# FortisBC Energy Utilities 2012-2013 Revenue Requirements and Rates Application

Workshop May 18, 2011

# Workshop Agenda

| Topic | Presenter |
|---|---|
| **Introduction** | **SCOTT THOMSON** *Executive Vice President, Finance, Regulatory & Energy Supply* |
| **Application Overview and Rates** | **DIANE ROY** *Director, Regulatory Affairs* |
| **System Safety and Integrity** | **JOE MAZZA** *Director, Resource Development*<br>**FERENC PATAKI** *Director, Operations Engineering* |
| **Customer Service** | **TOM LOSKI** *Vice President, Customer Service* |
| **Energy Solutions** | **KEN ROSS** *Integrated Resource Planning Manager* |
| ***Break*** | |
| **Energy Efficiency and Conservation** | **SARAH SMITH** *Manager, Energy Efficiency and Conservation* |
| **Depreciation and Transfer Pricing** | **JAMES WONG** *Director, Finance & Planning* |
| **Cost of Service and Rate Base** | **MICHELLE CARMAN** *Manager, Cost of Service* |
| **Amalgamation and Next Steps** | **SCOTT THOMSON** |
| ***Break*** | |
| **Optional Session**<br>***Financial Model Review*** | **MICHELLE CARMAN** |



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# 2012-2013 Revenue Requirements and Rates Application

## Overview

Diane Roy
Director, Regulatory Affairs

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# We are Seeking Approval For…

| Cost of Service | Delivery Rates | Rate Freeze |
| --- | --- | --- |
| • 2012 & 2013<br>• Mainland<br>• Vancouver Island<br>• Whistler<br>• Fort Nelson<br>• Amalgamated | • 2012 & 2013<br>• Mainland<br>• Whistler<br>• Fort Nelson | • 2012 & 2013<br>• Vancouver Island |

*This Application is the first step in our Rate Harmonization Strategy - Fall 2011 Application will seek the necessary approvals to amalgamate and to implement harmonized rates*



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# Our Application…

Is based on our commitment to provide safe, reliable, cost effective service

Supports enhancements to our asset management and system integrity programs

Considers the changing energy needs of our customers and the communities we serve

Allows us to continue to develop Energy Efficiency & Conservation programs

*We have reflected these priorities in the costs and revenues included in our rate proposals*

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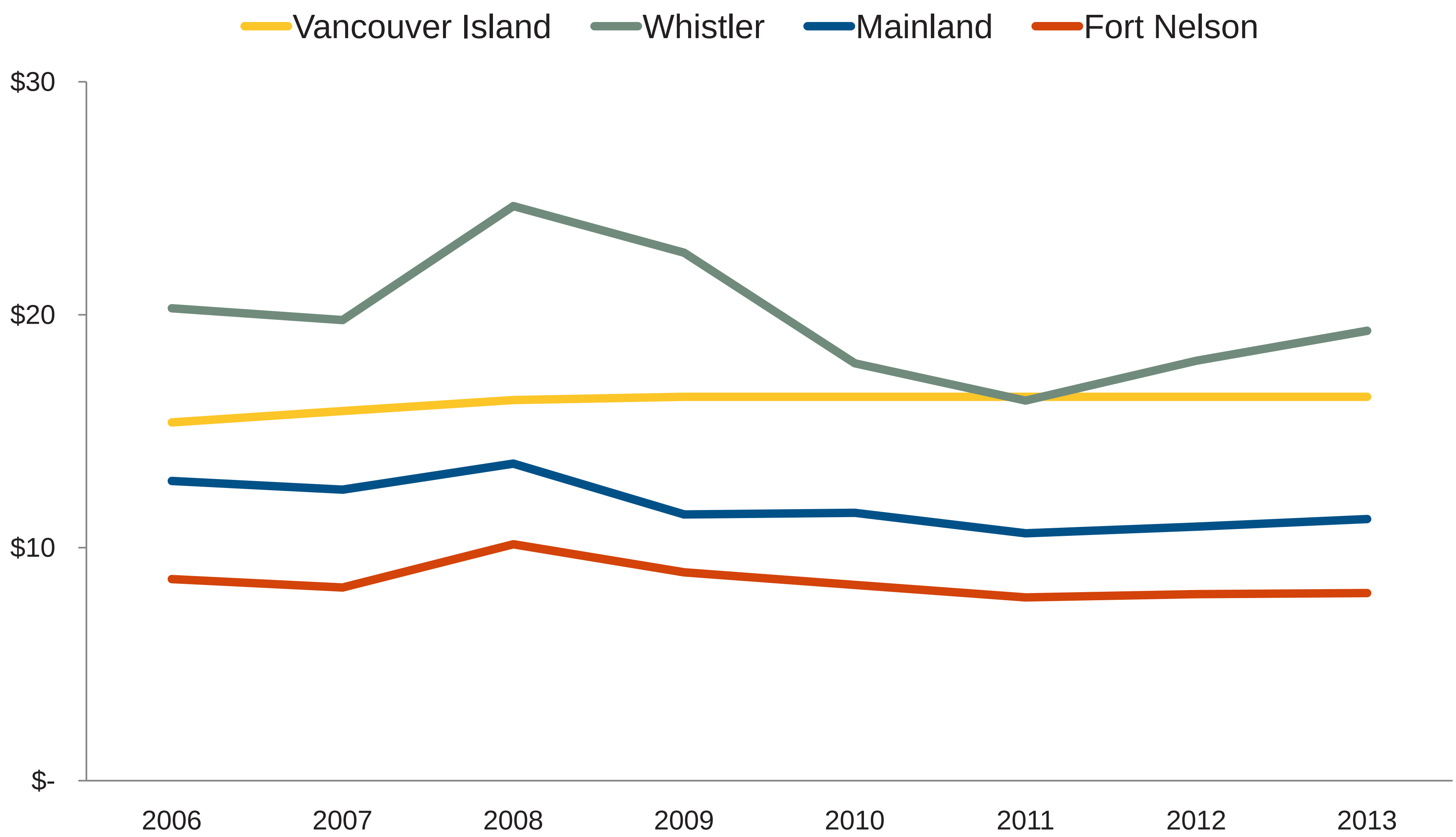
# Overview of Burner Tip Rates



# Our Proposals for Delivery Rates…

| | 2012 | | 2013 | | Total | |
|---|---|---|---|---|---|---|
| | % Rate Change | % Annual Bill* | % Rate Change | % Annual Bill* | % Rate Change | % Annual Bill* |
| **Mainland** | 5.0% | 2.8% | 6.4% | 3.0% | 11.4% | 5.8% |
| **Vancouver Island** | - | Rate Freeze | | | | - |
| **Whistler** | 2.2% | 4.7% | 11.9% | 7.8% | 14.1% | 12.5% |
| **Fort Nelson** | 6.5% | 1.8% | 1.6% | 0.6% | 8.2% | 2.4% |

*Annual bill change includes the impact of Delivery Rate Riders

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# Our Priorities in this Application…

- System safety and integrity
- The in-sourcing of key customer service functions
- Energy solutions for customers
- Enhanced Energy Efficiency and Conservation programs
- Continued review and updating of accounting and cost allocation policies
- Customer rate stability and rate harmonization



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# System Safety and Integrity

Joe Mazza, Director Resource Development
Ferenc Pataki, Director Operations Engineering

# Sustainment Capital

Joe Mazza
Director Resource Development

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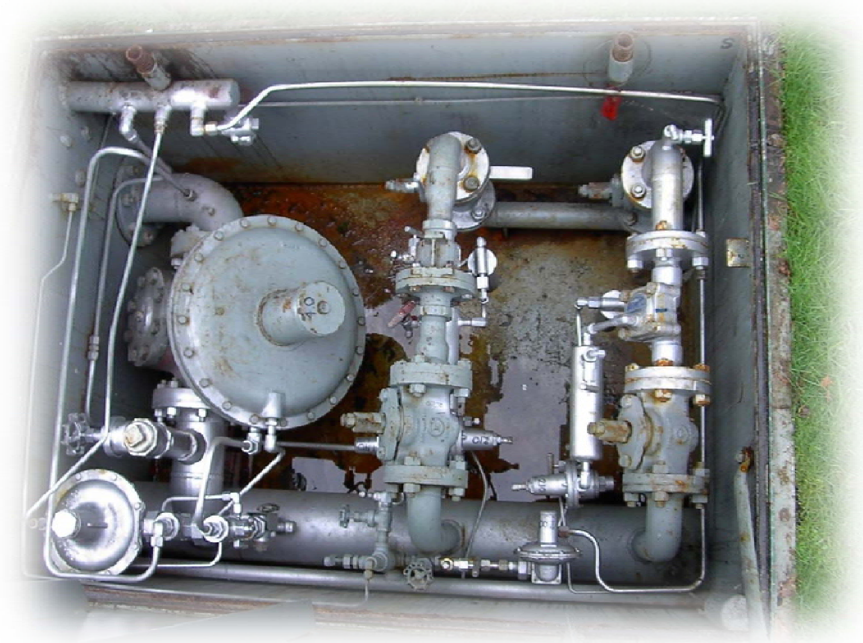
# UPGRADED in Low Pressure Replacement  Project

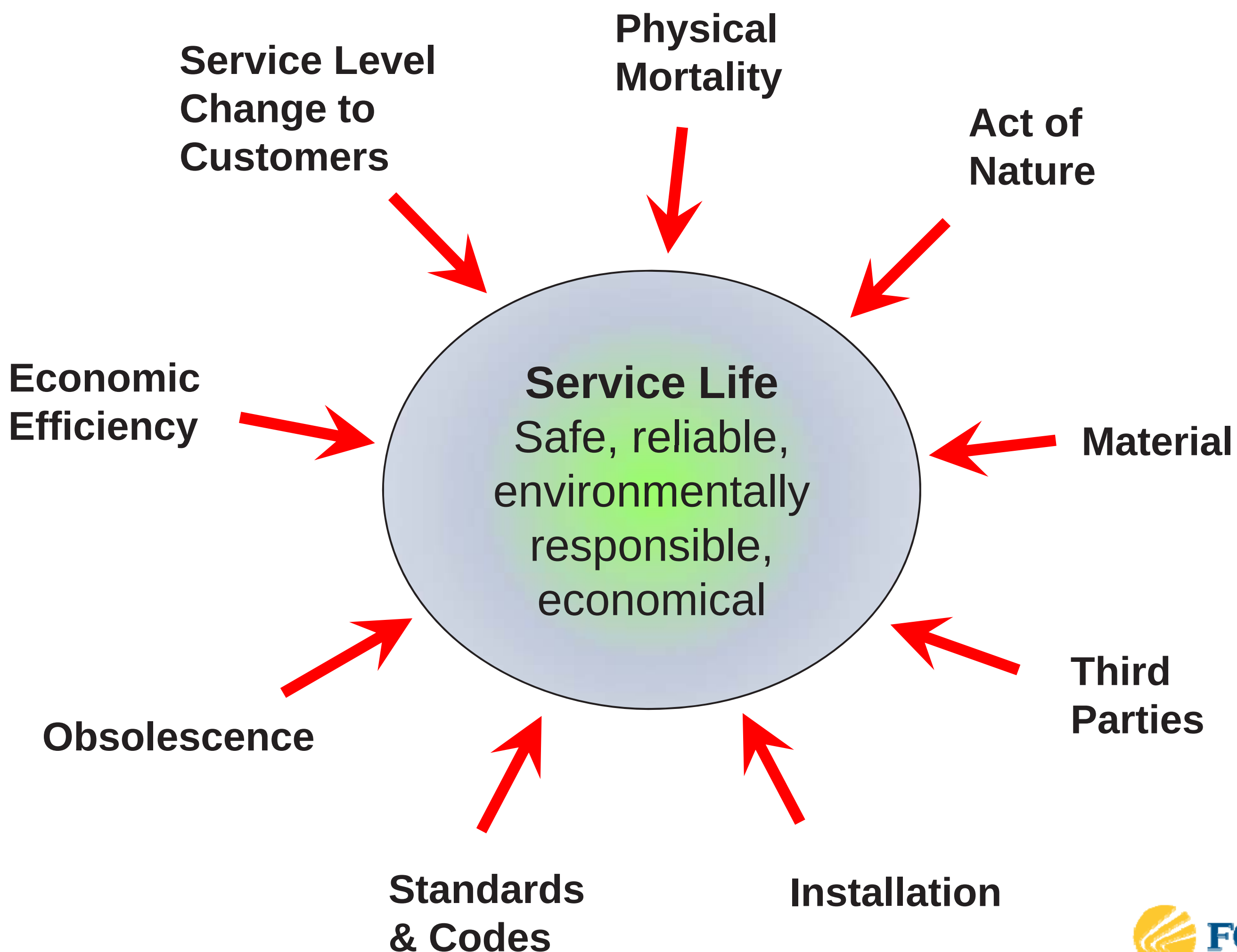


# Key Messages

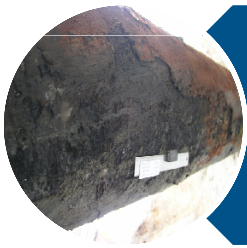
- FortisBC Energy Utilities are using a long-term asset management strategy to plan the sustainment of its existing gas assets in providing safe, reliable, environmentally responsible, and economical gas delivery services to customers now and in future.

- We expect rising Sustainment Capital funding to meet the challenges from aging assets, increased public expectation and regulation on safety and reliability.

