

August 19, 2011

Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

British Columbia Public Interest Advocacy Centre
Suite 209 – 1090 West Pender Street
Vancouver, BC
V6E 2N7

Attention: Mr. James L. Quail, Executive Director

Dear Mr. Quail:

Re: FortisBC Energy Utilities¹ (“FEU”) 2012 and 2013 Revenue Requirements and Natural Gas Rates Application

Response to the British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al (“BCOAPO”) Information Request (“IR”) No. 2

On May 4, 2011, the FEU filed the Application as referenced above. In accordance with Commission Order No. G-129-11 issuing the amended Regulatory Timetable, the FEU respectfully submit the attached response to BCOAPO IR No. 2.

If there are any questions regarding the attached, please contact the undersigned.

Yours very truly,

on behalf of the FORTISBC ENERGY UTILITIES

Original signed:

Diane Roy

Attachment

cc (e-mail only): Alanna Gillis, Acting Commission Secretary
Registered Parties

¹ Comprised of FortisBC Energy Inc. (“FEI”), FortisBC Energy Inc. Fort Nelson Service Area (“Fort Nelson”), FortisBC Energy (Whistler) Inc. (“FEW”), and FortisBC Energy (Vancouver Island) Inc. (“FEVI”)

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 1

1.0 Reference : BCOAPO IR 1.2.1

Approved versus Actual 2011 Capital Expenditures

Preamble: Collectively, the projected capital expenditures for 2011 are now \$114.781M or \$3.345M below the approved total of \$118.126.

- 1.1 Please provide the impact on the 2011 revenue requirement had the approved total capital expenditures been \$3.345M lower than what was actually approved for 2011, all else equal.

Response:

All else equal, and assuming the reduction of \$3.345 million in capital expenditures are applied as a reduction to plant additions on a mid-year basis, the cumulative revenue deficiency for 2011 would have been approximately \$35.010 million as opposed to \$35.185 million.

This decrease of approximately \$175 thousand in the revenue deficiency equates to a reduction to the 2011 cumulative delivery rate increase from 6.57 percent to 6.54 percent, or 0.03 percent.

- 1.2 Is there any true-up for ratepayers for the 2011 rate year to take into account the fact that actual capital expenditures are projected to be \$3.345M below approved?

Response:

No. A true-up to reflect the variance between the projected and approved 2011 capital expenditures will not occur for the 2011 rate year. However, the opening net plant in service balances used to determine the forecast rate base and proposed delivery rates for 2012 and 2013 are trued up to reflect the actual plant additions in 2010 as well as the lower projected plant additions in 2011.

Although some components of rate base (such as capital expenditures) may be lower than forecast in a given year, others may be higher. The isolation of a single component of the rate base or cost of service does not provide a comprehensive perspective of the performance of the FEU or the total quantitative and qualitative benefits provided to our customers in a given year.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 2

2.0 Reference: BCOAPO IR 1.5.1

Contact Centre Metrics

2.1 When will the contact centre metrics be developed?

Response:

The following response addresses the responses to BCOAPO IRs 2.2.1, 2.2.2, 2.2.3 and 2.2.4

As discussed in response to BCOAPO IR 1.5.1, the FEU will continue to report on the existing contact centre metrics included in the Service Quality Indicators that have been in place since 2003, for both the 2012 and 2013 forecast years. The FEU plan to provide a quarterly update to the Commission of customer service performance with the in-sourced operating model during the first two years of operations. In addition, the FEU will evaluate the appropriateness of the existing service metrics as noted on Page 204, Section 5.3.7.5 of the Application (Exhibit B-1) and develop additional service metrics, such as cost per interaction and first call resolution, as discussed in response to BCOAPO IR 1.5.1 during the first year of operations.

The targets for these new metrics will be assessed by reviewing the current outsourced provider service levels, industry best practices and the FEU performance, once a baseline of stable operations has been established in 2012. In addition, in setting performance targets for these metrics, the FEU will evaluate customer feedback and expectations to seek the optimal balance of prudence of costs and service quality. For future periods, after the metrics have been developed, performance targets will be set well before actual results are reported. The FEU commit to providing these metrics to the Commission by the Fourth Quarter of 2012 along with the performance targets for the new metrics for 2013.

