  
12 Alternative 5, please refer to the responses to BCUC IRs 1.1.1 and 1.1.2.

	Generation Facilities		Warfield Complex		Trail Office Building	
	Existing	Proposed	Existing	Proposed	Existing	Proposed
<b>Alternative 2</b>	69	69	92	96	120	116
<b>Alternative 3</b>	69	69	92	96	120	116

13  
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1   **5.0   Reference:   Exhibit B-1, p. 56 and p. 65**

2           **“This alternative [alternative 5] is the only option which allows for the realization**  
3           **of operational efficiencies and cost savings associated with relocation of the**  
4           **Kootenay Station Services group to a centralized location.”**

5           **“It should be noted that the Project as proposed would require relocation of**  
6           **approximately 85 employees.”**

7           5.1    Please comment on whether FBC considered a combined regional facility that  
8           did not include relocation of any of the employees at the Warfield Complex to the  
9           combined regional facility?

10

11    **Response:**

12    Please refer to the response to BCUC IR 1.7.5.

13

14

15

16           5.2    Please provide an analysis of the costs and benefits of a combined regional  
17           facility that did not include the Kootenay Station Services group at the Warfield  
18           Complex?

19

20    **Response:**

21    Please refer to the response to BCUC IR 1.7.5.

22

23

24

25           5.3    Please comment on whether the main trades in the Kootenay Station Services  
26           group are associated with the trade groups, with the exception of the Generation  
27           Major Maintenance electricians, in the other functions to be relocated under  
28           Alternative 5?

29

30    **Response:**

31    Apart from the ‘electrical’ trades, which encompass Electricians, Communications, Protection &  
32    Control Technologists and Metering Technicians, there is no direct association between the  
33    Kootenay Station Services groups and other trades FBC proposes to relocate to the KOC.

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5.4 Please estimate and identify the vehicles, tools and equipment costs that might be expected by both the Generation Major Maintenance electricians and the Kootenay Station Service group electricians working from a combined regional facility?

**Response:**

Please refer to the response to BCUC IR 1.7.1.

5.5 Please comment on whether FBC expects synergies from the relocation of vehicle maintenance employees at the Warfield Complex to a combined regional facility?

**Response:**

The proposed KOC Project does not involve the vehicle maintenance employees at the Warfield Complex.



1 **6.0 Reference: Exhibit B-1, p. 61, Generation Department and Kootenay Station**  
 2 **Services Group Centralization Impacts**

3 **Table 5-4: Additional Considerations of Generation Department and Kootenay**  
 4 **Station Services Group Centralization**

5 6.1 Please explain why Alternative 1 does not “Maintain or improve travel time for  
 6 Generation Major Maintenance”?  
 7

8 **Response:**

9 FBC confirms that Alternative 1 – Do Nothing involves no change to the status quo and hence  
 10 no change to travel time. Table 5-4 has been revised and is provided below.

11 **Table 5-4: Additional Considerations of Generation Department and Kootenay Station Services**  
 12 **Group Centralization**  
 13

Additional Considerations	Alternative 1	Alternative 2	Alternative 3	Alternative 5
Reduces foreman time by combining safety meetings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Improves exchange of information due to central location	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Allows integration of Generation employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Avoids duplication of base building and common spaces	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Maintain or improve travel time for Generation Major Maintenance	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

14  
 15  
 16 6.2 The Application places significant emphasis on the central location of the  
 17 Kootenay Station Services group aiding in achieving operational efficiencies and  
 18 cost savings, but relatively little emphasis on the increased costs and  
 19 inefficiencies of relocating the Generation maintenance group farther away from  
 20 FortisBC’s core Kootenay River facilities. Please provide any detailed analysis  
 21 that was performed to identify the costs and inefficiencies associated with the  
 22 relocation of the Generation maintenance group.  
 23

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1    **Response:**

2    Please refer to Page 57 of the Application. The proposed relocation will result in operating costs  
3    estimated at \$30,000 per year due to increased Generation travel time. This increased travel  
4    time from the KOC to FBC owned plants is the only decrease in efficiency to the Generation  
5    group as a result of moving to the KOC.

6  
7

8

9           6.3    Has FortisBC conducted any analysis of the decreased costs or increased  
10           efficiencies afforded to third-party work at unregulated facilities performed by the  
11           Generation department personnel. If not, why not?