# Key Factors Affect the Service Life of Assets



# Increase in Sustainment Capital – Key Drivers

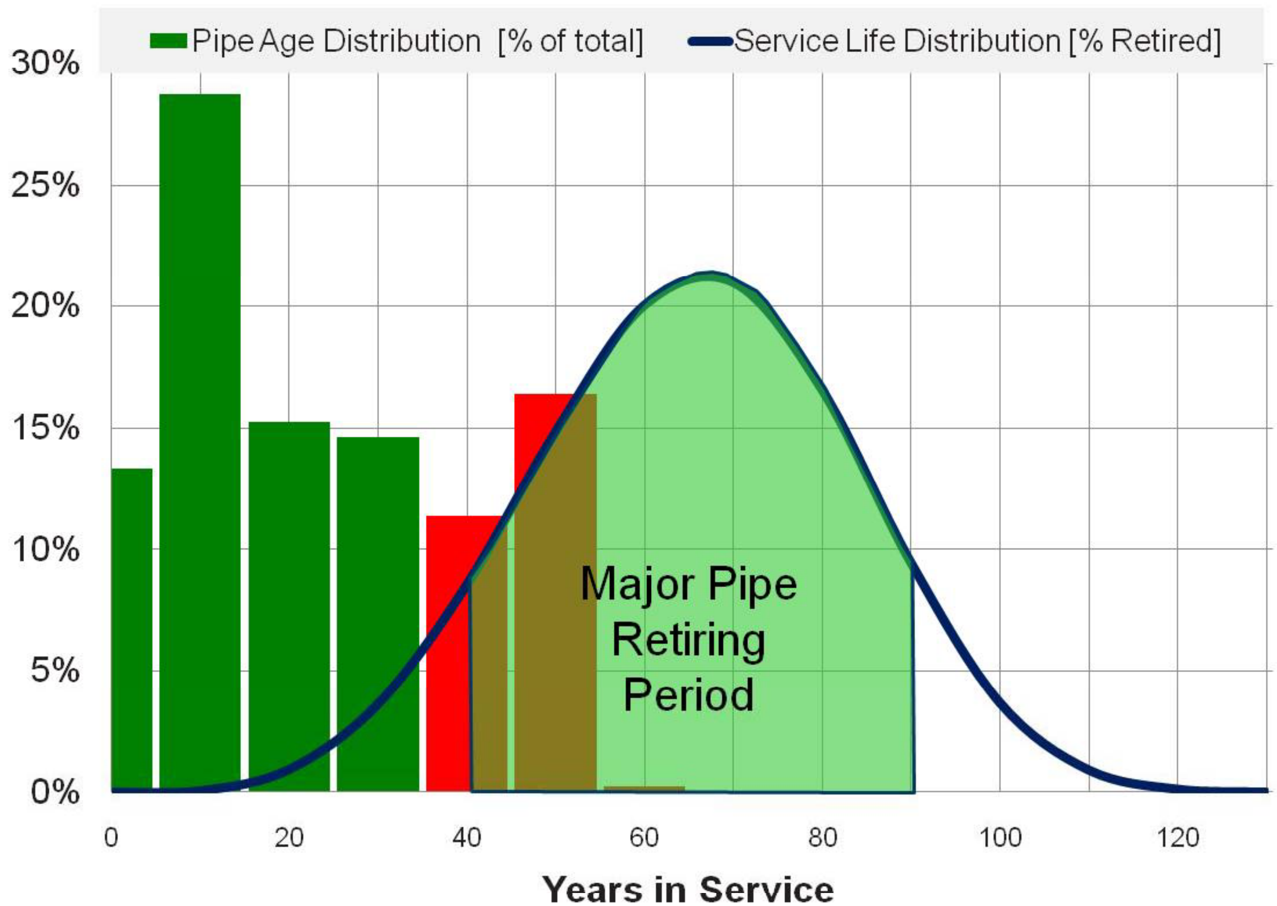


Aging Infrastructure

Public Expectations

Regulations

# A Wave of Asset Replacement
## (Mains/Pipelines Example)



# Heighted Public Expectations and Increasing Regulation on Safety and Reliability

# Enhancing our Asset Management Practices

Asset Registry

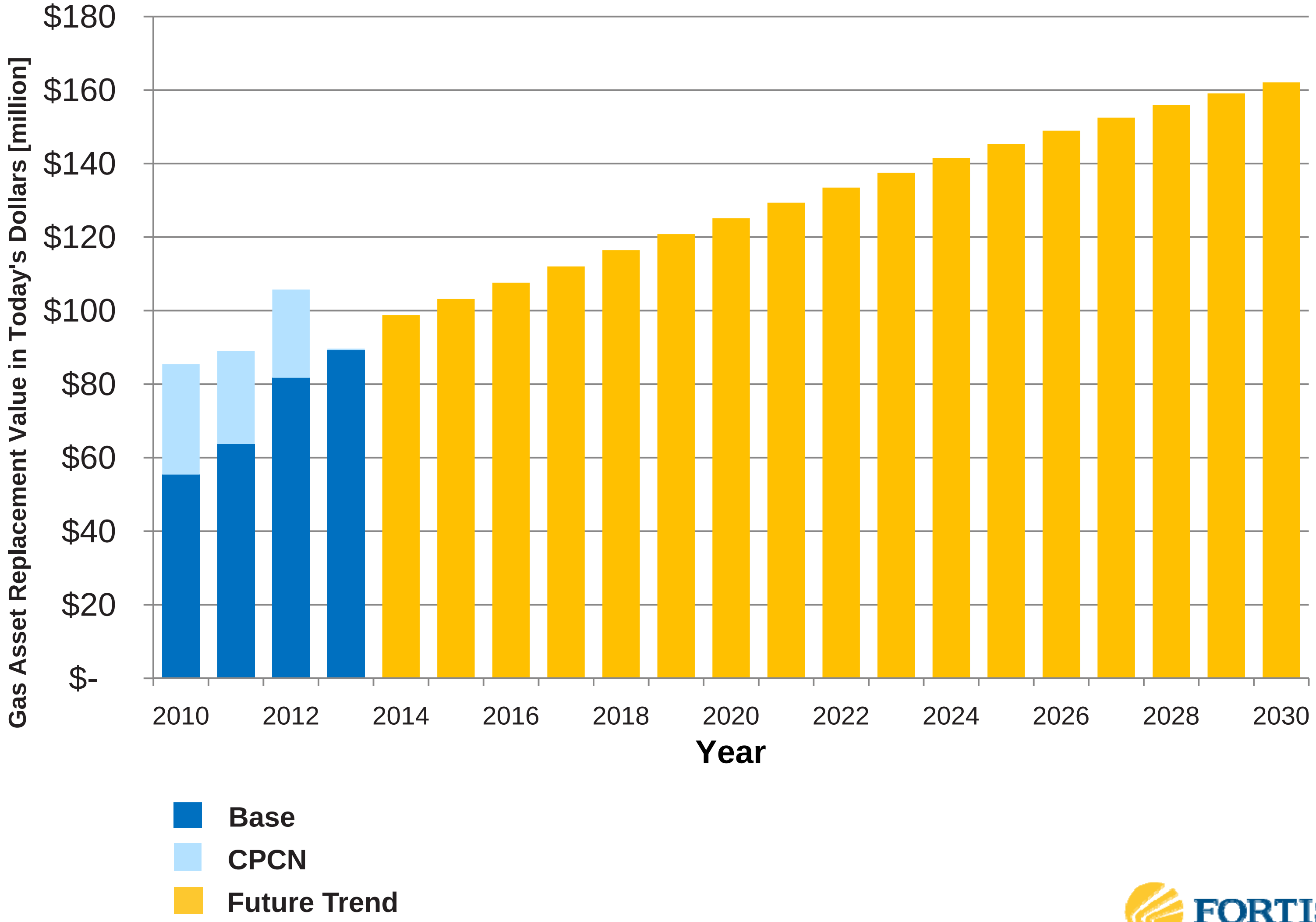
Business Values

Asset Health Review

Business Cases

Capital Planning

# Upward Trend in Sustainment Capital



# Additional funding is required to help ensure system safety and reliability

***Incremental Capital***

- Projects to manage aging infrastructure and asset risks
- To address wave of asset replacement

***Incremental O&M***

- Further enhancements to asset management practices to manage aging infrastructure and asset risks
- Resources for planning work
- Project feasibility assessments



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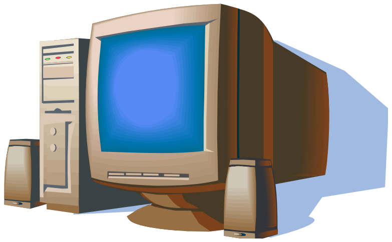
# BC One Call Project

Ferenc Pataki
Director Operations Engineering

# Vision of BCOneCall Operating Model

Current Model
"People Based"

Future Model
"Automated"



People use SAP, AMFM, DCRS & Teldig to assemble packages

1. SAP, AMFM, DCRS & Teldig assemble packages
2. People perform quality checks on packages

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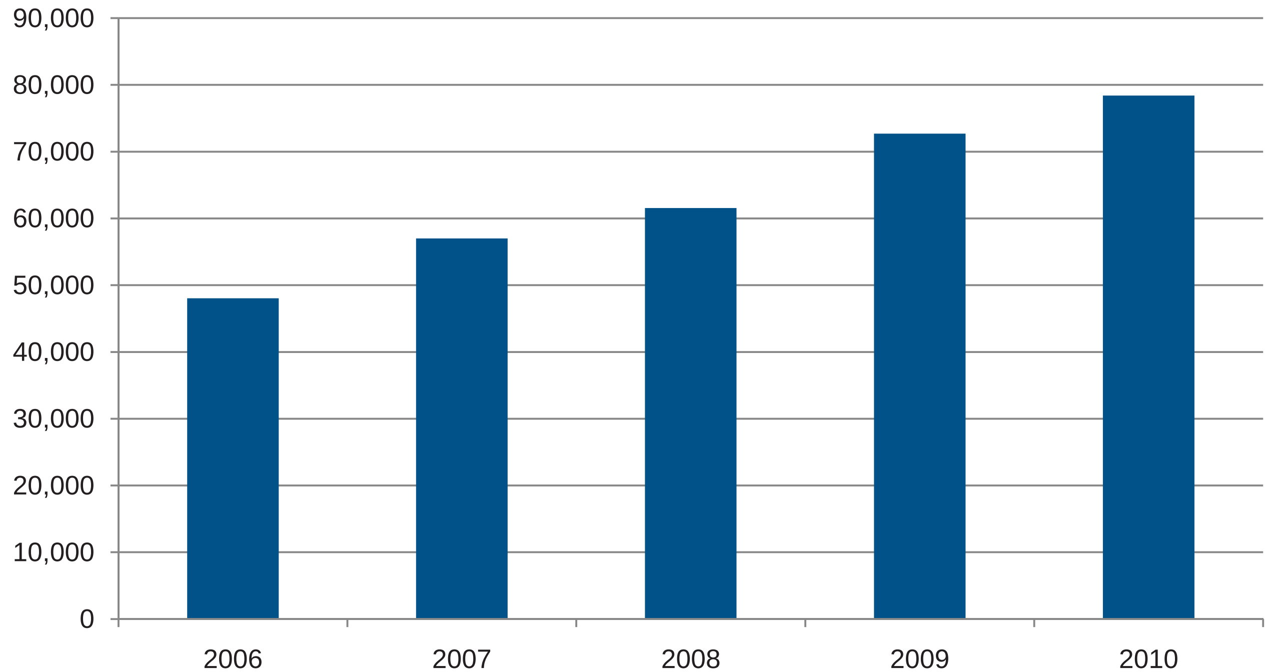
# Backdrop

**Drivers** Ticket Volume Long-term Viability Cost Effectiveness

**BC One Call Tickets/Year**



# Backdrop

**Drivers**

Ticket Volume

Long-term Viability

Efficiency

**One Time Costs**

Technology → $ 96 thousand

Data Consistency → $1.27 million

Conflation → $940 thousand

**Benefits**

1) Ticket Volume → up to 35% reduction in processing time
2) Long-term viability
3) O&M Savings → approx. $500 thousand ongoing reduction*

* O&M savings are projected to be realized 3 years after project initiation



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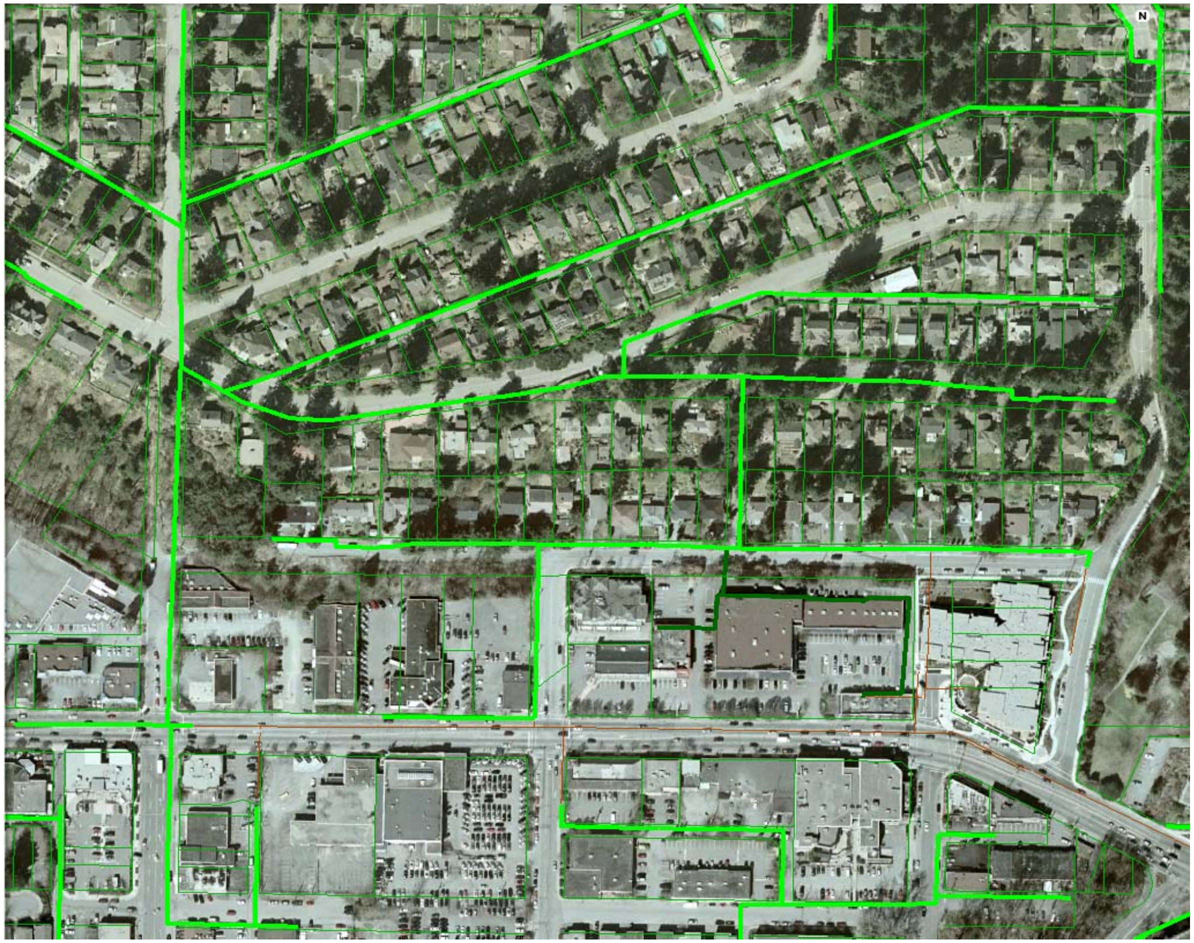
# Conflation – Existing Landbase & Facilities