2.2 When will these metrics be provided to stakeholders?

Response:

Please refer to the response in BCOAPO IR 2.2.1.

2.3 Will the targets be set before the actuals are known for each year?



FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 3

Response:

Please refer to the response to BCOAPO IR 2.2.1.

- 2.4 Generally speaking, what will be the approach FEU takes to set the annual metrics targets?

Response:

Please refer to the response to BCOAPO IR 2.2.1.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 4

3.0 Reference: BCOAPO IR 1.5.3

Costs beyond the FEU's Control

- 3.1 Please elaborate on the statement that "the CCE Project is on track according to its planned schedule."

Response:

The CCEProject is currently on track to meet all major milestone dates including the go-live date of January 1, 2012, as shown in the table below. In addition, the current budget spend is in line with the project progress and the overall approved budget spend.

The targeted Project milestone dates for each of the Project phases are outlined below. Two major phases of the Project remain to be completed before go-live (Integration Test Cycles and Final Preparation) and these are tracking according to the scheduled completion date. It should be noted that many concurrent activities occur within the timeframe of these major milestone dates.

- Integration Test Cycles:
 - While the primary deliverable on the integration test cycles is the end to end testing of the solution for the Customer Information System and the Contact Centre Technologies and their associated business processes, there are other milestones which occur in this timeframe:
 - Facilities – construction improvements to both the Prince George and Burnaby facilities were completed as scheduled at the end of July, allowing for occupancy. The facilities will initially be utilized as recruitment centres for conducting interviews for the mass hires.
 - Recruiting – the majority of management staff for the new Customer Service organization have been hired as per the plan and will either be supporting the testing effort or will be involved in the mass hiring exercise. The interviewing process is currently underway and is expected to be completed by the end of September.
 - Training and Documentation material preparation – the creation of the training courses, training data, lesson plans, course evaluation criteria and ongoing desk procedures and aids will take place in this timeframe. These need to be completed by the end of September to facilitate the training of the trainers starting late September and into October.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 5

- Final preparation:
 - This phase of the CCE Project will involve the completion of all User Acceptance Testing (UAT), all end-user training and practice dress rehearsals for cutover activities, all in preparation for going live with the new system.

Phase	Milestone Start			Milestone End		
	Plan	Forecast	Actual	Plan	Forecast	Actual
1. Project Preparation	Mar 1,2010	n/a	Mar 1,2010	May 15,2010	n/a	Jun 30,2010
2. Business Blueprint	May 3,2010	n/a	May 10,2010	Oct 29,2010	Oct 29,2010	Oct 29,2010
3. Realization	Nov 1,2010	Nov 1,2010	Nov 1, 2010	Oct 31,2011	Oct 31,2011	n/a
3a. Integration Test 1	Jun 6,2011	May 16,2011	May 16,2011	July 31,2011	July 31,2011	July 31,2011
3b. Integration Test 2	Aug 1,2011	Aug 1,2011	Aug 1,2011	Oct 31,2011	Oct 31,2011	n/a
4. Final Preparation	Nov 1,2011	Nov 1,2011	n/a	Dec 31,2011	Dec 31,2011	n/a
5. Stabilization	Jan 1,2012	Jan 1,2012	n/a	Mar 31,2012	Mar 31,2012	n/a

As per the conditions to the CCE Project CPCN granted by the British Columbia Utilities Commission (the "Commission") as part of the directives of Order No. C-1-10, a Quarterly Progress Report is filed with the Commission. Specifically, FEI was directed in paragraph 2(i) to:

"file Quarterly Progress Reports on the Project with the Commission including planned versus actual schedule, planned versus actual costs, and identification of any variances or difficulties the Project may be encountering and any other items as determined necessary by Commission staff. The Quarterly Progress Reports are to be filed within 30 days of the end of each reporting period. A Final Report is to be filed within six months of completion of the Project."

The most recent quarterly progress report for the period April 1 to June 30 was filed with the Commission on July 29, 2011 and has been provided as Attachment 3.1 to this IR response. All CCE Project quarterly progress reports are available for review on our corporate website at the following link:

<http://www.fortisbc.com/About/RegulatoryAffairs/GasUtility/NatGasBCUCSubmissions/LowerMainlandSquamishInterior/Pages/CustomerCare.aspx>.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 6

- 3.2 Please provide the most currently available update of the CCE costs incurred to date along with a comparison of costs approved for the project.