12

13    **Response:**

14    The KOC does not materially change the way in which FBC carries out its NRB work and  
15    therefore no material costs or efficiencies will affect the NRB contracts.

16  
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19           6.4    If there are decreased costs or increased efficiencies afforded to third-party work  
20           at unregulated facilities performed by the Generation department personnel  
21           attributable to the more central location of the KOC, should some portion of the  
22           cost of the KOC be funded by someone other than FortisBC's ratepayers?

23

24    **Response:**

25    Please refer to the response to ICG IR 1.6.3. If increased efficiencies occur in performing  
26    contracted work at non-regulated facilities then the charges will be appropriately reflected under  
27    the respective relevant service contracts.

28  
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31           6.5    Please provide a detailed analysis of the amount of Generation department  
32           personnel hours available in total, and the amount of hours spent at each  
33           FortisBC and third party generating facility location in each of the last three  
34           years.

35

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1 **Response:**

2 The table below provides the Generation labour hours by location for 2011, 2012 and 2014.  
 3 2013 has been omitted because the year included a labour disruption which affected normal  
 4 operations and is therefore not considered to be representative.

5 **Generation on Site Labour Hours by Location**

	Location	Year		
		2011	2012	2014
	Walden	681	513	439
<b>3rd Party NRB</b>	Arrow Lakes	13,392	12,877	16,562
	Brilliant Expansion	14,162	15,077	10,536
	Waneta Expansion	486	134	4,181
<b>3rd Party NRB Total</b>		28,040	28,087	31,279
<b>3rd Party Regulated</b>	Brilliant	16,217	18,743	19,929
	Waneta	29,557	27,059	17,572
<b>3rd Party Regulated Total</b>		45,773	45,801	37,500
<b>3rd Party Total</b>		73,813	73,888	68,779
<b>FBC Regulated O&amp;M</b>	Corra Linn	3,845	3,729	3,731
	Lower Bonnington	3,857	4,476	6,524
	South Slocan	5,996	5,225	5,083
	Upper Bonnington	7,426	6,342	5,726
	Capital	57,548	40,512	27,603
<b>FBC Regulated Total</b>		78,672	60,284	48,667
<b>Grand Total</b>		153,166	134,686	117,885
<b>Total Available</b>		177,363	163,042	131,264

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1    **7.0    Reference:    Exhibit B-1, p. 65**

2            **“FBC is in the final process of preparing the land for temporary storage of poles,**  
3            **construction materials, and pole trailers. Permanent storage improvements to the**  
4            **land are included as part of the KOC Project requirements as discussed in Section**  
5            **4.6.1. Permanent storage is conditional on the Ootischenia site development, as**  
6            **the City of Castlegar has an option to repurchase the property if FBC does not**  
7            **construct a building of at least 16,000 square feet on it.”**

8            7.1        Please identify the costs for the temporary storage facility, and explain why this  
9            work is not part of the main Application.

10

11    **Response:**

12    The capital cost for the temporary storage is included in the CPCN Application. It is embedded  
13    in the cost of land (\$800 thousand) and was not specified separately as it would be an allocation  
14    of a common cost for the KOC.

15

16

17

18            7.2        Please identify any environmental issues at pole storage locations in Warfield,  
19            Castlegar and South Slokan, and identify any remediation costs at each location  
20            in the project budget.

21

22    **Response:**

23    FBC is not aware of any environmental issues at the current pole storage at the Warfield  
24    Complex and the South Slokan Generation site pole yard.

25    The Castlegar District Office does not store poles.

26    For the proposed KOC Project, FBC is only moving pole storage from the South Slokan  
27    Generation Site to the KOC site. FBC does not expect any environmental issues associated  
28    with the move. As such, FBC has not included any remediation costs for pole storage within the  
29    KOC project.