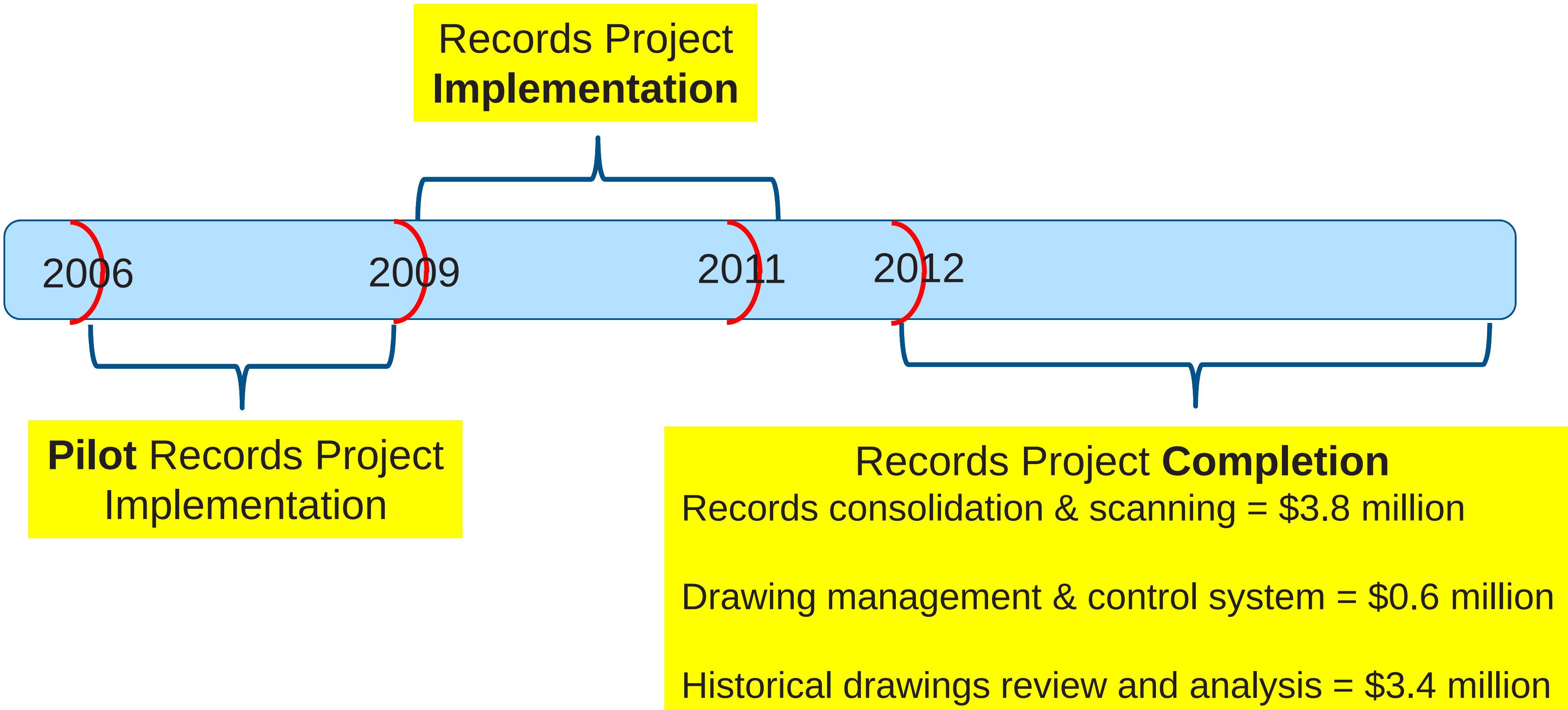
# Conflation – Existing & New Landbase

# Conflation – New Landbase & Facilities



# Gas Assets Records Project

# Our Action and Plan



# Drivers

- Regulation
  - CSA Z-662 – Annex N & M (2007)
- Oil and Gas Commission - Safety Advisory and Integrity Management Protocol (2011)

  *“the Commission reminds Pipeline Permit Holders that they must develop and maintain records…”*

  *“The Commission recognizes that over time records may become damaged or lost…”*

  *“the Commission expects that Permit Holders will have plans and programs in place for the management of their pipeline system in the absence of these records as well as programs for reestablishment of the records.”*
- The Association of Professional Engineers and Geoscientists of British Columbia (APEGBC) (2011)
  - *Retention of complete design and review files for their projects for a min. period of 10 yrs*
  - *Retention of complete project documentation which may include, but not limited to, correspondence, investigations, surveys, reports, data, background information, assessments, designs, specifications, field reviews, testing information, quality assurance documentation, and other engineering and geoscience documents for a minimum period of 10 years*

# Customer Service

Tom Loski
Vice President, Customer Service

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# Customer Care Enhancement (CCE) Project

- CCE delivering new Customer Service organization and supporting technologies
- Progressing well against plan
  - Budget on track
  - Schedule in line to implement new organization and supporting systems as planned on January 1, 2012
- Customer Information System integration testing begins mid-May
- Large scale recruiting to begin this summer
  - Billing and contact centre representatives

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# CCE Project Benefits

- New capabilities for customers
  - Additional contact channels
  - Broader self-serve transactional capability
  - Improved information capture and sharing
- Greater ability to respond to change
  - Direct ownership and management of customer interactions and supporting technologies
- Societal benefits for British Columbia
  - Additional employment opportunities in both Prince George and Burnaby locations

# Customer Service O&M Requirements

| | 2011 Approved | 2012 Forecast | 2013 Forecast |
|---|---|---|---|
| **Customer Service Total** | $62.7 million | $60.8 million | $64.7 million |

In-sourced activity O&M forecasts are lower than preliminary estimates of CCE CPCN.

# Meter Reading

- BC Hydro's Smart Meter project impacts joint gas/electric meter reading
  - Impact to FEU regardless of Customer Service delivery model
- Maintaining joint gas/electric manual read delivery in 2012
  - New agreements (BC Hydro and Accenture) bring stability during CCE implementation
  - Assumes BC Hydro's implementation by end 2012, joint reads decline as BC Hydro discontinues routes
- Alternatives for 2013 under evaluation
  - 2013 forecast based on 2012 contract values with standalone gas reads

# Meeting Commitments to our Customers

- Delivering added capabilities with the CCE Project
- Maintaining existing Service Quality Indicators
- Positioned to respond to changing customer needs with direct ownership of customer interactions and supporting technologies

# New Energy Solutions for Customers

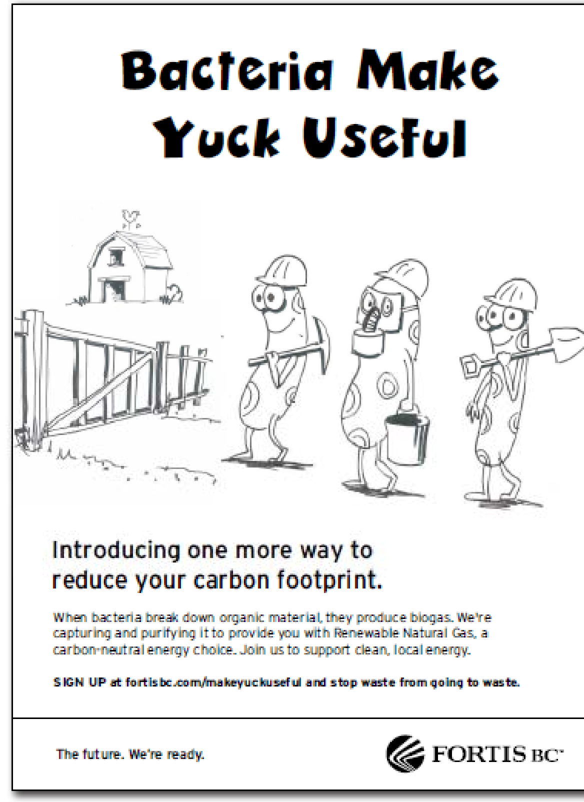
Ken Ross
Integrated Resource Planning Manager

# Topics

- Biomethane Service Offering
- Natural Gas Vehicle Fueling Services and Incentives
- Enhanced Long Range Planning, Forecasting, Research and Analysis

# Optional Biomethane Service

- Service offering / supply model approved by Order G-194-10
- Residential program launch: mid-June
- 10% of natural gas use
  ~ $0.53/GJ premium (~$4 / month)




## Supply projects:

- Abbotsford agri-digester
  - Commissioned 2010
- Salmon Arm Landfill
  - Fall/winter 2011
- Others in various stages of planning

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# Transportation Solutions for Fleets

- Application currently before Commission
- RRA assumes approval granted
- Cost, revenue and demand expectations are based on continued  incentive funding
- ⇧ base load - ⇩ delivery rates

| Forecast Summary | 2011 | 2012 | 2013 |
|---|---|---|---|
| Fueling Stations | | | |
| Estimated total number of stations | 4 | 7 | 11 |
| ($ thousands) | | | |
| Capital Costs | 3,800 | 4,000 | 3,800 |
| Annual O&M | | 358 | 579 |
| Annual Contract Revenue | 341 | 2,107 | 3,104 |
| Natural Gas Delivery | | | |
| Delivery Margin + Rate 16 Revenue | 259 | 1,636 | 2,295 |

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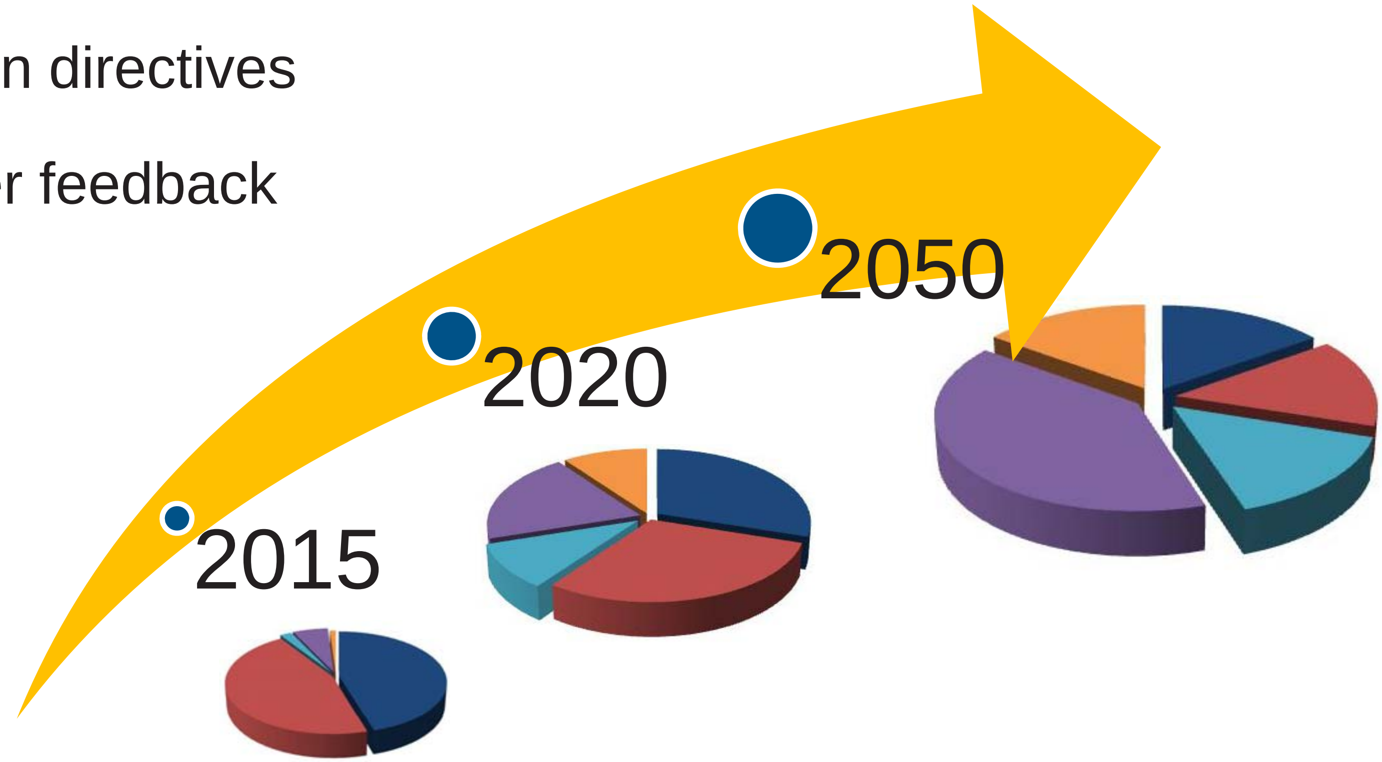
# Forecasting, Research and Planning Activities

- Rapidly changing planning environment
- Evolving customer expectations
- Commission directives
- Stakeholder feedback



# Energy Efficiency and Conservation

Sarah Smith
Manager, Energy Efficiency and Conservation

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# 2010 Conventional and Innovative Technology EEC Portfolio Results

| Utility | Incentive Expenditure ($000s) | Non-Incentive Expenditure ($000s) | Total for Incentive and Non-Incentive Expenditures ($000s) | Annual Energy Savings (GJ/yr) | NPV Energy Savings (GJ) | TRC |
|---|---|---|---|---|---|---|
| FEI | 4,732 | 5,256 | 9,988 | 145,404 | 1,259,325 | 0.9 |
| FEVI | 727 | 1,022 | 1,749 | 20,706 | 149,185 | 1.1 |
| **Total** | **5,459** | **6,278** | **11,737** | **166,110** | **1,408,510** | **1.0** |

| Utility | Incentive Expenditure ($000s) | Non-Incentive Expenditure ($000s) | Total for Incentive and Non-Incentive Expenditures ($000s) | Annual Energy Savings (GJ/yr) | NPV Energy Savings (GJ) | TRC |
|---|---|---|---|---|---|---|
| FEI | 5,816 | 5 | 5,821 | (162,911) | (726,396) | 1.3 |
| FEVI | 143 | 0 | 143 | 1,683 | 19,845 | 0.3 |
| **Total** | **5,959** | **5** | **5,964** | **(161,228)** | **(706,551)** | **1.2** |



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# 2011 Planned Conventional and Innovative Technology EEC Portfolios

| Utility | Incentive Expenditure ($000s) | Non-Incentive Expenditure ($000s) | Total for Incentive and Non-Incentive Expenditures ($000s) | Annual Energy Savings (GJ/yr) | NPV Energy Savings (GJ) | TRC |
|---|---|---|---|---|---|---|
| FEI | 7,772 | 11,262 | 19,034 | 222,383 | 2,053,338 | 0.7 |
| FEVI | 1,590 | 2,220 | 3,810 | 24,831 | 199,060 | 0.8 |
| **Total** | **9,362** | **13,482** | **22,844** | **247,214** | **2,252,398** | **0.7** |

| Utility | Incentive Expenditures ($000s) | Non-Incentive Expenditure ($000s) | Total for Incentive and Non-Incentive Expenditures ($000s) | Annual Energy Savings (GJ/yr) | NPV Energy Savings (GJ) | TRC |
|---|---|---|---|---|---|---|
| FEI | 3,926 | 114 | 4,040 | (225,989) | (1,350,618) | 1.8 |
| FEVI | 5 | 10 | 15 | 61 | 718 | 0.2 |
| **Total** | **3,931** | **124** | **4,055** | **(225,928)** | **(1,349,900)** | **1.8** |