Response:

The FEU are required to produce a Quarterly Progress Report in compliance with the directives of Order No. C-1-10 which granted approval of the CCE Project CPCN. Specifically, FEI was directed by the BCUC, in paragraph 2(i) to:

"file Quarterly Progress Reports on the Project with the Commission including planned versus actual schedule, planned versus actual costs, and identification of any variances or difficulties the Project may be encountering and any other items as determined necessary by Commission staff. The Quarterly Progress Reports are to be filed within 30 days of the end of each reporting period. A Final Report is to be filed within six months of completion of the Project."

The most recent quarterly progress report was filed with the Commission on July 29, 2011 and shows the total Project cost through to the end of June 2011 (as per the table below). This progress report has been included in Attachment 3.1 to the response to BCOAPO IR 2.3.1. The CCE Project remains on track to the original cost forecast in the CPCN.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 7

<u>Project Costs (000's)</u>	<u>Project Total</u>		
		<u>Approved Expenditures</u>	
	<u>Control Budget</u>	<u>Against Contingency Budget</u>	<u>Revised Control Budget</u>
<u>Capital</u>			
Internal Labour	4,775	-	4,775
Consulting	30,827	3,494	34,321
Hardware	2,528	615	3,143
Software	6,600	122	6,722
Expenses	5,063	-	5,063
Facilities	14,502	-	14,502
Contingency	6,950	(4,231)	2,719
	71,245	-	71,245
<u>Deferred O&M</u>			
Internal Labour	6,810	136	6,946
Consulting	25,003	-	25,003
Hardware	447	-	447
Software	600	-	600
Expenses	2,025	-	2,025
Facilities	1,380	-	1,380
Contingency	3,890	(136)	3,754
	40,155	-	40,155
Net Total	111,400	-	111,400
AFUDC	4,100	-	4,100
Grand Total	115,500	-	115,500

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 8

<u>Project Costs (000's)</u>	<u>Actual</u>	<u>Project Total</u>		
	<u>Spend to Date</u>	<u>Control Budget</u>	<u>Project Forecast</u>	<u>Variance</u>
<u>Capital</u>				
Internal Labour	2,455	4,775	4,775	-
Consulting	19,485	34,321	34,321	-
Hardware	1,556	3,143	3,143	-
Software	5,598	6,722	6,722	-
Expenses	2,636	5,063	5,063	-
Facilities	11,198	14,502	14,502	-
Contingency	-	2,719	2,719	-
	42,928	71,245	71,245	-
<u>Deferred O&M</u>				
Internal Labour	1,250	6,946	6,946	-
Consulting	3,709	25,003	25,003	-
Hardware	-	447	447	-
Software	-	600	600	-
Expenses	449	2,025	2,025	-
Facilities	120	1,380	1,380	-
Contingency	-	3,754	3,754	-
	5,527	40,155	40,155	-
Net Total	48,455	111,400	111,400	-
AFUDC	2,160	4,100	4,100	-
Grand Total	50,615	115,500	115,500	-

3.3 When are the “detailed steps of the end-to-end business processes” scheduled to be fully developed and tested?

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 9

Response:

The development of the detailed steps of the end-to-end processes started shortly after the completion of the detailed design of the system solutions in Q4, 2010 and are scheduled to be completed at the end of September as per the Project plan. From a testing perspective, the process testing is being incorporated as part of the various testing cycles of the Project. They will be tested during the integration test cycles scheduled to be completed by the end of October in preparation for the training scheduled for November through to December. Integration Test Cycle 1 began as planned on May 16th, 2011 and completed on July 31st as planned. Integration Test Cycle 2 began as planned on Aug 1st and is scheduled to be completed October 31st. Those impacting current business processes will be further tested through the final User Acceptance testing which will run parallel to the early training schedule in November. The breadth of the integration test cycles includes over 200 test cases with over 4,000 individual steps. It is expected that during the actual testing, new scenarios will come up so the expectation is that even more test cases will have been executed before the Project goes live. Even with all of this testing, there will likely be some processes that may be refined and improved during the stabilization period after go-live in order to better serve our customers.

- 3.4 Please specify all the steps that the FEU has taken to control and mitigate costs on the CCE Project.

