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October 13, 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)

Multi-Year Performance Based Ratemaking Plan for 2014 through 2019 approved by British Columbia Utilities Commission (Commission) Order G-139-14 (the PBR Plan) - Annual Review for 2016 Rates (the Application)

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

On September 11, 2015, FBC filed the Application referenced above. In accordance with Commission Order G-139-15 setting out the Regulatory Timetable for the review of the Application, FBC respectfully submits the attached response to ICG IR No. 1.

Due to a small number of updates to the forecasts in the Application, FBC will be filing an Evidentiary Update prior to the Annual Review Workshop. The Evidentiary Update will include the items listed below:

- Update to incorporate the forecast 2016 reduction in property taxes (see response to BCUC IR 1.16.3);
- Update to the balance in the Capacity and Energy Purchase and Sale Agreement with Powerex Corp. Application deferred account (see response to BCUC IR 1.21.3); and
- Update to 2015 and 2016 revenue to give effect to certain determinations of the Commission in the Stage IV Decision regarding Celgar's Stand-by Billing Demand (Order G-14-15).

If further information is required, please contact Joyce Martin at 250-368-0319.

Sincerely,

FORTISBC INC.

Original signed by: Joyce Martin

For: Diane Roy

Attachments

cc: Commission Secretary
Registered Parties (email only)

Reference: Exhibit B-1-1, pp. 13-14, and Exhibit B-1-1, Section 3.4, p.14

The forecast of DSM savings, which is consistent with the Company's 2015-2016 DSM Plan accepted by Order G-186-14, is based on the 2013 Conservation Potential Review (CPR) Update which estimated the remaining economic potential for DSM measures, programs and sectors.

1) Is FBC planning to make supplemental Demand-Side Management (DSM) expenditure requests to the British Columbia Utilities Commission (Commission) in 2016 to expand DSM programs so that they support BC's fuel switching objective as encouraged by the Commission on page 14 of the 2015/2016 FBC DSM Decision?

Response:

No. The economic potential for fuel switching will be determined in the joint BC wide dual-fuel CPR (Conservation Potential Review) that is currently underway. The BC CPR will inform the upcoming Long Term DSM Plan to be filed in 2016, and the subsequent DSM expenditure schedule, in which the Company will determine whether to pursue fuel switching if cost-effective to do so.

2) Is FBC planning to request additional DSM funding for industrial customers in 2016 as encouraged by the Commission on page 28 of the 2015/2016 FBC DSM Decision? If yes, please explain how this could affect the 2015 industrial load forecast. If no, please explain why not.

Response:

No. It is FBC's intention to await completion of the joint BC dual-fuel CPR now underway to inform the forthcoming Long Term DSM Plan and hence the next DSM expenditure filing.

In the interim, the Company believes that there is sufficient flexibility in the DSM spending rules, i.e. the ability to shift up to 25% of approved Program Area (Sector) spending, and more so with Commission approval, in order to respond to any increase in demand for DSM activity and hence additional spending in the Industrial sector.

Reference: Exhibit B-1-1, Appendix 1, p. 4

The before-saving industrial load is the sum of forecasts supplied by the current FBC 49 individual customers. For each customer, its forecast in each year was used if it responded to the load survey. Otherwise, its load was forecast by escalating its preceding year's load with the CBOC forecast GDP growth rates for the industrial sector that it is in. The majority of the FBC industrial customers responded to the surveys (86 percent of customers accounting for 91 percent of 2014 load.)

3) Please identify and explain any differences between the methodology used by FBC to forecast the 2016 Industrial customer load to that used for the 2014-2018 PBR Application.

<u>Response:</u>

The methodology remains consistent with that used in the 2014-2018 PBR application.

4) Please explain why FBC's assumption of no new industrial accounts in 2016 is a more likely outcome than, say, the approach used for commercial customer accounts.

<u>Response:</u>

Please refer to the response to BCUC IR 1.2.2.

Reference: Exhibit B-1-1, p. 27

As shown in Table 4-1 below, the 2016 Forecast power supply costs of $148.962 million represents an increase of 12.5 percent or $16.595 million over the 2015 Approved cost of $132.367 million. The increase in the 2016 Forecast PPE is due to higher gross load, increases to the Brilliant and BC Hydro rates, and the impact of the first full year of the 40-year capacity purchase agreement with the Waneta Expansion Limited Partnership (WELP).

5) Please provide analysis and show the calculations to support the Brilliant 2016 forecast expense, and demonstrate that the 2016 cost estimate is in accordance with prior Commission approval of this energy contract.

Response:

Please refer to the response to BCUC IR 1.8.1.

6) Does FBC have any input on the Brilliant rate increases, and/or flexibility over volumes purchased? If yes, please explain.

Response:

Increases to Brilliant rates are mainly driven by operations, maintenance, maintaining compliance with regulatory requirements, and capital expenditures. FBC participates in the review of these costs in its role as a member of the Brilliant Management Committee.