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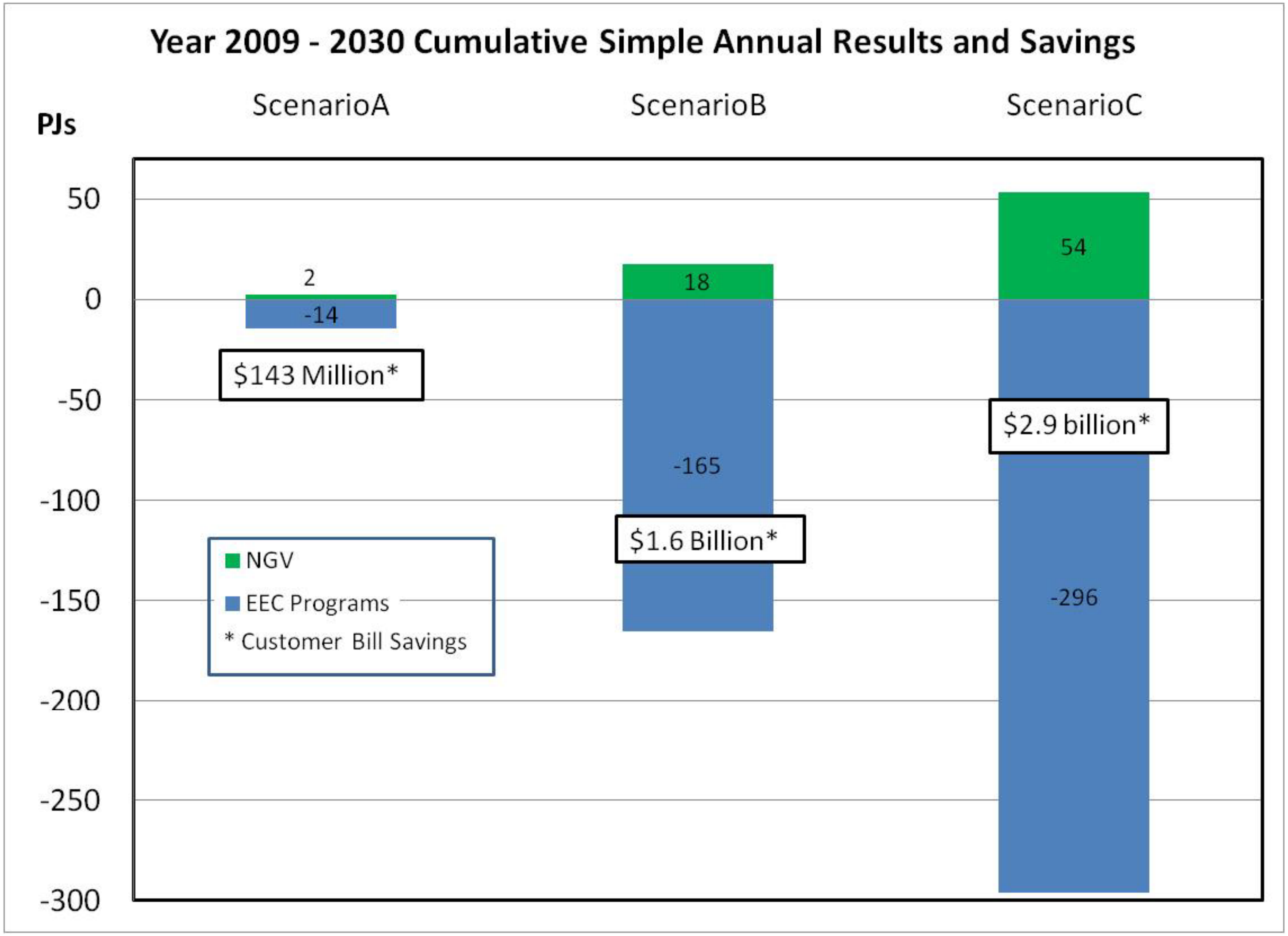
# LTRP – Scenarios, Results and Customer Bill Savings

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# Funding Proposal – 2012 and 2013

| | 2011 Budgets ($000's) | 2012 Proposed Funding ($000's) | 2013 Proposed Funding ($000's) |
|---|---|---|---|
| **Previously Approved EEC Activity** | | | |
| **Conventional EEC Activity** | | | |
| Residential | 5,220 | 9,500 | 9,500 |
| High Carbon Fuel Switching | 1,510 | 2,000 | 2,000 |
| Low Income | 3,000 | 5,000 | 5,000 |
| Commercial | 14,532 | 14,500 | 14,500 |
| Conservation Education and Outreach | 3,538 | 5,000 | 5,000 |
| Industrial | 1,875 | 2,000 | 2,000 |
| ***Subtotal - Conventional EEC Activity*** | ***29,675*** | ***38,000*** | ***38,000*** |
| ***Subtotal - Innovative Technologies*** | ***5,625*** | ***11,500*** | ***11,500*** |
| ***Subtotal - Previously Approved EEC Activity*** | ***35,300*** | ***49,500*** | ***49,500*** |
| **New Initiatives 2012 & 2013** | | | |
| Furnace Scrap-It program | | **10,000** | **10,000** |
| Solar Thermal | | **4,000** | **4,000** |
| TES for Schools | | **11,000** | **11,000** |
| ***Subtotal - New Initiatives*** | | ***25,000*** | ***25,000*** |
| **Total Funding** | | **74,500** | **74,500** |

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# Additional Items

- $20 million deferral allocation
  - 89% FEI, 10% FEVI, 1% FEW
- Inclusion of customers on FEW, Industrial customers on FEVI
- Societal test as primary test
  - Social discount rate of 3%
  - Biogas/efficiency adjusted cost of electricity as avoided cost of gas
  - Deemed adder of 30% for non-energy benefits

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# Depreciation and Transfer Pricing

James Wong
Director, Finance and Planning

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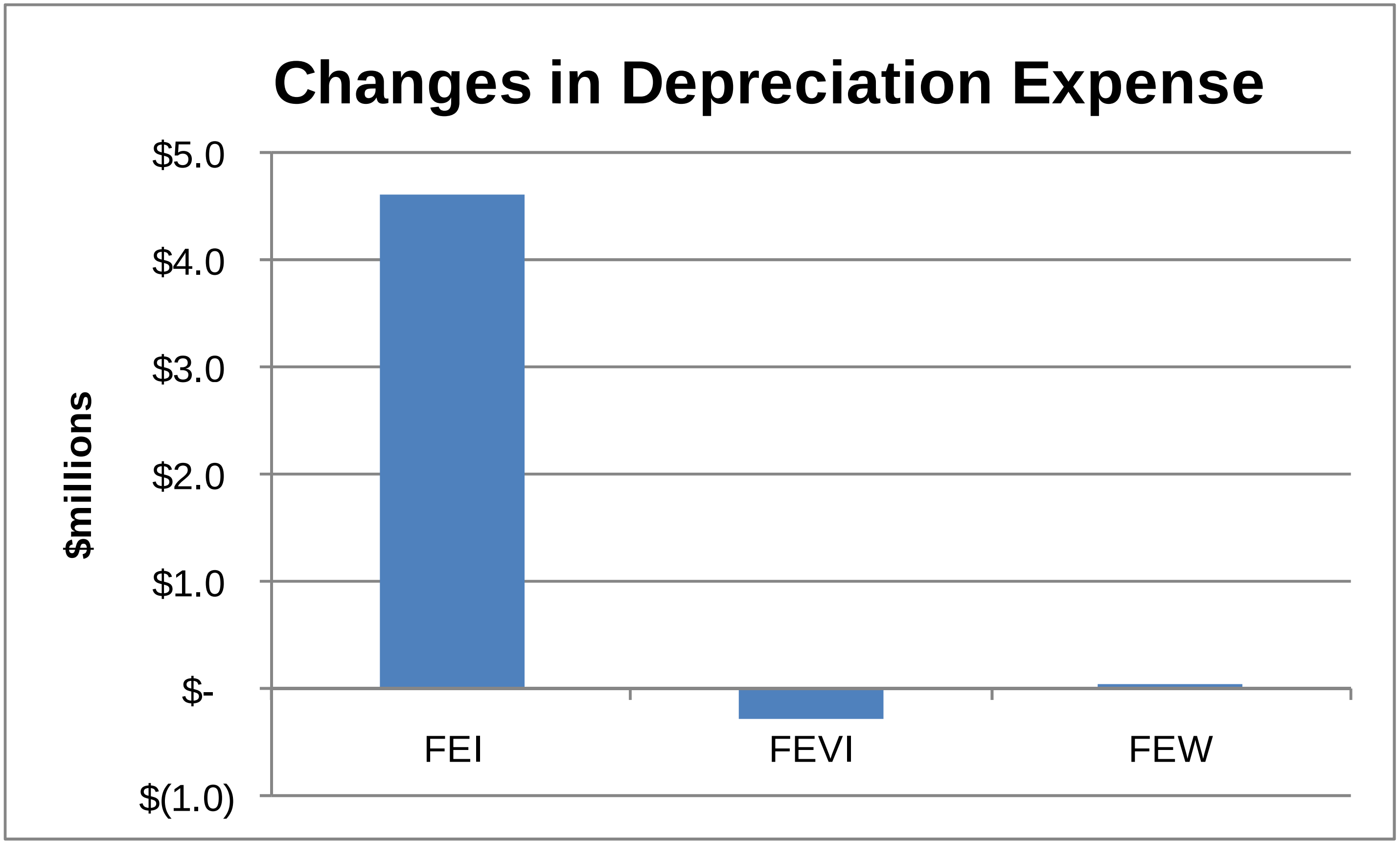
# Overview / Background

- Sections include:
  - 5.4 Depreciation
    - References
      - Appendix E1 Gannett Fleming Depreciation Report
      - Appendix E2 Asset Retirement Obligation Report
  - 5.3.18 Corporate and Shared Services

- From 2010/11 Terasen Gas Revenue Requirement Commission decision:
  - To undertake an updated depreciation study
  - To address the methodology and rates for net negative salvage value to be included in cost of service