Response:

The FEU recognize that cost control of a project of this magnitude is a key priority for all levels of management involved in the Project. To that end, many checks and controls throughout the Project lifecycle, from the initial proposal to the final stabilization, have been used to ensure the costs and cost risks are managed prudently. The following steps were undertaken and continue to be followed to control and mitigate costs on the CCE Project

1. Well defined scope before commencement of the Project

The FEU conducted a comprehensive and detailed requirements documentation process to ensure the scope of the Project was well understood and documented before engaging the software vendors or System Integrators. This has resulted in minimal scope change requests from the Project – an area that can be one of the main contributors to cost overruns.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 10

2. A competitive RFP process was followed in selection of products and service providers for all major components of the Project.

A competitive market process provides a good comparator of like costs from various providers to allow the FEU to be in the best position to assess alternatives and determine the best value for the goods and/or services provided. The FEU followed this process to acquire the Customer Information Software (CIS), the Contact Centre Technologies (CCT), the implementation service providers for the CIS, the contractor services for construction work for both the Prince George and Burnaby Contact Centre facilities, and all the furniture and office equipment for the two new facilities.

3. Fixed Price contracts

The FEU negotiated fixed price contracts with all payments tied to the delivery and acceptance of key milestones within the contracted scope of services with the major system integrators for the CIS (HCL Axon), SAP QA services, Five Point Partner QA services, the consulting services utilized for the new facilities, the Software costs, some of the facilities equipment costs (Generators, UPS), and the zoning and permit.

4. Development of a Detailed Budget

The FEU developed what it considered to be a realistic budget based on the best information it had at the time with regard to scope, anticipated services required, market assessment of potential service providers and a contingency amount that represented what the FEU considered to be appropriate for the size and nature of this project.

5. Hedge of USD exchange

At the time of the budget creation and filing, USD exchange was one of the less predictable and potentially volatile elements of the Project. For the largest component of USD cost of the project, the FEU implemented a hedging strategy to mitigate any risk associated with the unpredictable nature of this major cost item. The FEU believe this was an appropriate and prudent approach to ensure control over what could have been a material risk to Project costs.

6. Robust Project Governance Structure

The Project established a rigorous project governance structure to manage project execution, scope, risk and costs. The Project Management Office is responsible for the day to day management of the project while an executive Steering Committee is in place to ensure the Project is managing the risks and costs of the project. In the area of cost

<p>FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson)</p> <p>2012-2013 Revenue Requirements and Natural Gas Rates Application</p>	<p>Submission Date: August 19, 2011</p>
<p>Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO")</p> <p>Information Request ("IR") No. 2</p>	<p>Page 11</p>

management, the project budget is reviewed at every meeting. It is also the responsibility of the Steering Committee to understand and approve all requests for release of project contingency funds whether it be for additional resourcing or scope changes.

7. Robust Change Control Process

Expanding on point 6 above, the Project Management Team has implemented a robust Change Control process to ensure that any costs incurred that were not accounted for in the original budget either as a variance to planned spend or an unforeseen event, and any change in scope is justified as being necessary to ensure the best balance of spend versus operational efficiency of the solution. All change control items that require release of contingency dollars are presented to the CCE Steering Committee where the justification of the expenditure is explained and approved on an item by item basis. This only occurs once the Project management team has vetted each change request to ensure that any item presented to the Steering Committee represents the most prudent course of action for that particular issue. As of the end of July 2011, 10 requests for the release of contingency funds have been approved by the Steering Committee. As was anticipated when the contingency was initially created, resourcing was the primary area of the requests. This included requests for additional resources in various areas of the Project as well as extending resourcing beyond the originally planned roll-off date. There were also requests for additional hardware and software. These requests totalled \$4.367 million from a total contingency budget of \$10.84 million leaving the project with \$6.473 million in available contingency. Details of each expenditure item can be found in the Quarterly Reports filed with Commission. The most recent quarterly progress report for the period April 1 to June 30 was filed with the Commission on July 29, 2011 and has been provided in Attachment 3.1 to the response to BCOAPO IR 2.3.1. All CCE Project quarterly progress reports filed with the Commission are available for review on our corporate website at the following link: <http://www.fortisbc.com/About/RegulatoryAffairs/GasUtility/NatGasBCUCSubmissions/LowerMainlandSquamishInterior/Pages/CustomerCare.aspx>.