FBC does not have any flexibility over the volumes purchased under the BPPA. The BPPA uses a take-or-pay structure which requires that FBC pay for the Brilliant plant's Entitlement, irrespective of whether FBC actually takes it. However, in the event of an insured outage, FBC will not pay for that portion of power which is not received.

7) Please provide an approximate breakdown of the 2016 forecast increase in the British Columbia Hydro and Power Authority (BC Hydro) PPA power purchase cost between volume related and rate related changes.

Response:

Please refer to the responses to BCUC IRs 1.8.2 and 1.8.2.1.

8) Please provide analysis to support the rate increase component of the cost. Please also identify how much of FBC's 12.5 percent rate increase in 2016

(before smoothing) is due to BC Hydro's PPA rate increases, and Brilliant rate increases.

Response:

The BC Hydro Rate increase results in a $2.180 million increase in power purchase expense from Approved 2015 to Forecast 2016. This represents a 2016 rate increase of 0.6%.

The Brilliant rate increase results in a $1.716 million increase in power purchase expense from Approved 2015 to Forecast 2016. This represents a 2016 rate increase of 0.5%.

The following table shows the calculation of the rate increases due to increases in the BC Hydro and Brilliant rates.

		Forecast 2016 per 2016 Annual Review			Reference (2016)
1	Revenue at Prior Year Rates	343,152	343,152	A	Annual Review 2016, Exhibit-1, Pg 63, Section - 11, Schedule - 1
2	Net Impact of BCH Rate Increase in 2016	2,180	-	B	
3	Net Impact due to BCH Rate Increase in 2016	-	1,716	C	
4	Rate Impact due to BCH Rate Increase in 2016	0.6%	-	B/A	
5	Rate Impact due to Brilliant Rate Increase in 2016	-	0.5%	C/A	

9) For volume related BC Hydro PPA increases/decreases, please identify to what extent this cost is offset by decreased/increased market and contracted purchases.

Response:

Please refer to the response to BCUC IR 1.8.2.2.

10) Please describe the flexibility of the PPA with regard to displacing PPA purchases with market purchases, FBC's approach in managing this flexibility and quantify power purchase cost savings achieved in 2015 and forecast for 2016 as a result.

Response:

The PPA represents FBC's access to BC Hydro supply to a maximum of 200 MW in any hour for a total of 1,752 GWh of energy per year (200 MW * 8,760 hours). FBC provides BC Hydro with an energy nomination by June 30th of each year stating FBC's expected purchases for the operating year beginning October 1st. Regardless of the PPA Nomination, FBC maintains access to 200 MW in any hour or 1,752 GWh of energy under the PPA. It is only the cost of that energy that will change depending on the PPA Nomination.

FBC's access to BC Hydro's embedded cost energy (currently at a rate of $45.18/MWh as of April 1, 2015) under the PPA is limited to 1,041 GWh (Tranche 1 Energy). Above 1,041 GWh and up to the maximum of 1,752 GWh, the cost for the energy increases to $129.70/MWh (Tranche 2 Energy), which is tied to BC Hydro's proxy for long run marginal cost based on the BC Hydro 2008 Clean Power Call. If the energy delivered is above the PPA Nomination, but below the Tranche 1 Energy limit, there is an additional surcharge of 50 percent. Energy delivered above the PPA Nomination and above the Tranche 1 Energy Limit is subject to a 15 percent surcharge on the Tranche 2 Energy rate.

FBC is required to take or pay for 75 percent of the PPA Nomination. That means FBC must pay for 75 percent of the PPA Nomination even if it does not schedule the energy. FBC will manage its portfolio in a manner that ensures it uses at least 75 percent of the PPA nominiation in order to avoid paying for energy that it does not receive. The difference between the PPA Nomination and the 75 percent minimum take provides flexibility within the operating year to displace PPA purchases with lower cost resources or to manage annual loads that are below forecast. If load is near forecast load, FBC has the ability to displace the 25 percent flexible amount with market purchases if market conditions are such that it would create savings for customers compared to the PPA energy rates.

Prior to FBC submitting the annual BC Hydro PPA nomination for the next operating year, FBC will review its expected energy requirements and may enter into firm market purchases for delivery in future periods if the available price is below the PPA rate. These purchases then result in a lower PPA nomination than would otherwise have been made. However, FBC cannot change the annual PPA Nomination by more than 20 percent from the previous year. This needs to be considered when buying market power since if the PPA nomination is set too low for the next operating year, sufficient supplies of PPA energy to meet expected requirements may not be able to be nominated for future years. This could potentially require either buying market power that may cost more than the PPA or taking PPA supply at above the nominated level.

FBC's approach to managing the flexibility in its PPA usage is described more fully in the Annual Electric Contracting Plan (AECP). On March 18, 2015, FBC filed its 2015/16 AECP on a confidential basis with the Commission. The Commission accepted the 2015/16 AECP on April 17, 2015, by way of Letter L-18-15. The AECP outlines FBC's plan for portfolio optimization to maximize benefits to customers, includes a review of the market environment, load forecast, and available resources in determining the contracting plan, and provides the justification for FBC's Annual Energy Nomination.