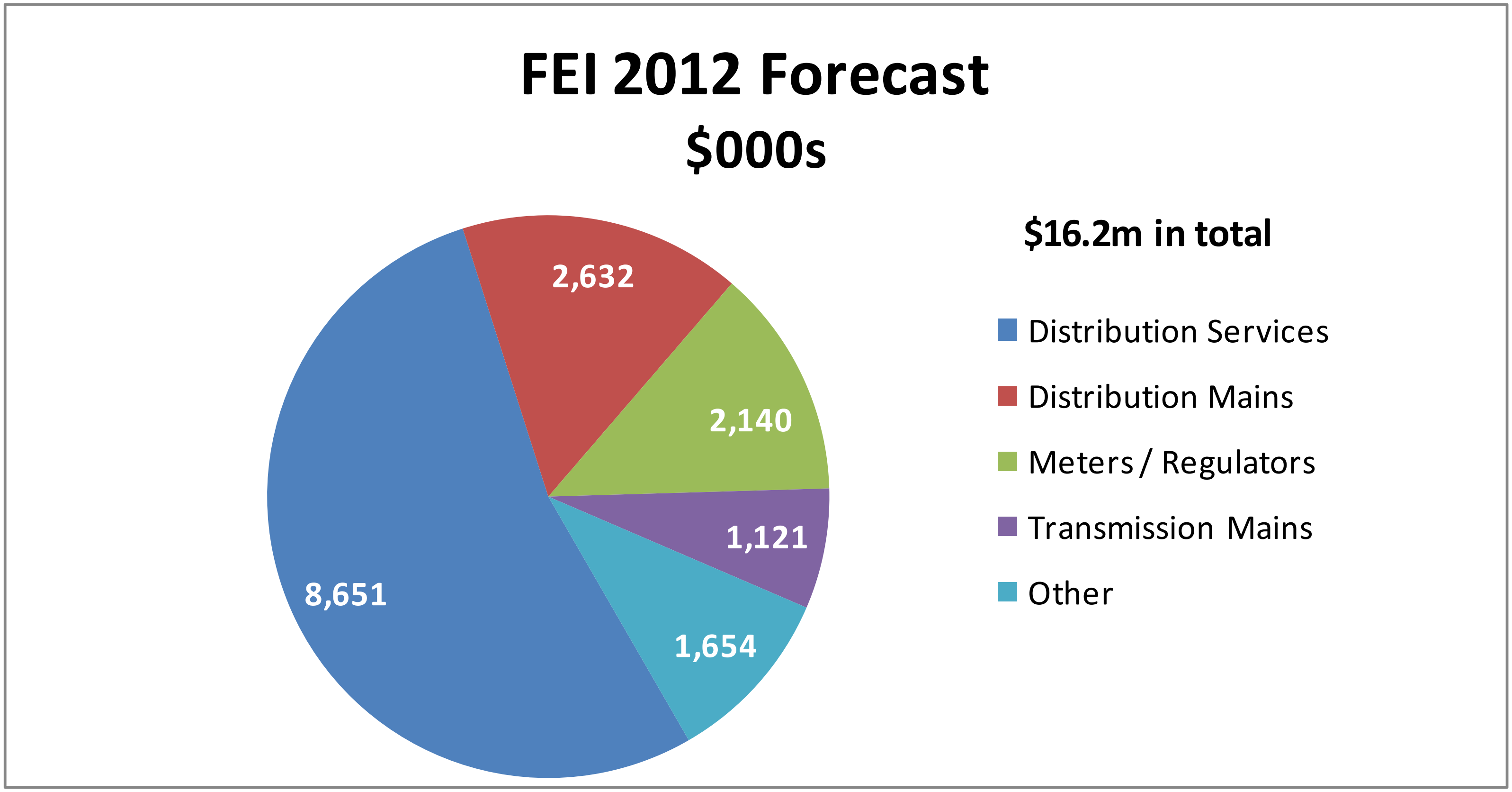
# Depreciation Study Update




* Due to change in depreciation rates

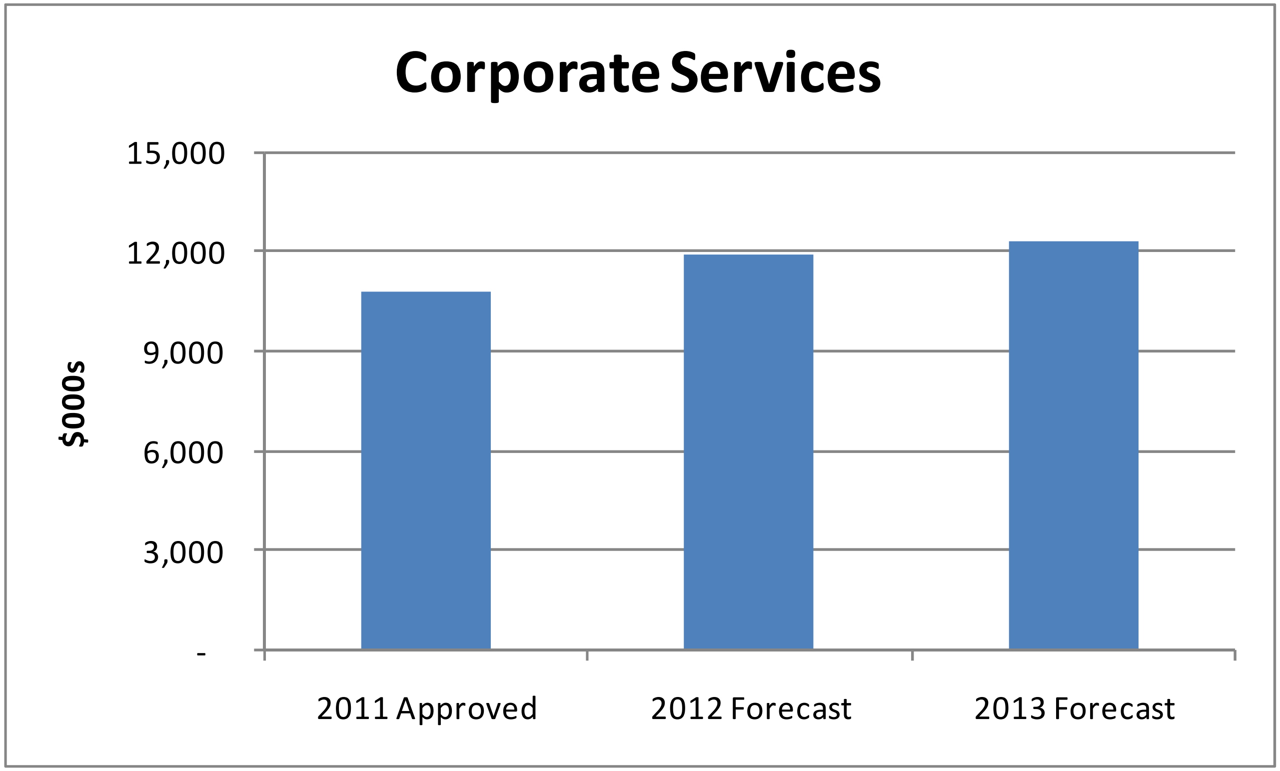
| Composite Rate | FEI | FEVI | FEW |
|---|---|---|---|
| Proposed | 3.1% | 2.6% | 2.4% |
| Existing | 3.0% | 2.6% | 2.2% |

# Negative Salvage




- 2011 FEI Approved Removal Cost Provision - $11.3m
- Increase of $4.9m in 2012 compared to 2011 for FEI

# Corporate and Shared Services




* Table 5.3-76 page 272 Annual Corporate Services to be Allocated from FHI

- Increase of approx. $1.1m in 2012 due to inflation and loss of sundry income at Fortis Inc.
- Use cost allocation methodology as previously approved in 2010/2011 RRA

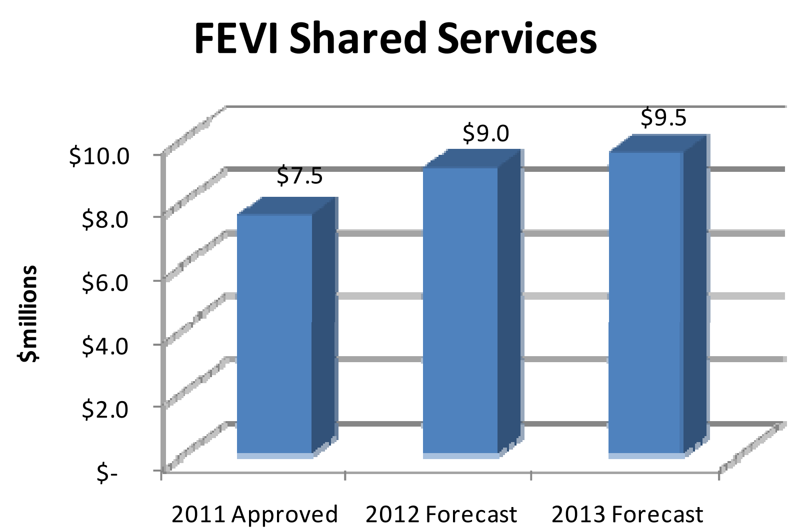
# Corporate and Shared Services

## Shared Services Approach

Total FEI O&M cost pool → Exclude costs not shared → Apply applicable cost driver → Allocate costs to FEVI/FEW

Applicable Cost Driver includes:

- Management estimate
- Headcount
- Customer count



# Forecast Cost of Service and Rate Base

Michelle Carman
Manager, Cost of Service

# Overview

### Cost of Service

- Demand Forecast
- Revenue Deficiencies
- Operating and Maintenance Expense Forecast

### Rate Base

- Capital Expenditure Forecast
- Deferral Account Forecast

### Amalgamation

- Cost of Service

# Determination of Cost of Service and Revenue Surplus or Deficiency

Forecast of Revenues at Existing Rates
Residential, Commercial, Industrial
(sales and transportation)
= “Revenue Forecast”

Forecast of Expenses for the year
Cost of Gas + O&M + Property Taxes
+ Depreciation / Amortization + Income
Taxes – Other Revenue + Rate Base
Return (interest, ROE)
= “Cost of Service”

Revenue Forecast
> Cost of Service
=
Revenue Surplus

Revenue Forecast
< Cost of Service
=
Revenue Deficiency

# At Existing Rates, Revenue Deficiencies Forecast

| $ Millions | Mainland | | Vancouver Island | |
|---|---|---|---|---|
| | 2012 | 2013 | 2012 | 2013 |
| Revenue Forecast | $1,216.1 | $1,217.0 | $195.1 | $196.6 |
| Less: Cost of Service | $1,245.1 | $1,282.8 | $195.1 | $214.1 |
| **Revenue Deficiency** | **$(29.0)** | **$(65.8)** | **$(0.0)** | **$(17.4)** |
| ***Incremental 2013 Deficiency*** | | ***$(36.8)*** | | ***$(17.4)*** |

| $ Thousands | Whistler | | Fort Nelson | |
|---|---|---|---|---|
| | 2012 | 2013 | 2012 | 2013 |
| Revenue Forecast | $11,209 | $11,094 | $4,774 | $4,846 |
| Less: Cost of Service | $11,381 | $12,173 | $4,896 | $5,001 |
| **Revenue Deficiency** | **$(172)** | **$(1,079)** | **$(122)** | **$(155)** |
| ***Incremental 2013 Deficiency*** | | ***$(907)*** | | ***$(33)*** |



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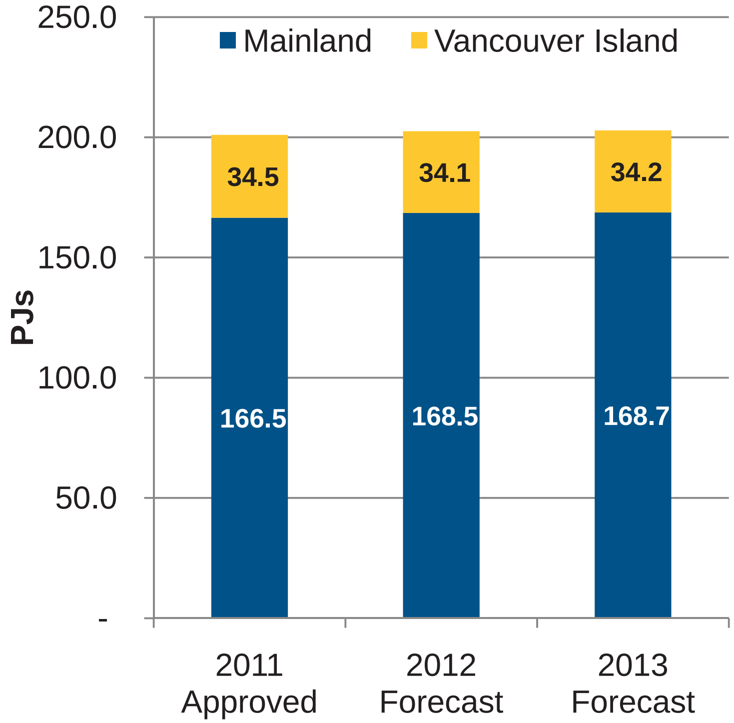
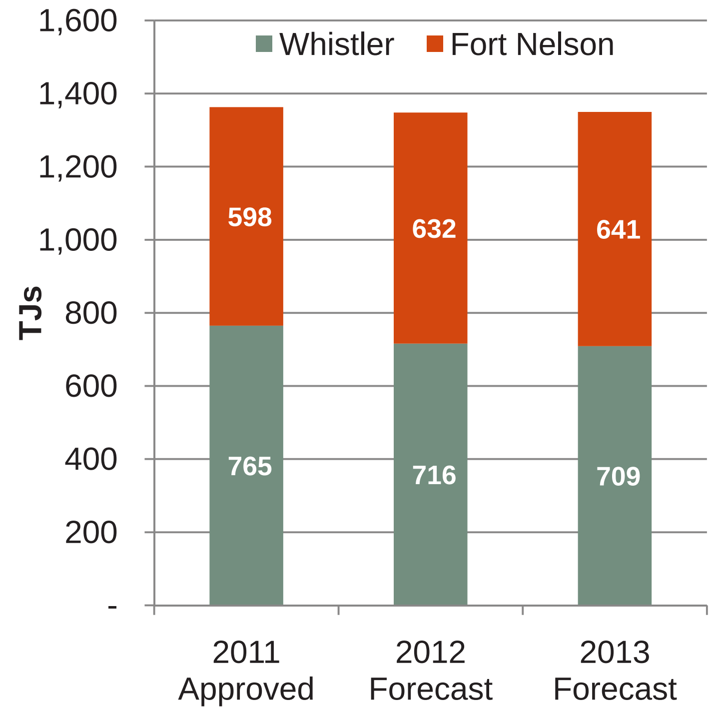
# Forecast Demand

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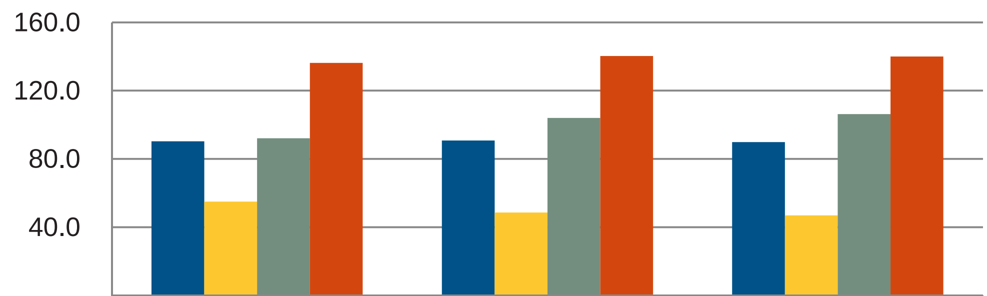
# Forecast Customer Additions and Residential Use per Customer

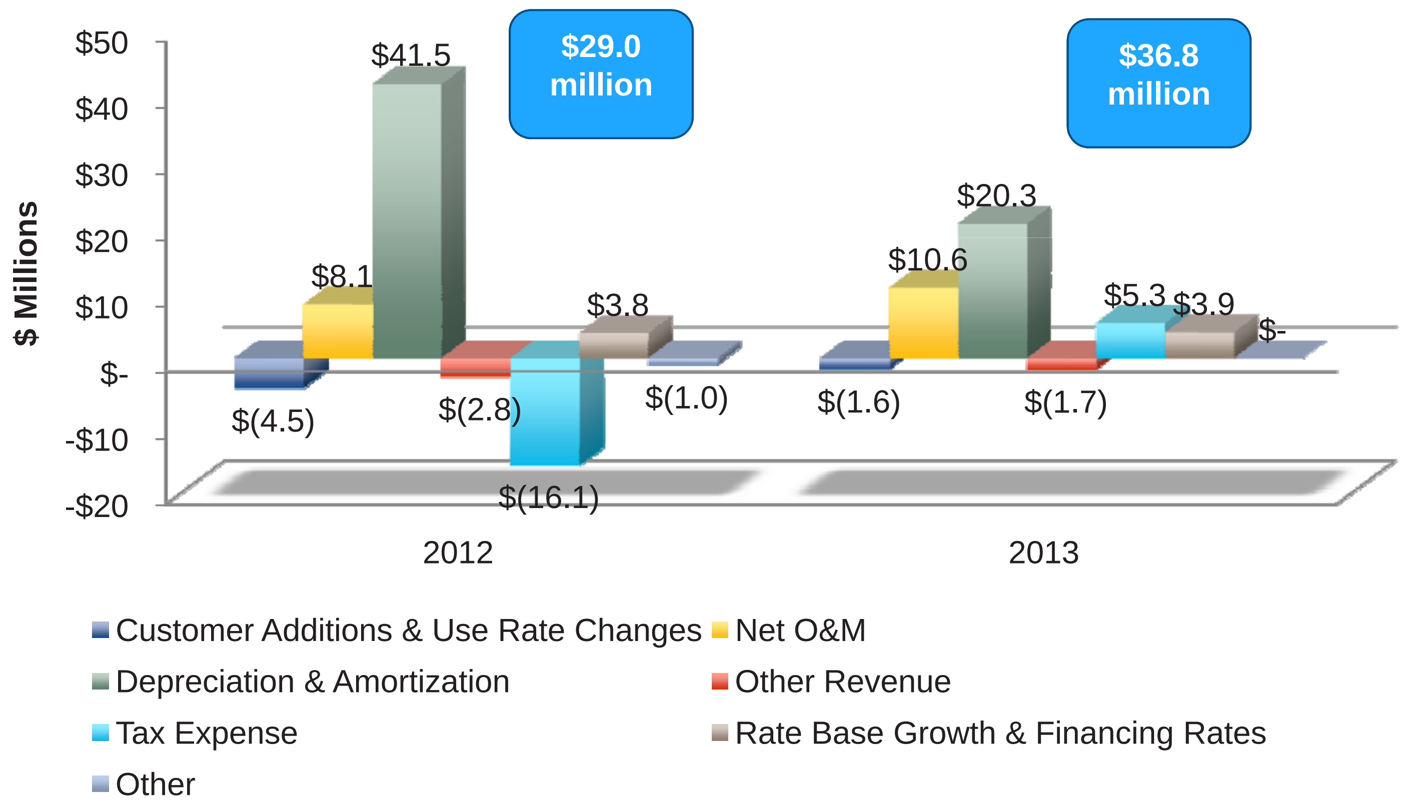
| Customer Additions | 2012 | 2013 |
|---|---|---|
| Mainland | 6,656 | 6,923 |
| Vancouver Island | 2,557 | 2,658 |
| Whistler | 19 | 19 |
| Fort Nelson | 22 | 24 |
| **Total** | **9,254** | **9,624** |