8. Diligent Quality Assurance / Risk Management Strategy

The Project Management Team has implemented and followed a diligent quality assurance / risk mitigation strategy.

Firstly, one of the key focus areas for the Program Management Team is risk recognition, mitigation and tracking of the effectiveness of the mitigation actions. The Team reviews the risk register weekly and discusses the remediation activities and progress on a regular basis. The key risks and effectiveness of the mitigation activities is reported to the Steering Committee on a monthly basis.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 12

Secondly, the FEU have also engaged the services of third party expertise to further review potential risk areas of the Project.

- One such third party, Five Point Partners (Five Points), has been engaged to provide assurance of on time execution of the Project together with guidance on mitigation of risks. Five Points is a specialized provider of application management consulting services to organizations within the energy and utility industries. Five Points consultants bring expert knowledge and experience in managing the development of Customer Information Systems. The FEU are using their experience to evaluate the Project on seven key dimensions: schedule, resources, ongoing activities, project management, costs, scope, and risks. Five Points reports are standing agenda items on all Project Steering Committee meetings. Five points also files a quarterly report (in confidence) as part of the aforementioned Quarterly Reports filed with the Commission.
- Another third-party service provider being used in a quality assurance role is SAP's Active Global Services. SAP's Active Global Services provide production support for all SAP customers. For this Project, they are assisting the Project team by proactively reviewing key risk areas that have been experienced with other system implementations and providing risk mitigation strategies of technical issues such as system performance. They have sufficient experience to identify areas that previous customers have run into difficulty on similar projects resulting in prolonged system stabilization issues and expensive redesigns as well as performance risk areas and resolve the types of system issues that could be encountered when the system goes live. It is these types of issues that can have a negative impact on a company's ability to stabilize the system which has the potential to extend the need for third party support beyond the original plan which in turn can drive up costs.
- The FEU have also recently engaged the services of MNP, another third-party service provider to perform a review of the new business processes to ensure there are no gaps or omissions. MNP's multi-disciplined team of consultants provides a variety of solutions to the energy and natural resources sector, including process improvement, organizational development and regulatory support. The FEU are leveraging their extensive experience with energy companies and other industry stakeholders to ensure there are no gaps or omissions in the new processes that have been designed.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 13

In summary, the above courses of actions along with a strong project management discipline are enabling the FEU to effectively and prudently manage CCE Project costs. Although unforeseen opportunities still lie ahead as the Project team continues through a more complex phase of the Project, including testing the new system, and a significant recruitment and training undertaking, the Project budget continues to track well against plan. At this time, the Companies have not identified any significant changes in scope that could cause the Project spend to be greater than the +/- 10% band on the \$115.5 million established as per Commission Order No. C-1-10.

<p>FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application</p>	<p>Submission Date: August 19, 2011</p>
<p>Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2</p>	<p>Page 14</p>

4.0 Reference: BCOAPO IR 1.3.1 and Executive Summary and Introduction, page 4

4.1 Please provide a table that shows for each Utility/Region, the impact of each of the five bulleted OM&A cost drivers shown on page 4 of the Executive Summary and Introduction on the incremental OM&A requests for 2012 and 2013.

Response:

The requested information was provided in the Application (Exhibit B-1) Tables 5.3-6 through 5.3-13 (pages 156 to 158). The FEU have provided revised tables below, which have been updated to agree to the Evidentiary Update (Exhibit B-11) filed on July 19, 2011.