In 2015, FBC's total market and contracted purchases reduced power purchase expense by $6.280 million. $5.8 million of that amount was included in the 2015 Forecast and was embedded in rates, and FBC's real-time management created an additional $0.480 million in net savings. For 2016, FBC has included a total of approximately $5.950 million in market savings, including approximately $4.950 million in savings due to purchases already contracted for, and an additional $1.0 million forecast reduction in BC Hydro PPA expense to take into account the potential for additional real-time market opportunities.

11) Please identify the reduced capacity related purchases, if any, under the new BC Hydro PPA and/or Brilliant contract in response to the Waneta Expansion Capacity Purchase Agreement (WELP).

Response:

Please refer to the response to BCUC IR 1.9.2.

12) Please provide analysis and show the calculations to support the WAX CAPA 2016 forecast expense, and demonstrate that the 2016 cost estimate is in accordance with prior Commission approval of this energy contract and the Powerex contract for the sale of surplus capacity.

Response:

Please refer to the responses to BCUC IRs 1.9.1, 1.9.1.1 and 1.9.1.2.

13) Please provide the date WAX CAPA the forecast power purchase costs related to this agreement for 2016. Please explain any significant differences from the

WAX CAPA related 2015 forecast power purchase costs provided in this Application.

Response:

FBC believes that the first sentence of the question should read "Please provide the forecast power purchase costs related to the WAX CAPA for 2016."

Please refer to the response to BCUC IR 1.9.1.

14) Please identify 2014 and 2015 market capacity related costs which are not required in 2016 as a result of WAX CAPA.

Response:

Please refer to the response to BCUC IR 1.9.2.

15) Please identify how much of FBC's forecast 2015 and 2016 rate increase (before smoothing) is due to the Waneta Expansion cost. Please compare this to the 2015 and 2016 rate increase forecast on page 9 of FBC's Section 71 Application for WAX CAPA and explain any differences.

Response:

Please refer to the response to BCUC IR 1.9.3.

16) Please provide an update of WAX CAPA's expected 20 year cumulative rate impact compared to the original 2010 WAX CAPA application. Explain any significant differences.

Response:

FBC forecasts a cumulative rate impact of 12.4 percent over the 20-year period from 2015 to 2034, compared to its forecast in the 2010 WAX CAPA application of 12.9 percent over the same period. In its analysis, FBC has assumed rate escalation of 3.0 percent before incremental WAX CAPA expense, which is consistent with its assumptions in the 2010 application. The average annual variance compared to the WAX CAPA application is -0.025 percent [(12.4%-12.9%)/20]).

17) Please reproduce Table 11.1.1 in the original 2010 WAX CAPA Application (pp. 81-82) and provide an updated table with any changes explained.

Response:

The WAX CAPA was determined to remain confidential pursuant to Order E-15-12, and as such FBC cannot produce the requested table.

18) Please quantify the amount of WAX CAPA capacity purchased under this contract that will be surplus to requirements in each of the next 10 years. If this is different from that forecast in FBC's original 2010 WAX CAPA Application, please explain.

Response:

The requested information contains commercially sensitive information on the WAX CAPA which was determined to remain confidential pursuant to Order E-15-12, and if disclosed, could harm the competitive negotiating position of FBC with regard to the sale of surplus capacity, and therefore, cause adverse effects for customers. Therefore, FBC cannot answer this IR.

Reference: Exhibit B-1-1, p. 1

The PBR Plan approved by the Decision attached to Order G-139-14 (PBR Decision) increases FBC's incentives to seek out savings while maintaining service quality. Pursuant to the earnings sharing approved by the Commission, any PBR-related savings achieved by the Company are shared equally with customers as discussed in Section 10 of the Application.

19) Please comment on whether FBC can distinguish "PBR-related savings achieved" from reduced "O&M expenses" attributed to staff vacancies and timing of spending?

Response:

Under the approved PBR Plan, all O&M savings are measured in comparison to that allowed under the formulaic O&M and are shared equally between ratepayers and the Company. Please refer to the response to CEC IR 1.1.1 for further discussion.

20) Please identify any "PBR-related savings achieved" in 2015 resulting from "incentives to seek out savings while maintaining service quality."

Response:

Please refer to the response to ICG IR 1.19.

21) Please provide any and all evidence available, including evidence of any and all initiatives by FBC, to support the contention that savings were achieved in 2015 due to efficiency improvements?

Response:

Please refer the response to ICG IR 1.19.

22) Please identify any initiatives to date under the current PBR Plan that have been implemented to achieve productivity improvements? Please provide the cost benefit analysis for each such initiative, if any?

Response:

Please refer to the response to ICG IR 1.19. As stated on page 4 of the Application, the projected O&M savings for 2015 are a result of the Company's broad based focus on productivity. FBC is continuing to explore opportunities for major productivity initiatives but has not implemented any initiatives to date.