**Residential Use Per Customer (GJ/Year)**

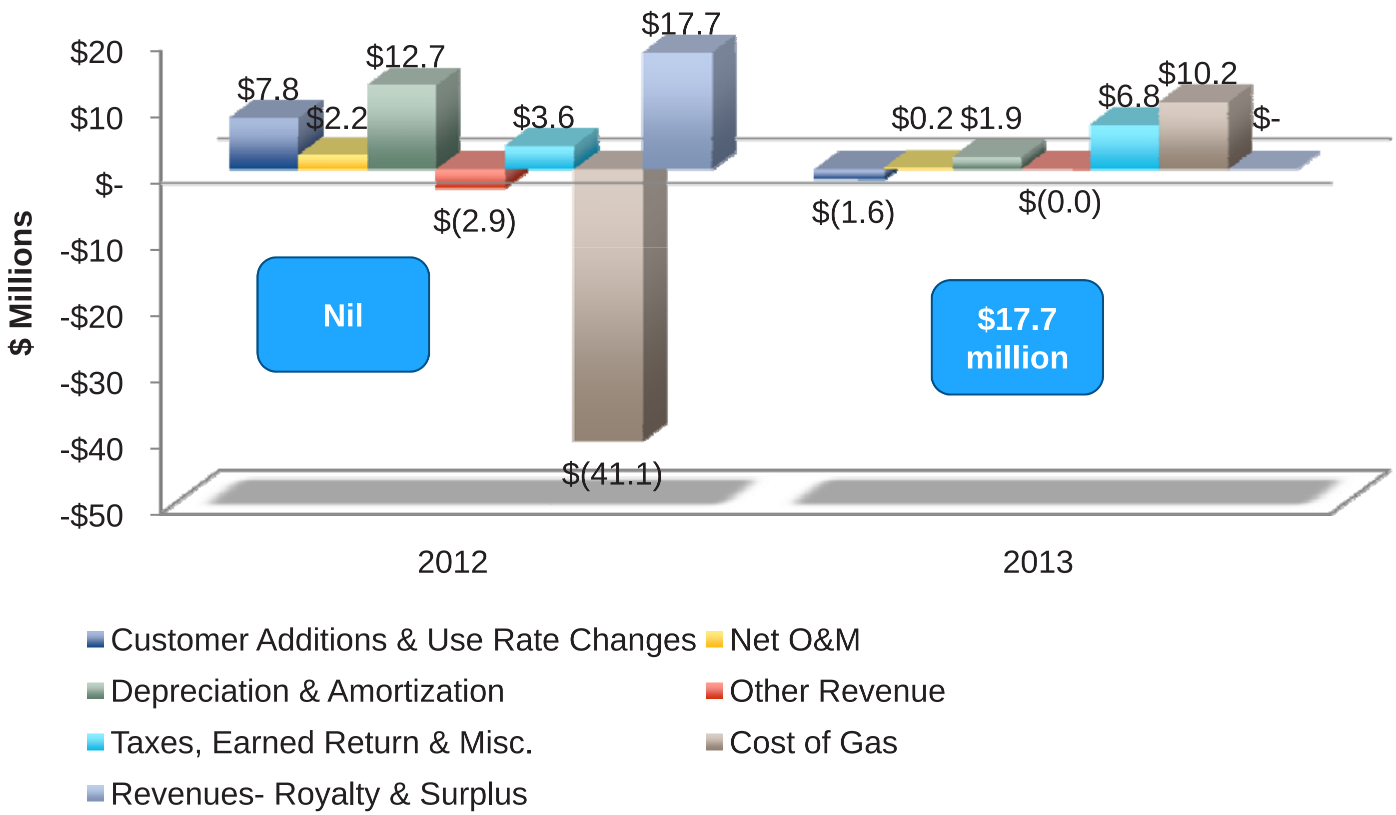



| | 2011 Approved | 2012 Forecast | 2013 Forecast |
|---|---|---|---|
| Mainland | 90.3 | 90.8 | 89.9 |
| Vancouver Island | 55.0 | 48.6 | 46.9 |
| Whistler | 92.1 | 104.0 | 106.3 |
| Fort Nelson | 136.3 | 140.3 | 140.0 |

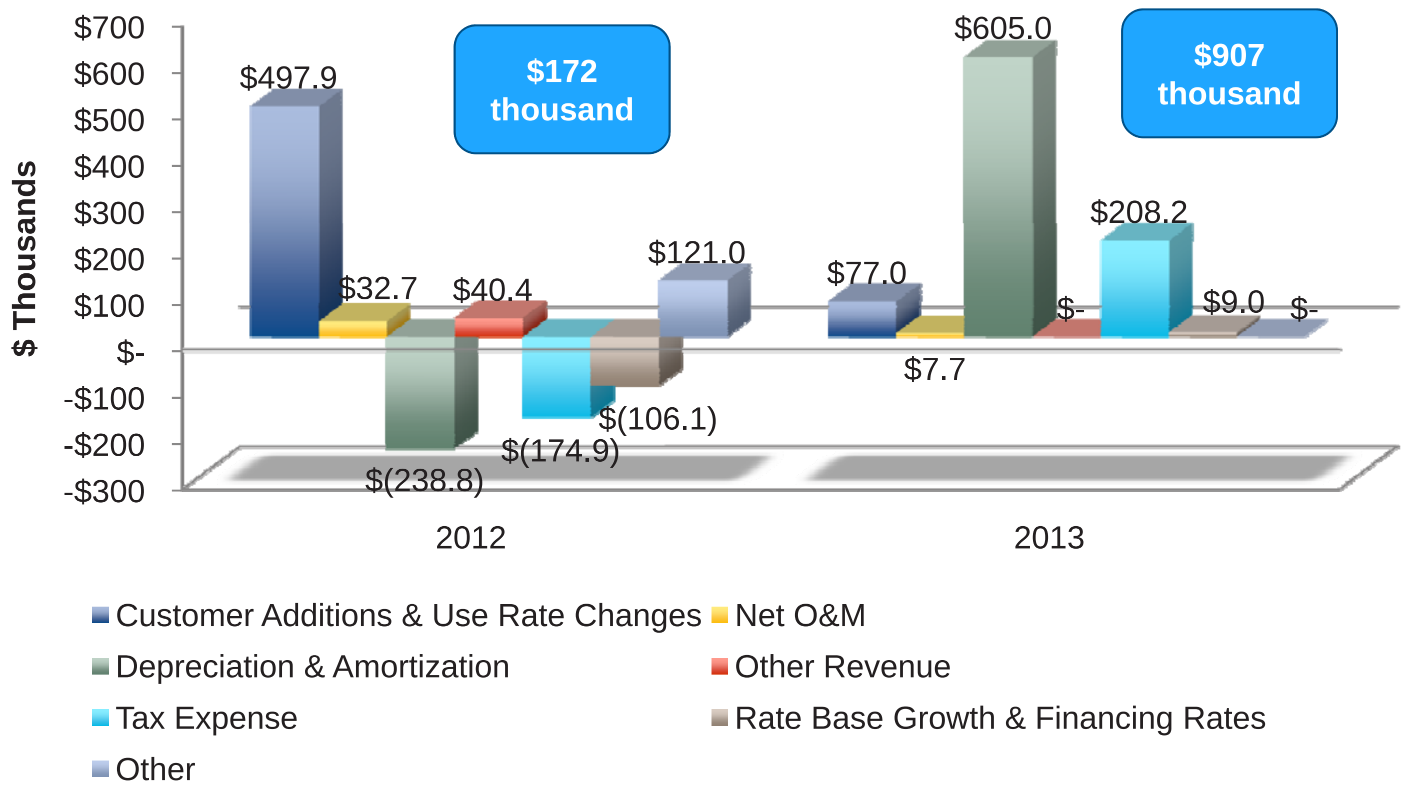
# Mainland Revenue Deficiency Driven by Depreciation & Amortization



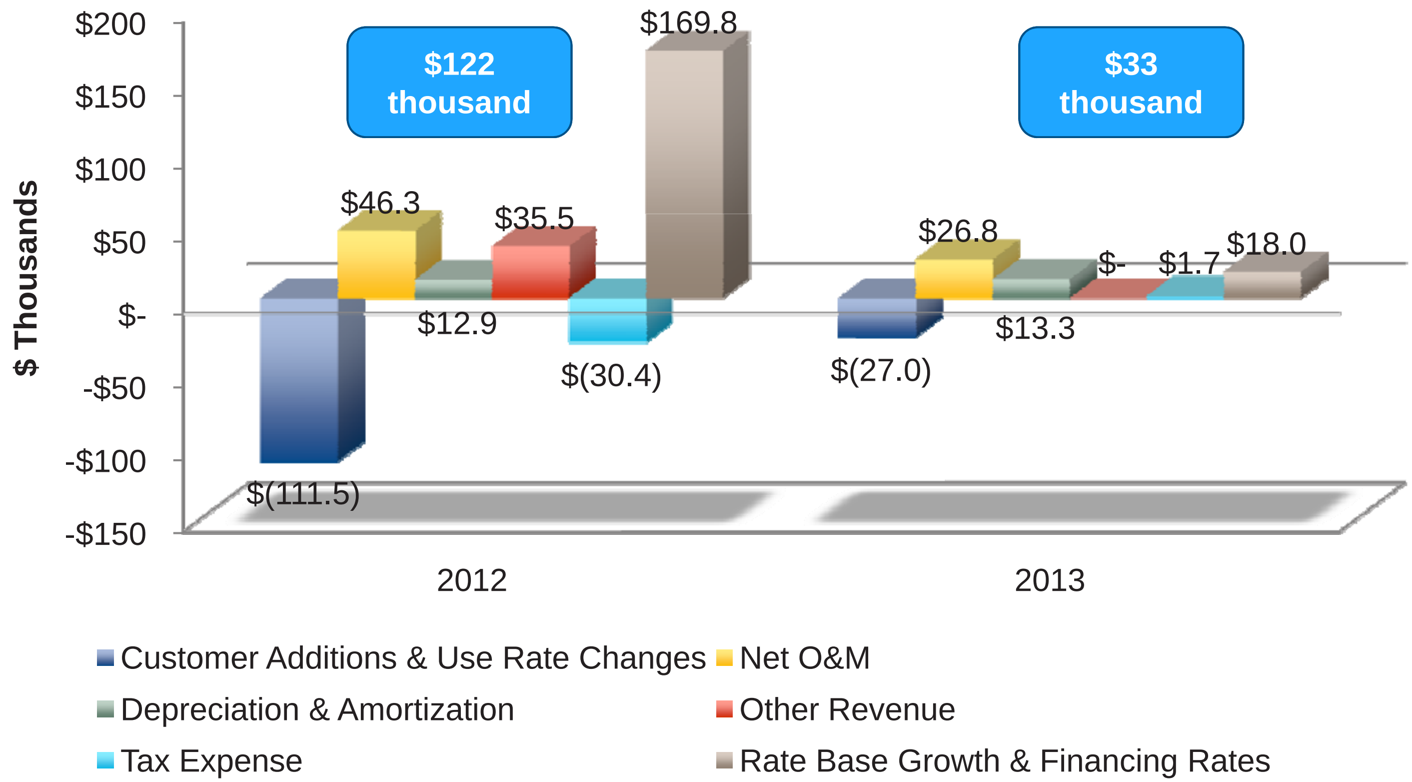
# Vancouver Island: Royalty Revenues Offset by Decrease in Cost of Gas



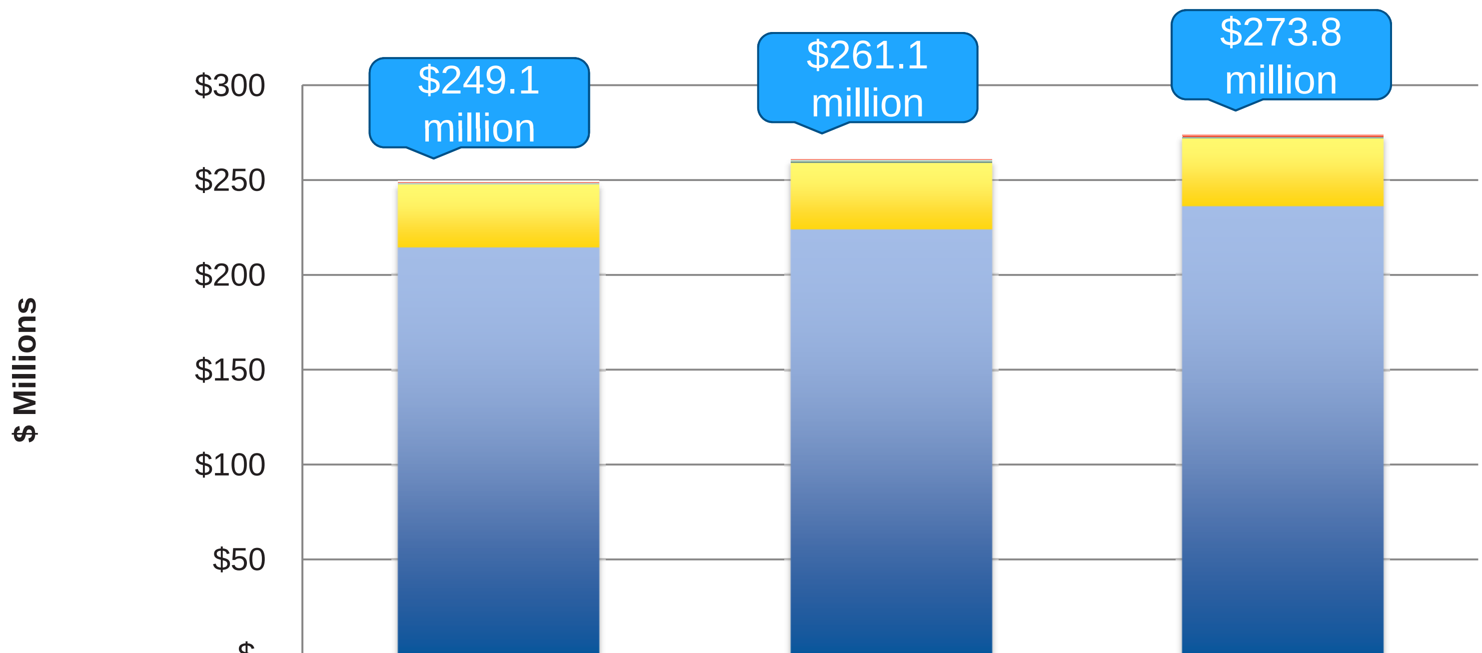
# Whistler Deficiency Driven by Demand Changes and Amortization Expense



