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October 21, 2010

Via Email
Original via mail

Ms. Erica M. Hamilton
Commission Secretary
BC Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

Re: *FortisBC Inc. ("FortisBC") Application for Approval of the 2011 Capital Expenditure Plan Project No. 3698603*

Please find enclosed FortisBC's Reply Submission with regard to the above noted project. Twelve copies will be couriered to the Commission.

Sincerely,

A handwritten signature in black ink, appearing to be "D Swanson", written over a horizontal line.

Dennis Swanson
Director, Regulatory Affairs

cc: Registered Intervenors

Reply Submission of FortisBC Inc.

A. INTRODUCTION

1. FortisBC Inc. ("FortisBC" or the "Company") wishes to reply to the final submissions of the BC Old Age Pensioners' Organization et al., the British Columbia Municipal Electric Utilities, the B.C. Sustainable Energy Association and the Sierra Club of British Columbia, the Irrigation Ratepayers Group, and Mrs. Beryl Slack.

B. REPLY TO BC OLD AGE PENSIONERS ORGANIZATION ET AL. ("BCOAPO")

2. BCOAPO's final submission focuses primarily on Demand-Side Management ("DSM") expenditures related to low-income and senior-led households, and states that the proposed 2011 low-income DSM program is a commendable first step in this regard, recommending Commission approval (paragraphs 57 and 58).
3. BCOAPO makes a number of suggestions with regard to various aspects of FortisBC's residential DSM programs, many of which will be considered in the development of the Company's long term DSM Plan to be filed in 2011.
4. At paragraph 56 it is suggested that FortisBC should try to influence building codes and standards as they relate to energy efficiency. The DSM Plan does contain expenditures for participation in the development of codes and standards (Exhibit B-1, Appendix 3, page 38, lines 8-9).
5. BCOAPO states that the remainder of FortisBC's 2011 Capital Plan expenditures appear to be reasonable (paragraphs 11, 17, 22, 26, and 30).

C. REPLY TO BC MUNICIPAL ELECTRIC UTILITIES ("BCMEU")

6. BCMEU asserts that some components of the 2011 Capital Plan are more appropriately identified as Operating Expenditures and should be undertaken within the Company's existing Operating and Maintenance budgets (page 2).
7. The expenditures to which the BCMEU refers are capital in nature - FortisBC's capitalization policy is in accordance with Generally Accepted Accounting Principles (Exhibit B-6, response to BCMEU Information Request No. 1 Q3.2). Further, the expenditures are not

Operating and Maintenance expenses as they have been defined within the framework of the current Performance-Based Regulation (“PBR”).

8. FortisBC confirmed in its final submission that its treatment of capital projects has been consistent throughout the term of the PBR Plan (FortisBC Final Submission, paragraph 49) and that the capitalization of expenditures is reviewed for appropriateness both during the budget process and on an operating basis (FortisBC Final Submission, paragraph 50).
9. The consistency of FortisBC’s capital and operating expense definitions with previous capital expenditure plans is evidenced by the filing of the Capitalization Policy as part of its May 29, 2009 Compliance Filing relating to the 2009-2010 Capital Expenditure Plan. The filing was accepted by Commission Letter dated September 8, 2009.
10. At page 4 BCMEU states that the potential shifts of expenditures between capital and operating needs to be reviewed as part of the Company’s 2011 Revenue Requirements process. FortisBC submits that a review of the capitalization policy should not be undertaken before the end of the PBR term, of which 2011 is the last year.
11. The BCMEU’s submission at page 3 incorrectly states that the Application did not accurately disclose the method of forecasting certain sustaining capital expenditures. For each category of sustaining Transmission and Stations or Distribution capital expenditures, the Application identifies whether the estimate is based on historical averages adjusted for inflation and changes to loadings, and whether that estimate was supplemented by specific knowledge of 2011 work requirements (for example, Exhibit B-1, page 26, lines 27-28 and page 28, lines 2-4).
12. The Company explained its use of historical averages for sustaining capital expenditure forecasts, noting that unforeseen projects can not be scoped or estimated in advance (Exhibit B-4, response to BCUC Information Request No. 1 Q16.1), and that the costs of scoping and estimating a number of small projects that make up some sustaining categories would unnecessarily increase overall project costs (Exhibit B-4, response to BCUC Information Request No. 1 Q20.3).
13. The BCMEU states that it is concerned with the fibre optic network proposed by the Company, and in particular proposes consideration of third-party suppliers (page 3). In response to BCMEU Information Request No. 1 Q16.5 (Exhibit B-6), FortisBC stated that it would consider joint opportunities with third party providers where it can obtain long-term,

firm access to fibre, to the benefit of customers. However there exists only a single provider within the service territory willing to offer access to dark fibre, and FortisBC's transmission access agreement with that party is the subject of a legal dispute. This situation illustrates the potential for significant contract risk associated with ownership of the facilities by a third party, as identified in Exhibit B-1 at page 47, line 4-6. Such risk is not acceptable for communications circuits carrying critical operational traffic, and which directly impact safety and reliability.