Table 5.3-6: Mainland 2012 Incremental Funding

Department (Amounts in \$ Thousands)	2011 Projection	2011 HST Savings	Labour Inflation and Benefits	Code and Regulations	Customer & Stakeholder Expectations	Demographics	Service Standards & Reliability	Total Incremental	Total 2012 Forecast
Distribution	43,153	(54)	1,738	120	-	160	2,520	4,485	47,638
Transmission	14,994	(57)	244	(130)	133	91	1,005	1,287	16,280
Energy Supply & Resource Development	3,748	(14)	125	-	-	-	84	195	3,943
Customer Service	56,935	(15)	120	-	(1,653)	-	-	(1,548)	55,388
Energy Solution & External Relations	14,370	(4)	606	750	1,616	-	85	3,054	17,423
Information Technology	20,095	(185)	233	4	-	-	1,358	1,410	21,505
Operations Engineering	13,288	(122)	326	533	-	(190)	242	788	14,076
Operations Support	9,847	(91)	675	352	67	-	387	1,391	11,238
Facilities	6,201	(57)	24	-	-	-	262	228	6,430
Human Resources	8,280	(14)	265	59	-	313	65	687	8,966
Environmental & Safety	2,615	(5)	76	50	36	-	121	278	2,893
Finance and Regulatory	9,953	(1)	417	-	457	-	62	935	10,888
Corporate	11,201	(27)	3,567	-	-	-	(1,091)	2,448	13,649
Total	214,680	(645)	8,416	1,738	656	374	5,100	15,638	230,318

Table 5.3-7: Mainland 2013 Incremental Funding

Department (Amounts in \$ Thousands)	2012 Forecast	2011 HST Savings	Labour Inflation and Benefits	Code and Regulations	Customer & Stakeholder Expectations	Demographics	Service Standards & Reliability	Total Incremental	Total 2013 Forecast
Distribution	47,638	-	1,307	600	-	270	1,243	3,420	51,058
Transmission	16,280	-	185	(75)	106	(46)	1,048	1,218	17,499
Energy Supply & Resource Development	3,943	-	99	-	-	-	154	253	4,196
Customer Service	55,388	-	553	-	3,018	-	-	3,571	58,959
Energy Solution & External Relations	17,423	-	489	100	299	-	128	1,015	18,439
Information Technology	21,505	-	290	-	-	-	475	765	22,270
Operations Engineering	14,076	-	378	44	-	-	135	557	14,633
Operations Support	11,238	-	252	65	10	-	237	564	11,802
Facilities	6,430	-	62	-	-	-	(139)	(77)	6,353
Human Resources	8,966	-	265	-	-	-	151	416	9,382
Environmental & Safety	2,893	-	52	35	50	-	27	164	3,057
Finance and Regulatory	10,888	-	328	-	-	-	-	328	11,216
Corporate	13,649	-	(1,812)	-	-	-	643	(1,169)	12,480
Total	230,318	-	2,447	769	3,483	224	4,103	11,026	241,344

<p>FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application</p>	<p>Submission Date: August 19, 2011</p>
<p>Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2</p>	<p>Page 15</p>

Table 5.3-8: Vancouver Island 2012 Incremental Funding

Department (Amounts in \$ Thousands)	2011 Projection	2011 HST Savings	Labour Inflation and Benefits	Code and Regulations	Customer & Stakeholder Expectations	Demographics	Service Standards & Reliability	Total Incremental	Total 2012 Forecast
Distribution	5,379	(31)	87	-	-	-	353	409	5,787
Transmission	6,134	(41)	62	(92)	-	-	693	621	6,755
Energy Supply & Resource Development	100	-	-	-	-	-	-	-	100
Customer Service	5,459	(3)	-	-	(198)	-	-	(201)	5,257
Energy Solution & External Relations	1,464	(1)	37	150	-	-	7	193	1,657
Information Technology	421	(0)	1	-	-	-	-	1	422
Operations Engineering	679	(2)	-	-	-	-	-	(2)	677
Facilities	1,618	(5)	-	-	-	-	(150)	(155)	1,463
Finance and Regulatory	383	(0)	-	-	89	-	-	89	472
Corporate	11,065	(1)	217	-	-	-	2,245	2,461	13,526
Total	32,702	(85)	404	58	(109)	-	3,147	3,415	36,117

Table 5.3-9: Vancouver Island 2013 Incremental Funding

Department (Amounts in \$ Thousands)	2012 Year End Forecast	2011 HST Savings	Labour Inflation and Benefits	Code and Regulations	Customer & Stakeholder Expectations	Demographics	Service Standards & Reliability	Total Incremental	Total 2013 Forecast
Distribution	5,787	-	139	40	-	-	402	582	6,369
Transmission	6,755	-	63	45	-	-	201	308	7,064
Energy Supply & Resource Development	100	-	-	-	-	-	-	-	100
Customer Service	5,257	-	-	-	342	-	-	342	5,599
Energy Solution & External Relations	1,657	-	30	-	-	-	7	37	1,694
Information Technology	422	-	4	-	-	-	-	4	426
Operations Engineering	677	-	-	-	-	-	-	-	677
Facilities	1,463	-	-	-	-	-	(924)	(924)	539
Finance and Regulatory	472	-	-	-	-	-	-	-	472
Corporate	13,526	-	(223)	-	-	-	(11)	(234)	13,292
Total	36,117	-	13	85	342	-	(325)	115	36,232