# Impact of Muskwa River Crossing Project Drives Deficiency in Fort Nelson

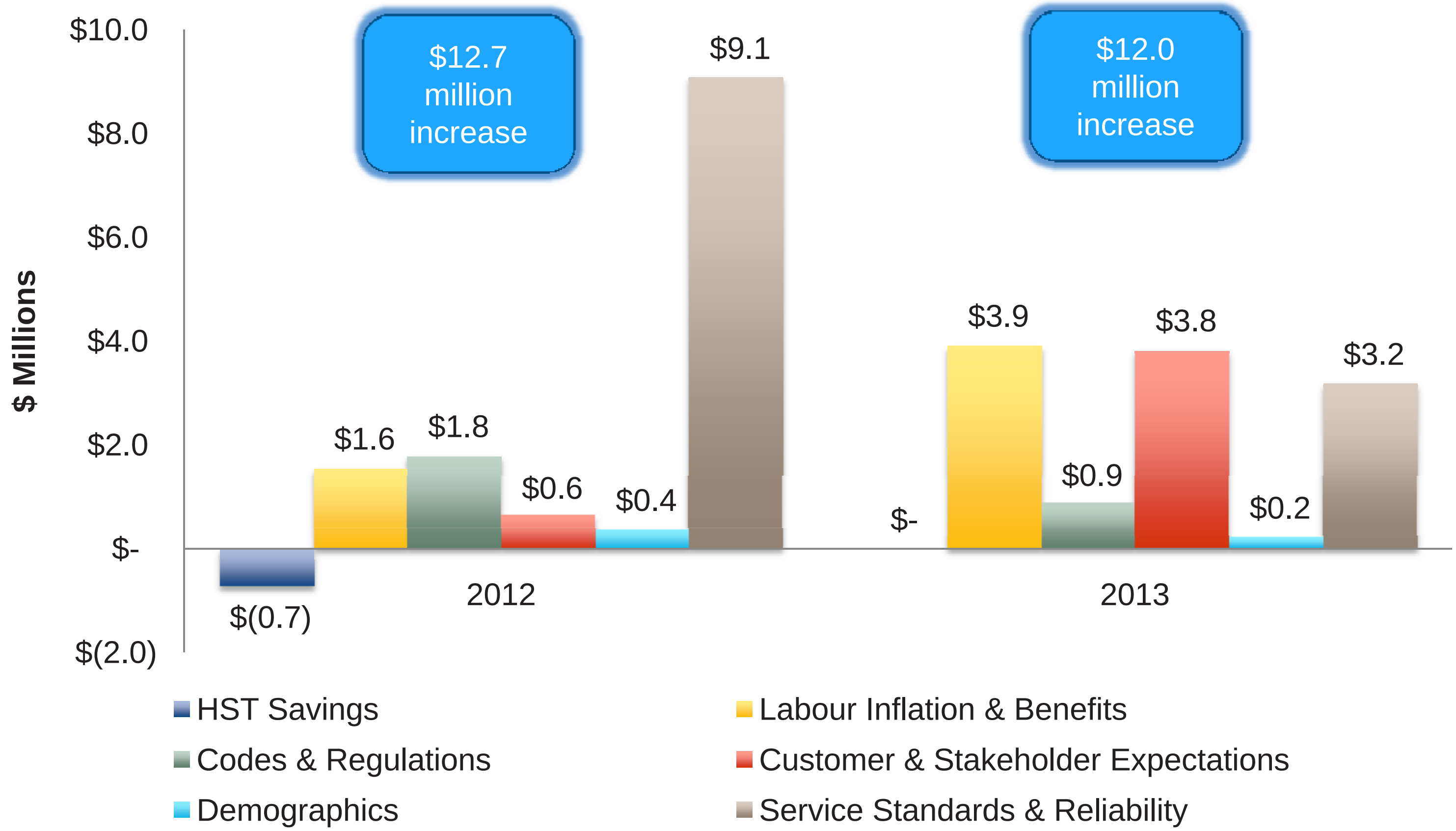


# Forecast Gross O&M Expense

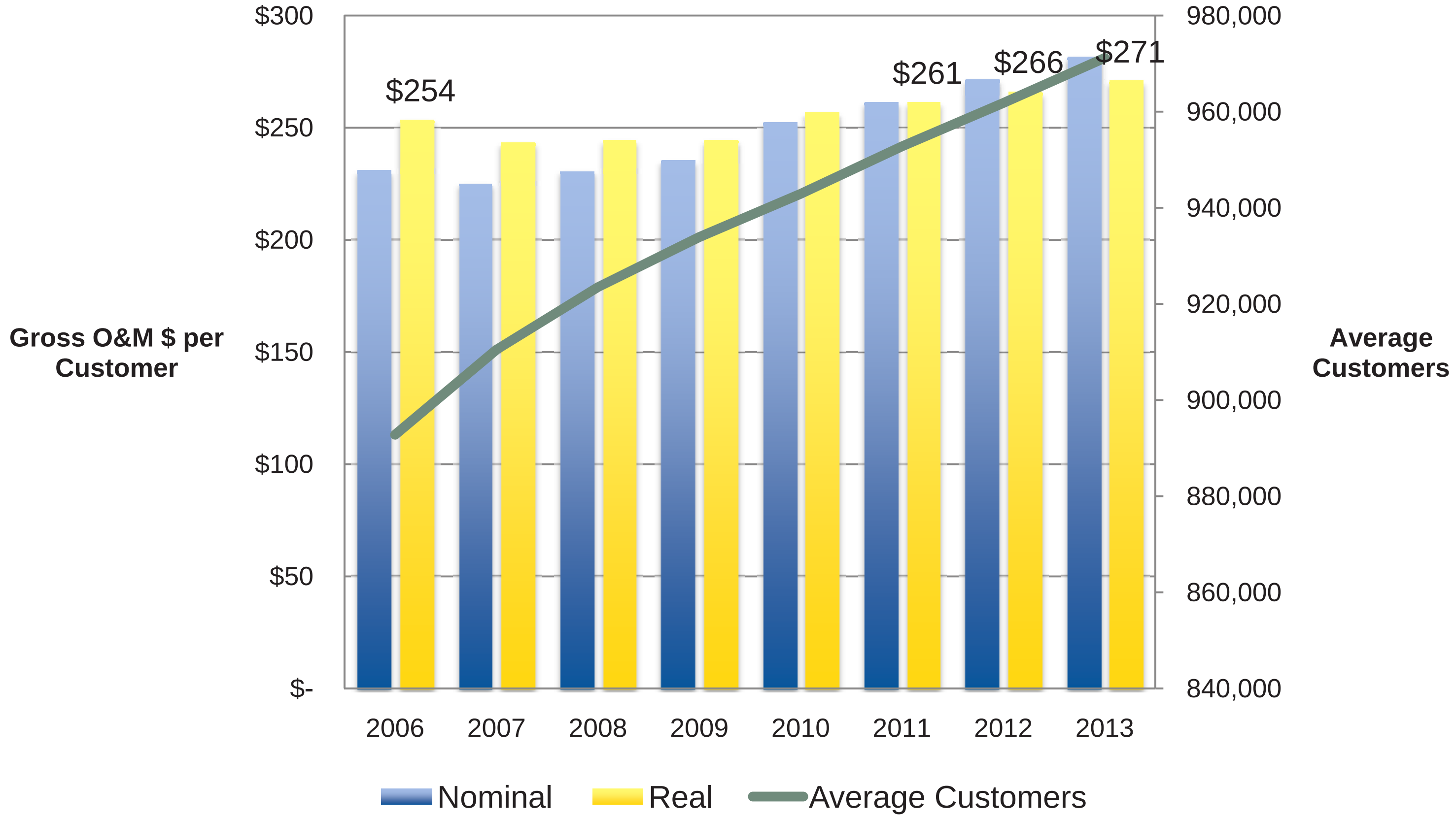



| | 2011 Approved | 2012 Forecast | 2013 Forecast |
|---|---|---|---|
| Fort Nelson | $0.815 | $0.865 | $0.897 |
| Whistler | $0.868 | $0.906 | $0.915 |
| Vancouver Island | $32.702 | $35.236 | $35.482 |
| Mainland | $214.680 | $224.119 | $236.472 |

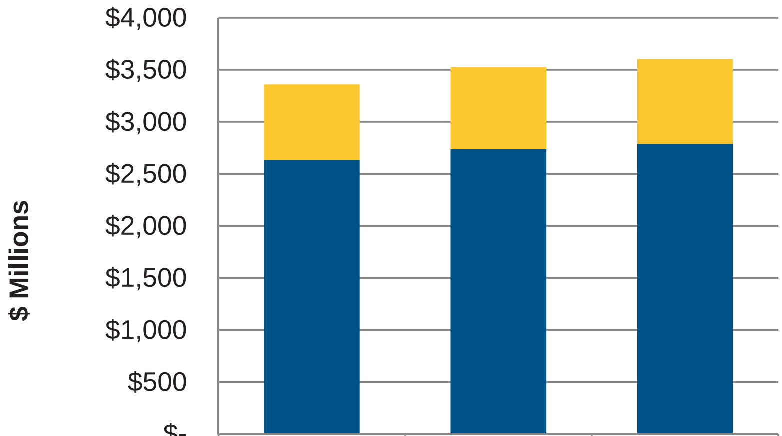
# Changes in Gross O&M



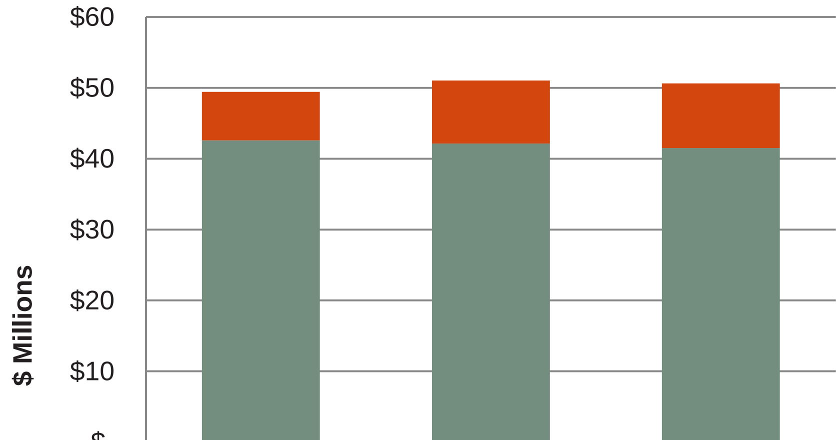
# Gross O&M Expense Remains Stable



# Forecast Rate Base




| | 2011 Approved | 2012 Forecast | 2013 Forecast |
|---|---|---|---|
| Vancouver Island | $729 | $788 | $814 |
| Mainland | $2,629 | $2,737 | $2,788 |




| | 2011 Approved | 2012 Forecast | 2013 Forecast |
|---|---|---|---|
| Fort Nelson | $7 | $9 | $9 |
| Whistler | $43 | $42 | $42 |

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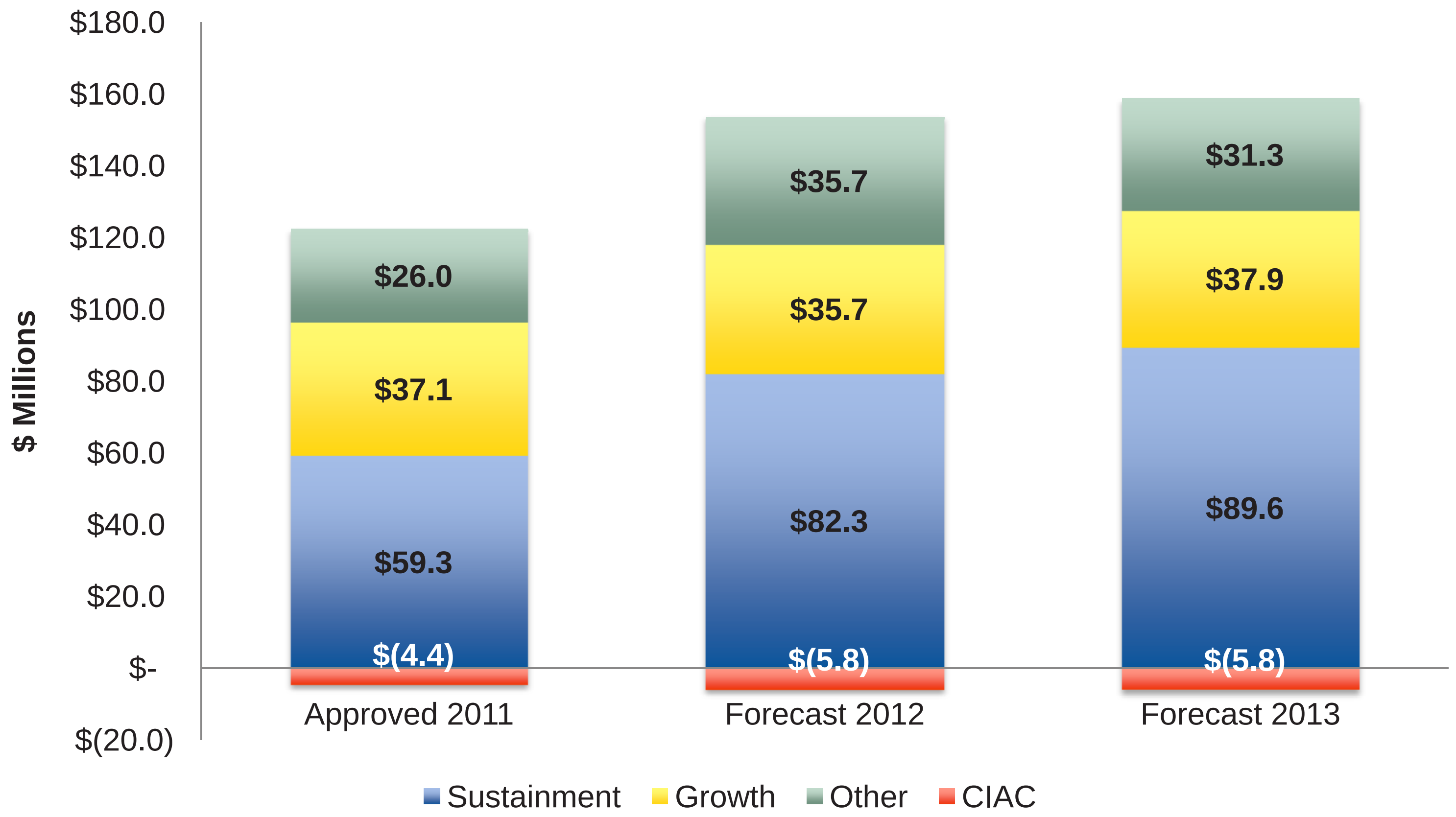
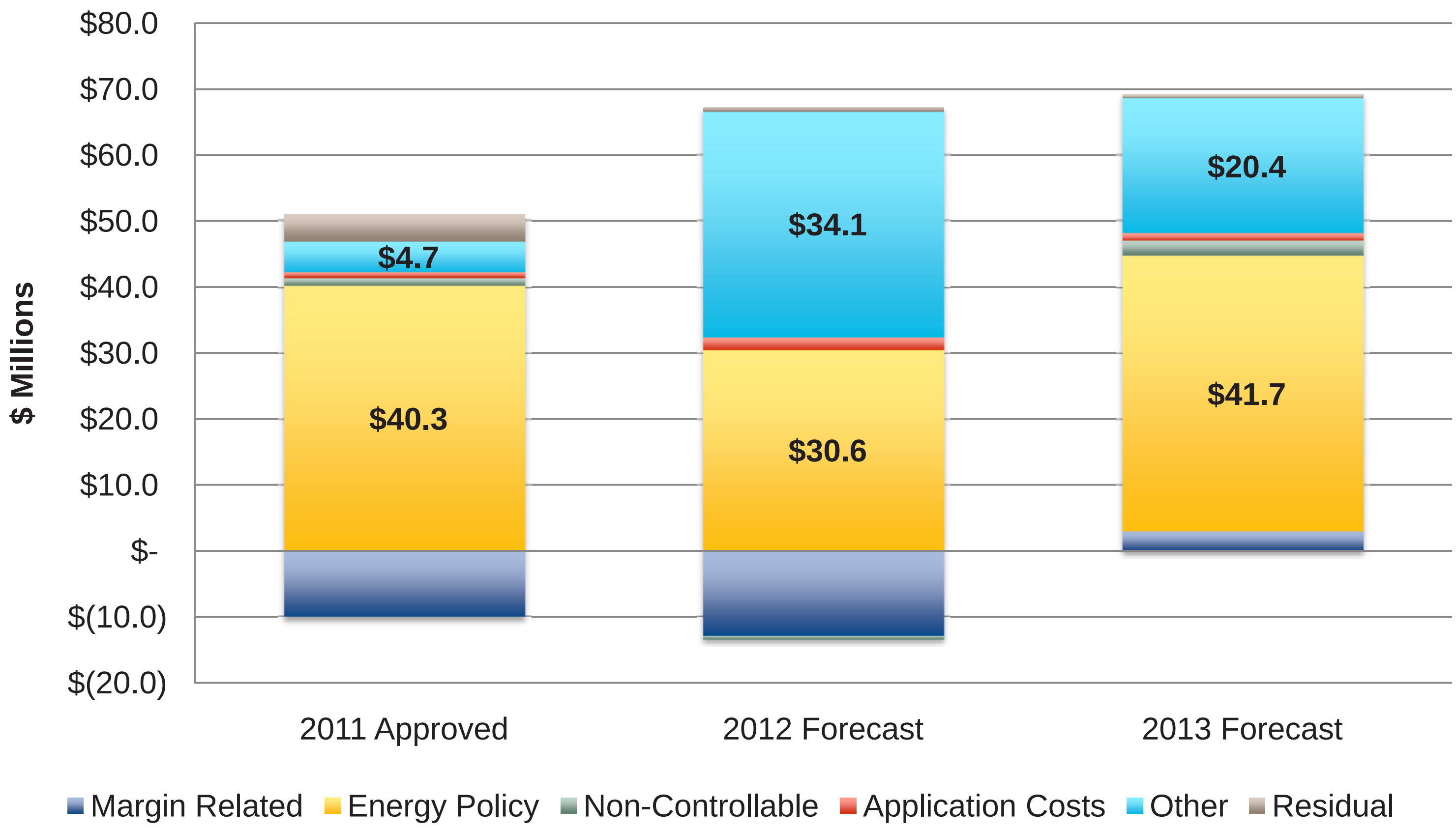
# Base Capital Expenditures
## *Total All Utilities*



