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September 25, 2018

British Columbia Municipal Electrical Utilities
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)
Project No. 1598967
Annual Review for 2019 Rates (the Application)
Response to the British Columbia Municipal Electrical Utilities (BCMEU)
Information Request (IR) No. 1

On August 10, 2018, FBC filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-142-18 setting out the Regulatory Timetable for review of the Application, FBC respectfully submits the attached response to BCMEU IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC INC.

Original signed:

Diane Roy

Attachments

cc (email only): Commission Secretary
Registered Parties

1 **1.0 REF: 1.1 line 21-27**

2 The proposed rates for 2019 flowing from the approved formulas and forecasts set out in
3 the 22 Application, including returning the forecast earnings sharing to customers, result
4 in a 1.55 23 percent decrease from 2018 rates; however, FBC is proposing to maintain
5 2019 rates at existing 24 levels and to capture the revenue surplus in the deferral
6 account approved to capture the 2018 25 revenue deficiency. This will avoid the volatility
7 associated with a rate decrease in 2019 26 followed by a potentially larger rate increase
8 in 2020 when certain large capital projects begin to 27 enter rate base.

9 1.1 Please provide the 2018-2024 rate change forecast which would include the
10 1.55% decrease in 2019 versus what would happen if you held the 2018 rates
11 and show the effects of deferring the rate decrease.

12
13 **Response:**

14 This response also encompasses the responses to CEC IRs 1.29.2 and 1.29.3.

15 FBC is unable to predict future rate increases with confidence at this time, particularly given the
16 expectation of a renewed PBR Plan, which is likely to include rebasing of O&M and capital
17 expenditures.

18 See the table below for the different amortization options for the 2019 revenue surplus. The
19 underlying assumptions include: a flat demand profile; an assumed rate increase in years 2020
20 through 2024 of three percent from general cost of service increases; and the Corra Linn Dam
21 Spillway Gates Replacement and UBO Old Units Refurbishment projects entering rate base
22 over the period to 2023.

Option	Description	Rate Change					
		2019	2020	2021	2022	2023	2024
1	Reduce 2019 revenue requirements by the amount of the net 2018 – 2019 revenue surplus	(1.31)%	3.5%	3.8%	4.2%	4.3%	4.3%
2	No 2019 rate increase, Net Surplus deferral account amortized in 2020	0.0%	0.5%	5.2%	4.2%	4.3%	4.3%
3	No 2019 rate increase, Net Surplus deferral account amortized in 2020 – 2021	0.0%	1.2%	3.9%	4.9%	4.3%	4.3%
4	No 2019 rate increase, Net Surplus deferral account amortized in 2020 - 2022	0.0%	1.4%	3.9%	4.2%	4.7%	4.3%



FortisBC Inc. (FBC or the Company) Annual Review of 2019 Rates (the Application)	Submission Date: September 25, 2018
Response to British Columbia Municipal Electrical Utilities (BCMEU) Information Request (IR) No. 1	Page 2

- 1 FBC has not proposed an amortization period for the 2018 – 2019 Revenue Surplus deferral
- 2 account at this time. By not setting the amortization period for the 2018 – 2019 Revenue
- 3 Surplus Deferral Account at this time, FBC will have the flexibility to use the amortization of this
- 4 account to mitigate rate volatility for customers from the Corra Linn and UBO projects as they
- 5 enter rate base in future years in addition to the impact of any other cost of service changes.
- 6

FortisBC Inc. (FBC or the Company) Annual Review of 2019 Rates (the Application)	Submission Date: September 25, 2018
Response to British Columbia Municipal Electrical Utilities (BCMEU) Information Request (IR) No. 1	Page 3

1 **2.1 REF: 1.4.3.1 and Appendix B - Capital Spending Results**

2 2.2 It is unclear how much, if any of the capital cost pressure is due to the capital
3 cost actuals variance from the budget.

4 In reference to Table 1-3: Capital Expenditures 2014 to 2018 (\$ millions), please
5 identify the variance in the capital including;

6 2.2.1 Reductions due to deferral of projects.

7
8 **Response:**

9 As shown in line 13 of Table B2-1, some sustainment work that had some flexibility in the timing
10 of its execution was re-prioritized into 2017 and 2018 and this partially offset growth capital
11 pressures in the previous years. Please also refer to section 2.7.2 of Appendix B-2.

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15 2.2.2 Increases due to added projects.

16
17

17 **Response:**

18 For a summary of capital pressures due to unanticipated or new projects, please refer to
19 Appendix B2, Table B2-1, lines 6, 7, 8, 9, and 14. These projects include:

- 20 • New Generation projects to address compliance with WorkSafeBC legislation (guarding
21 of rotating parts and floor covers);
- 22 • New Generation projects to address compliance with WorkSafeBC legislation (single
23 device isolation);
- 24 • Unanticipated transmission projects to address safety and reliability issues;
- 25 • Substation projects to address end of life equipment replacements; and
- 26 • New infrastructure to support Cyber security protection.

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30 2.2.3 Cost variances on planned and constructed projects.

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FortisBC Inc. (FBC or the Company) Annual Review of 2019 Rates (the Application)	Submission Date: September 25, 2018
Response to British Columbia Municipal Electrical Utilities (BCMEU) Information Request (IR) No. 1	Page 4

1 **Response:**

2 Over the PBR period to date, the cost variance associated with evolved project definition for
3 previously planned projects was \$1.9 million, shown at Line 12 in Table B2-1 of Appendix B2 in
4 the Application.

5

FortisBC Inc. (FBC or the Company) Annual Review of 2019 Rates (the Application)	Submission Date: September 25, 2018
Response to British Columbia Municipal Electrical Utilities (BCMEU) Information Request (IR) No. 1	Page 5

1 **3.0 REF: 1.4.3.2**

2 To calculate the 2018 dead band adjustment, FBC notes that its actual 2017 capital
 3 exceeded the formula by approximately 8.63 percent, after the 2017 dead band
 4 adjustment.

5 3.1 Table 1-3 indicates a 33.76% variance in the 2017 Capital Expenditures. Please
 6 explain how the 8.63% was calculated?

7
 8 **Response:**

9 The calculation of the 2017 8.63 percent variance, after the adjustment to stay within the dead
 10 band, is shown in the table below. For reference, the calculation, including the \$11.759 million
 11 adjustment shown in column (4) below, is also shown in the ESM calculation in Table 10-2, Line
 12 33.

	2017			Deadband Adjustment	2017		
	Variance Before Adjustment				Variance After Adjustment		
	Actual (1)	Formula (2)	Variance (3)=(1)-(2)		Actual (5)=(1)+(4)	Formula (6)=(2)	Variance (7)=(5)-(6)
Formula Capital	\$ 59.053	\$ 43.254	\$ 15.799	\$ (11.759)	\$ 47.294	\$ 43.254	\$ 4.040
Pension/OPEB	3.539	3.539	-	-	3.539	3.539	-
Total	<u>\$ 62.592</u>	<u>\$ 46.793</u>	<u>\$ 15.799</u>	<u>\$ (11.759)</u>	<u>\$ 50.833</u>	<u>\$ 46.793</u>	<u>\$ 4.040</u>
Variance			33.76%				8.63%

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