Table 5.3-10: Whistler 2012 Incremental Funding

Department (Amounts in \$ Thousands)	2011 Projection	2011 HST Savings	Labour Inflation and Benefits	Code and Regulations	Customer & Stakeholder Expectations	Demographics	Service Standards & Reliability	Total Incremental	Total 2012 Forecast
Distribution	451	-	21	-	-	-	(44)	(23)	428
Customer Service	156	-	-	-	(10)	-	-	(10)	146
Corporate	261	(1)	-	-	-	-	70	69	330
Total	868	(1)	21	-	(10)	-	27	36	904

<p>FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson)</p> <p>2012-2013 Revenue Requirements and Natural Gas Rates Application</p>	<p>Submission Date: August 19, 2011</p>
<p>Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO")</p> <p>Information Request ("IR") No. 2</p>	<p>Page 16</p>

Table 5.3-11: Whistler 2013 Incremental Funding

Department (Amounts in \$ Thousands)	2012 Forecast	2011 HST Savings	Labour Inflation and Benefits	Code and Regulations	Customer & Stakeholder Expectations	Demographics	Service Standards & Reliability	Total Incremental	Total 2013 Forecast
Distribution	428	-	6	-	-	-	(6)	(0)	428
Customer Service	146	-	-	-	8	-	-	8	154
Corporate	330	-	-	-	-	-	1	1	331
Total	904	-	6	-	8	-	(6)	9	913

Table 5.3-12: Fort Nelson 2012 Incremental Funding

Department (Amounts in \$ Thousands)	2011 Projection	2011 HST Savings	Labour Inflation and Benefits	Code and Regulations	Customer & Stakeholder Expectations *	Demographics	Service Standards & Reliability	Total Incremental	Total 2012 Forecast
Distribution	347	-	-	-	-	-	(4)	(4)	344
Customer Service	136	-	-	-	(136)	-	-	(136)	-
Corporate	329	-	-	-	-	-	193	193	522
Total	812	-	-	-	(136)	-	189	53	865

* Following the in-sourcing of the customer service function in 2012, the 2011 approved Fort Nelson Customer Service O&M of \$136 thousand was transferred to the Corporate department. This approach recognizes that customer service costs are captured in FEI and then allocated to Fort Nelson in a manner which is consistent with other FEI departments' allocated costs, in the Corporate department.

Table 5.3-13: Fort Nelson 2013 Incremental Funding

Department (Amounts in \$ Thousands)	2012 Forecast	2011 HST Savings	Labour Inflation and Benefits	Code and Regulations	Customer & Stakeholder Expectations	Demographics	Service Standards & Reliability	Total Incremental	Total 2013 Forecast
Distribution	344	-	-	-	-	-	7	7	350
Corporate	522	-	-	-	-	-	25	25	547
Total	865	-	-	-	-	-	31	31	897

<p>FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson)</p> <p>2012-2013 Revenue Requirements and Natural Gas Rates Application</p>	<p>Submission Date: August 19, 2011</p>
<p>Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO")</p> <p>Information Request ("IR") No. 2</p>	<p>Page 17</p>

5.0 Reference: BCOAPO IR 1.7.2

Organizational Performance

- 5.1 Was the change made to the definition of the Recordable Vehicle Accidents reflected in the 2009 results? If so, please explain why the 2010 Scorecard shows a significant increase in the results for Recordable Vehicle Accidents. If not, why not?

Response:

Yes, the change made to the definition of Recordable Vehicle Accidents was reflected in the 2009 results.

In 2010, the total number of vehicle accidents recorded was 47, an increase of 9 from 38 in 2009. The FEU cannot identify a specific reason for the increased occurrence of vehicle incidents. While the number of vehicle accidents increased in 2010 versus 2009, the FEU's overall vehicle incident results remain positive as compared to overall performance, ranking favourably among peer CGA organizations.