# Mid Year Deferral Account Balances
## *Total All Utilities*



# Deferral Account Changes

| | |
|---|---|
| BCOneCall Project | • New account<br>• $1.2 million in 2012 and $0.9 million in 2013 |
| Records Management | • New account<br>• $2 million in 2012 and $2.3 million in 2013 |
| Customer Service Variance Account | • New account |
| CNG and LNG Service Costs and Recoveries | • Include of variances from revenue forecast pertaining to Rate Schedule 16 |

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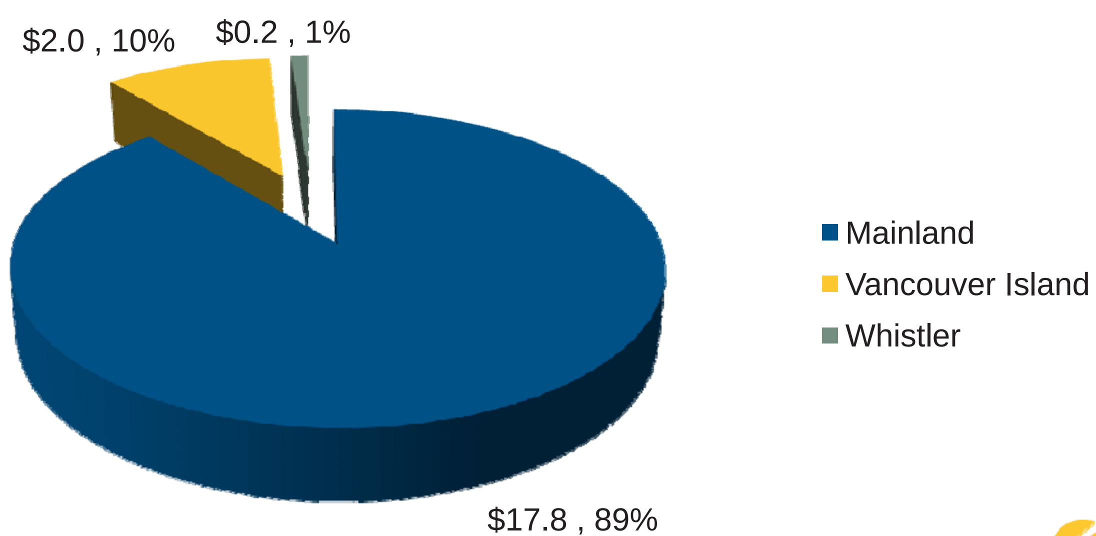
# Changes to the EEC Recovery Mechanism

| Existing rate base accounts | New non-rate base deferral account |
| --- | --- |
| • Addition of $20 million per year<br>• Allocated to FEI, FEVI and FEW on average customer basis | • Captures EEC spend in excess of $20 million, up to maximum of $54.5 million, per year<br>• Recovery commencing in 2014<br>• Recovery period of 10 year |

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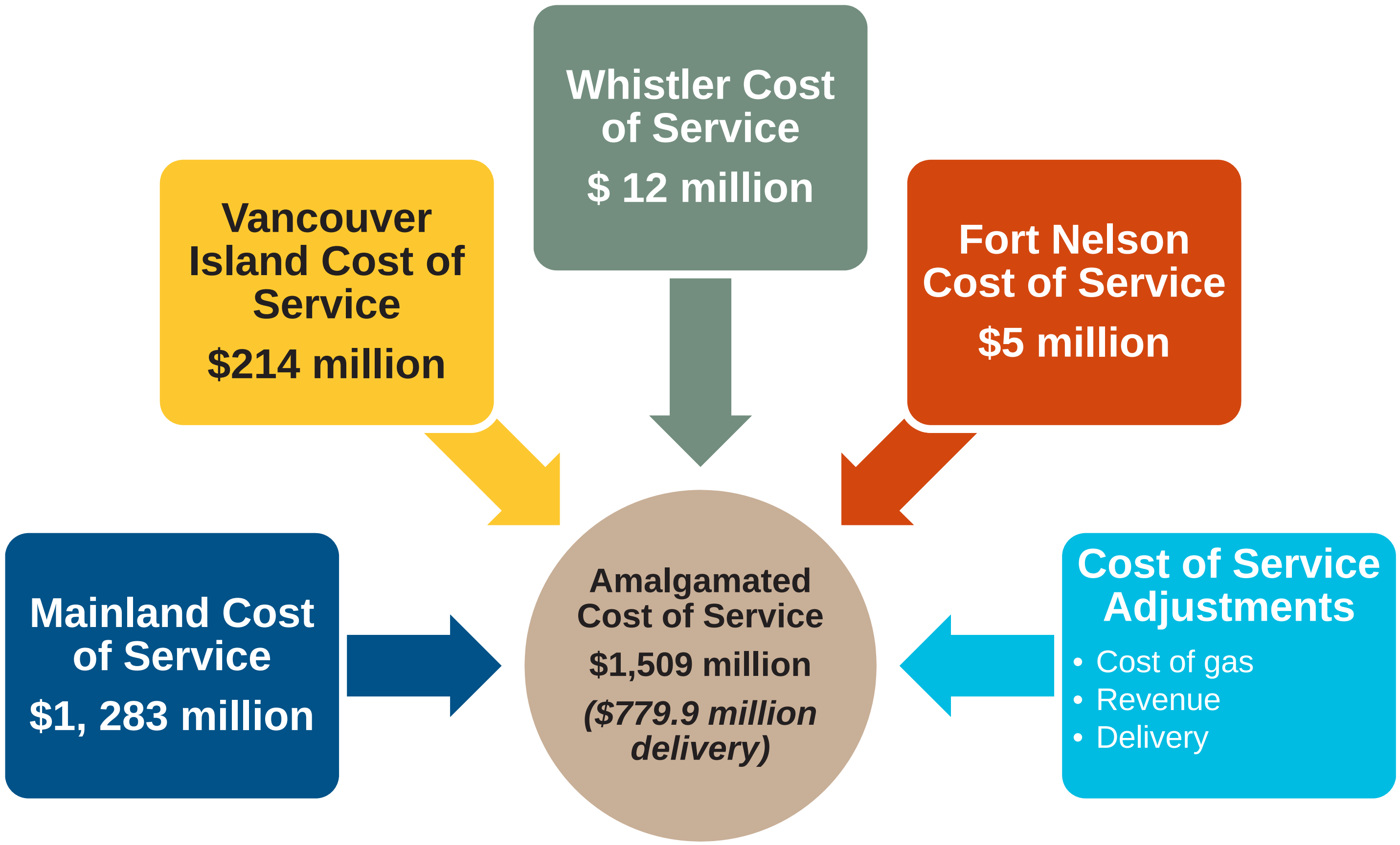
# Amalgamated Cost of Service

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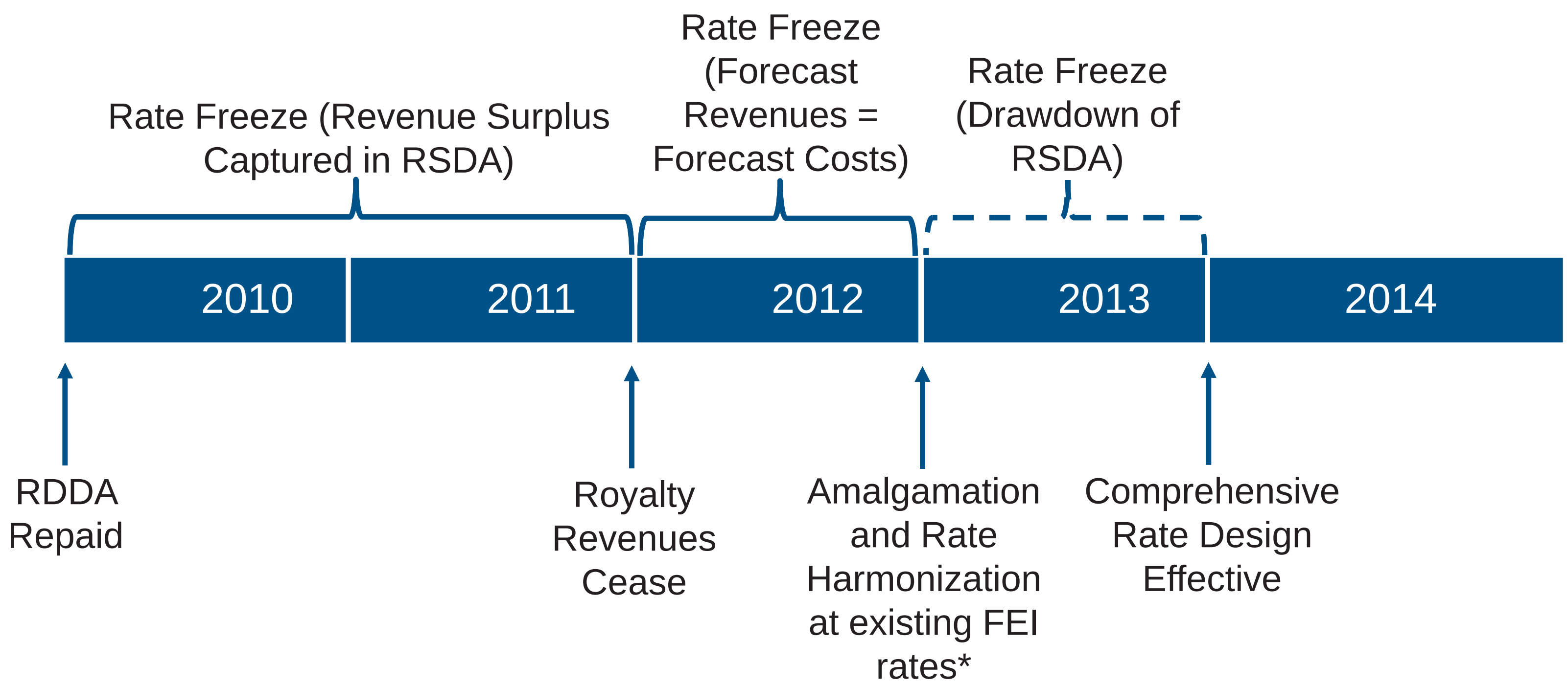
# Next Steps and Regulatory Timetable

# The Future – An Amalgamated Utility and Harmonized Rates




* Two Steps:

1) May 2011 Application achieves an amalgamated Cost of Service
2) Fall 2011 Phase A Rate Design achieves legal amalgamation and rate harmonization

# Regulatory Timetable for Review of Application

| ACTION | DATE (2011) |
|---|---|
| Participant Assistance/Cost Award Budgets | Tuesday, May 31 |
| Commission Information Request No. 1 to FEU | Thursday, June 2 |
| Intervener Information Request No. 1 to FEU | Thursday, June 9 |
| Procedural Conference (Timetable and Process – commencing at 9:00 am) | Wednesday June15 |
| FEU Response to Information Requests No. 1 | Thursday, June 30 |
| Commission Information Request No. 2 to FEU | Thursday, July 21 |
| Intervener Information Request No. 2 to FEU | Thursday, July 21 |
| FEU Response to Information Requests No. 2 | Friday, August 19 |
| Negotiated Settlement Process or Hearing if Required (proposed date range) | Tuesday, September 6 to Friday, September 30 |
| FEU Final Argument Submissions | Friday, October 7 |
| Intervener Final Argument Submissions | Friday, October 21 |
| FEU Reply Argument Submissions | Friday, November 4 |

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# Optional Session

## Financial Model Review

Michelle Carman
Manager, Cost of Service

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