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1    **8.0    Reference:    Exhibit B-1, p. 80**

2    **“For General Plant Buildings, FBC currently has a depreciation rate of 6.1%**  
3    **approved by the BCUC for Masonry Structures (Account 390.1)    This rate is**  
4    **primarily determined by the experience that FBC has had with the assets in this**  
5    **class and is not reflective of the lifespan it expects from a new building such as**  
6    **the Kootenay Operation Centre.”**

7    **“The following table shows the derivation of the proposed composite rate for the**  
8    **KOC (Alternative 5) of 1.9% used in the financial analysis. Please note that FBC**  
9    **has used existing approved depreciation rates for all other applicable asset**  
10    **categories.”**

11            8.1    Please explain whether the composite rate for KOC of 1.9% has been used in the  
12                            financial analysis and is being proposed for rate-making purposes?  
13

14    **Response:**

15    Yes, the rate of 1.9% has been used in the financial analysis that is included in Confidential  
16    Appendix G-2-3. Subsequent to the filing of the Application, FBC received an opinion from  
17    Gannett Fleming that recommends an average life of 40 years, which would result in a  
18    depreciation rate of 2.5%, for Alternative 5. Updating for a depreciation rate of 2.5% does not  
19    change the average rate increase of 0.7% for this alternative and, as such, does not impact the  
20    evaluation ranking of Alternative 5.

21    The depreciation rate that the Commission approves will be used in determining FBC’s revenue  
22    requirements and customer rates in 2018 and thereafter. As discussed in the response to  
23    BCUC IR 1.9.2.3, in light of the opinion from Gannett Fleming and the results of the most recent  
24    depreciation study for FBC, FBC believes that a separate depreciation rate for this project is no  
25    longer required and has accordingly amended the Draft Order as Attachment 9.6 (b) in that IR  
26    response.

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29  
30            8.2    Please explain whether the composite rate for KOC of 1.9% is being proposed  
31                            for rate-making purposes for all assets in Account 390.1?

32                            If not, please provide support for the view that assets in the same class/account  
33                            should attract depreciation rates that are unique to each asset?

34                            If not, please provide an example of other asset classes for which the  
35                            Commission has approved a depreciation rate by asset vs. by class?  
36

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1 **Response:**

2 No, the rate of 1.9% was to apply to the KOC only. However, FBC has amended its approval  
3 sought based on the opinion received from Gannett Fleming as well as the most recent  
4 depreciation study results. Please refer to the responses to BCUC IR 1.9.2.3 and ICG IR 1.8.1.

5 It is FBC's opinion and practice, per Commission approval, that those assets within a class  
6 should have the same depreciation rate unless there are unique circumstances that would  
7 compel the Company to ask for a different rate for a new asset that has materially different  
8 economic qualities than currently existing assets.

9 In terms of Commission approval of depreciation rates which differ from the underlying asset  
10 classes, Order C-7-13 approved separate depreciation rates for AMI Meters, AMI Computer  
11 Software, and AMI Communications Structure and Equipment which differed from other assets  
12 in the same accounts.

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16 8.3 Please comment on whether FortisBC has engaged Gannett Fleming to opine in  
17 writing on the proposed depreciation rate of 6.1% for Account 390.1 with a  
18 depreciation rate of 1.9% for the assets that are part of the Project and in the  
19 same Account 390.1. If not, please engage Gannet Fleming to opine in writing  
20 on the proposed use of a composite rate for the KOC of 1.9% instead of a rate  
21 by asset class/account, and engage Gannet Fleming to opine on the  
22 depreciation rate for Account 390.1 with the addition of the Project assets that  
23 will be in that account?

24

25 **Response:**

26 Yes, FBC engaged Gannett Fleming to provide an opinion on the appropriate depreciation rate  
27 for this Project.

28 Please refer to the response to BCUC IR 1.9.2.3 for the results of this opinion.

29

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1    **9.0    Reference:    Exhibit B-1, p. 87**

2                    **City of Trail and Regional District of Kootenay Boundary (RDKB) Consultation**

3                    9.1        Please describe what, if any, commitments have been discussed with or made to  
4                    either the City of Trail or the RDKB for future FortisBC activity or investment that  
5                    would offset the effect of the relocation of the Trail Office and Warfield Complex  
6                    to Castlegar.

7  
8                    **Response:**

9                    The Trail Office Building and the Warfield Complex are not relocating and will remain  
10                    operational. It is expected that 38 positions from the Warfield Complex and 4 positions from the  
11                    Trail Office Building will be relocated to the proposed KOC site in Castlegar. No commitments  
12                    have been made to the City of Trail or the RDKB regarding any future FBC activity or  
13                    investment to offset any operational resources that move from the City of Trail as a result of the  
14                    KOC Project.

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17

18                    9.2        Please provide a cost benefit analysis of locating the EOC at the Trail Office?