14. The BCMEU comments with regard to the proposed expenditures for engineering and estimation for the Grand Forks to Warfield fibre-optic project, and the investigative funding for the Kootenay and Kelowna operations centres. FortisBC submits that these expenditures are necessary in order to develop suitably detailed business cases for these projects, for future review by the Commission and Intervenors.

D. REPLY TO B.C. SUSTAINABLE ENERGY ASSOCIATION AND THE SIERRA CLUB OF BRITISH COLUMBIA (“BCSEA”)

15. BCSEA supports the DSM expenditures contained in the 2011 Capital Plan and takes no position regarding the remainder of the Plan (page 1).
16. BCSEA is of the view that the 2011 DSM Plan supports BC's energy objectives as defined in the Clean Energy Act, complies with the DSM Regulation, is consistent with the 2007 BC Energy Plan and is in the public interest (page 7).

E. REPLY TO IRRIGATION RATEPAYERS GROUP (“IRG”)

17. The IRG expresses concern that capital additions exceed customer growth and refers to these expenditure levels as “unsustainable” (paragraphs 1 and 2). The assumption that capital expenditures must be proportionate to customer growth is erroneous. Capital expenditures in 2011 total \$103.3 million, of which \$38.5 million or 37 percent are required to meet customer and load growth (Exhibit B-1, Table 1.2, line 41, page 11).
18. FortisBC states in the Introduction to the Application that 2011 will see the completion of a period of significant growth and reinforcement in its bulk transmission and regional transmission and distribution systems and related infrastructure (Exhibit B-1, page 2, lines 12-21). Ongoing capital expenditures will be required to sustain the existing generation,

transmission and distribution facilities, ensuring that the FortisBC systems remain capable of providing safe and reliable service to its new and existing customers.

19. The IRG suggests in paragraphs 10 and 11 that the inclusion of irrigation-related DSM measures in the grouping of General Service DSM programs is related to Revenue/Cost ratios for the purpose of FortisBC's Cost of Service Analysis ("COSA"). The categorization of DSM measures is not related to the COSA; irrigation-specific DSM measures are included under the General Service category only as a matter of administrative convenience. The treatment of irrigation programs is not unique in this regard; lighting programs, which are designed for different rate classes, are also included in the General Service DSM category.
20. Other submissions made in the IRG filing were addressed in the Commission's Decision on FortisBC's 2009 Rate Design and Cost of Service Analysis issued concurrently with Order G-156-10 (the "RDA Decision"), including undertaking load research to establish the load characteristics of the irrigation class (RDA Decision, page 81).
21. The IRG in paragraphs 14 and 15 challenges FortisBC's statement that the incentive offering is common across all rate classes, asserting that the incentive levels for irrigation DSM programs are the lowest of all FBC programs. FortisBC's statement refers to the fact that the irrigation incentive levels were developed in the same manner as other programs, the incentive amount being based on 40% of the incremental cost of the measure (Exhibit B-1, Appendix 3, Table 2.2.4, page 16). This incentive level for irrigation programs is sufficient to achieve a two-year customer payback period, as can be calculated from information provided in response to BCUC Information Request No. 1 Q55.2 (Exhibit B-4).
22. The IRG also states that FortisBC should consult with Irrigation ratepayers to explore opportunities for realizing greater energy efficiency and understanding incentives (paragraph 18). Two members of FortisBC's DSM Advisory Committee have connection with the Irrigation rate class, and the Company will endeavour to include additional Irrigation input going forward.

F. REPLY TO MRS. SLACK

23. Mrs. Slack provided comments in support of DSM expenditures and the upgrade and maintenance of FortisBC's facilities to ensure customer supply and safety.

G. CONCLUSION

24. The Company submits, as in its Final Submission dated October 8, 2010, that the 2011 Capital Plan meets the requirements of the Utilities Commission Act, that, as set out in the 2011 Capital Plan, the projects support the applicable of British Columbia's energy objectives as set out in the Clean Energy Act, and that all are in the public interest.
25. FortisBC further submits that any delay in performing the capital additions and upgrades detailed in the Application would not be in the public interest.
26. The Final Submissions by the BC Old Age Pensioners' Organization et al., the British Columbia Municipal Electric Utilities, the B.C. Sustainable Energy Association and the Sierra Club of British Columbia, the Irrigation Ratepayers Group, and Mrs. Slack generally reflect support for the 2011 Capital Plan.
27. Accordingly, FortisBC requests that the Application for its 2011 Capital Expenditure Plan be approved as submitted.

ALL OF WHICH IS RESPECTFULLY SUBMITTED



Dennis Swanson
Director, Regulatory Affairs