19

20                    **Response:**

21                    The Trail Office Building is not a suitable location for an Emergency Operations Centre because  
22                    it is located within the inundation zone for dams upstream and is in close proximity to certain  
23                    other hazards noted in Confidential Appendix Q (Exhibit B-1-1), Site Location Report.

24                    The analysis below shows that constructing an EOC at the KOC versus the Trail Office Building  
25                    results in an annual net savings of approximately \$13,000 (noted in the table below at \$9,600  
26                    post tax).

27                    The cost to provide a dedicated EOC at the Trail Office would require the following:

28                    • Tenant space reallocated to FBC as FBC does not have available space within its  
29                    existing allocated space;

30                    • Revenue loss for the tenant space;

31                    • Demolition and demise of tenant space to accommodate EOC size (tenant space is  
32                    currently much larger than what is required for EOC) which includes the requirement to  
33                    meet 2012 BC Building Code, fire separation, mechanical and electrical system  
34                    separation;

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- 1 • Build-out of FBC infrastructure including UPS and Generator, data network and security
- 2 system connectivity. This analysis assumes there is sufficient capacity on the existing
- 3 UPS and Generator to accommodate the requirements;
- 4 • Purchase and installation of furniture;
- 5 • Purchase, installation and commissioning of equipment; and
- 6 • Purchase, installation and commissioning of audio visual.

7 Based on the assumptions above, FBC provides a simple cost benefit analysis to demonstrate  
 8 the difference between constructing an EOC at the KOC versus the Trail Office Building.  
 9 Shown in the table below, the incremental savings of locating the EOC at the KOC versus the  
 10 Trail office is \$11 thousand in 2017.

- 11 • The cost of the construction:
  - 12 ○ The difference in construction cost between the options is \$40,000 less capital
  - 13 investment required for the KOC EOC; and
- 14 • The loss of revenue of the Trail Office Building:
  - 15 ○ Estimated at \$13,000 annual revenue loss (noted in the table below at \$9,600
  - 16 post tax) for the Trail Office Building.

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
	(\$000s)				
Savings at KOC (for EOC compared to Trail)	(40.0)	-	-	-	-
Depreciation 2.50%	-	1.0	1.0	1.0	1.0
Net Book Value	(40.0)	(39.0)	(38.0)	(37.0)	(36.0)
<b>Rate Base</b>	<b>(20.0)</b>	<b>(39.5)</b>	<b>(38.5)</b>	<b>(37.5)</b>	<b>(36.5)</b>
<b><u>Financing Cost &amp; Taxes</u></b>					
Cost of Equity 9.15%	(0.7)	(1.4)	(1.4)	(1.4)	(1.3)
Cost of Debt 5.3%	(0.6)	(1.3)	(1.2)	(1.2)	(1.2)
Depreciation cost	-	(1.0)	(1.0)	(1.0)	(1.0)
<b>Net Incremental Revenue Impact</b>	<b>(1.4)</b>	<b>(3.7)</b>	<b>(3.6)</b>	<b>(3.6)</b>	<b>(3.5)</b>
<b><u>Incremental Revenue Impact:</u></b>					
Incremental Lease Revenue savings at KOC (Post Tax)	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)
<b>Incremental Savings Achieved</b>	<b>(11.0)</b>	<b>(13.3)</b>	<b>(13.2)</b>	<b>(13.2)</b>	<b>(13.1)</b>

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FortisBC Inc. (FBC or the Company) Application for a Certificate of Public Convenience and Necessity (CPCN) for the Kootenay Operations Centre (the Application)	Submission Date: September 25, 2015
Response to Industrial Customers Group (ICG) Information Request (IR) No. 1	Page 16

1    **10.0 Reference: Exhibit B-1, p. 88**

2            **“FBC also spoke with local MLA Katrine Conroy in August 2012 about the Project.**  
3            **She expressed concern over rate impacts, adequate consultation and potential**  
4            **loss of jobs. The Company explained there were no plans for job losses due to the**  
5            **Project.”**

6            10.1 Please explain how FortisBC has investigated the reduction of the number of  
7            total personnel at the KOC through consolidation, at the very least, of  
8            administrative functions. If FortisBC has not conducted that analysis, why not?  
9

10    **Response:**

11    FBC evaluated opportunities for consolidation and efficiencies as a result of the KOC Project.  
12    The Application addresses efficiencies due to the relocation of the Kootenay Station Services  
13    Group. Please also refer to the response to BCUC IR 1.8.1.

14