- 5.2 Please explain why Recordable Injuries increased by 14% in 2010 over 2009 and was above the 2010 Challenge.

Response:

The number of Recordable Injuries in 2010 increased by 4, from 28 recorded in 2009 to 32 in 2010, with the 2010 Challenge set at 26 injuries. While the 2010 total of 32 was an increase, it was within the range observed over the last four years; 2010 (32), 2009 (28), 2008 (20) and 2007 (31).

Regarding its 2010 Challenge, the FEU challenged employees to improve on its safety record in Recordable Injuries by setting a lower target in 2010 compared to the past. The following table contains the targets established for Recordable Injuries from 2007 to 2010.



FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 18

Year	Recordable Injury Scorecard Challenge
2010	26
2009	31
2008	28
2007	29

The 2010 target was not met with the final results coming in at 32 recordable incidents. Although this represented a slightly higher number of injuries reported, none of the injuries were severe in nature.

The FEU have an excellent record for employee safety with a lower than average injury rate as compared to its peer CGA group. As a result, its compensation insurance rates are substantially lower than the BC average. In addition, the FEU have attained a Certificate of Recognition that reflects the strength of its Safety Management System.

<p>FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson)</p> <p>2012-2013 Revenue Requirements and Natural Gas Rates Application</p>	<p>Submission Date: August 19, 2011</p>
<p>Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO")</p> <p>Information Request ("IR") No. 2</p>	<p>Page 19</p>

6.0 Reference: BCOAPO IR 1.8.1 and 1.8.3

Service Quality Indicators

- 6.1 Please extend the table provided in response to BCOAPO IR 1.8.1 to include 2002 and 2003 statistics.

Response:

The 2002 and 2003 data has been added to the following table.

FEVI Service Quality Indicators

Customer Performance Indicators	2002	2003	2004	2005	2006	2007	2008	2009	2010
Emergency response time (minutes)	26.0	27.3	17.4	19.9	15.2	16.6	16.2	19.1	18.9
Directional Indicators									
Leaks per kilometer of distribution lines	0.032 99	0.035 113	0.01 33	0.0045 15	0.0051 17	0.0039 21	0.0028 16	0.0063 37	0.0133 79
Outages caused by Third Party	85	124	152	181	245	276	266	183	185

As indicated in the table above, the emergency response time for 2002 and 2003 is higher than subsequent years. Prior to 2004 the FEVI emergency response time metric included third-party damages and all suspected leak calls. In 2004, the FEVI results were modified to measure the FEVI average response time to emergencies (third-party hit lines with blowing gas) to be consistent with the FEI SQL.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 20

7.0 Reference: BCOAPO IR 1.9.2 and Attachment C

Executive Compensation

- 7.1 The referenced IR asked for a copy of the most recent compensation survey to be provided. Please provide a copy of this survey.

Response:

FEU uses the Hay Group to provide advice regarding executive compensation. All FEU executive positions are evaluated by the Hay Group. The Hay Group compiles compensation data from participating companies (to which we do not have access). Hay provided FEU with the 50th percentile salary points (midpoints) and short term incentive targets for each of the executive positions based upon similarly rated positions from a broad comparator group. This information has been provided in the response to BCOAPO IR 1.9.2.

- 7.2 Please comment on the fact that for Executive Base Salary, in seven of the eight positions, FEU is above the Commercial/Industrial median, while for the eighth FEU equals the median.

Response:

As a general policy salary mid-points are targeted to be consistent with market median. Individual salary placements are generally to be within the established salary range for the position, the range is from 80% to 110% of the market rate for the position as established using the Hay job evaluation methodology. Individual salary placement within the range is established giving due consideration to job performance and work experience.

- 7.3 Has FEU ever tried to benchmark its executive compensation against a comparator group that included only Canadian gas and electricity distribution utilities? If so, please provide any data that FEU has in this respect. If not, why not?

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 21

Response:

We have not specifically benchmarked our executive compensation against a comparator group that includes only Canadian gas and electricity distribution utilities. The comparator group that we use reflects a broad range of firms from Hay's compensation database representing industrial commercial entities from across Canada. The broad national database is not heavily weighted in one province or another and ensures that we have representation from the type of companies against which we typically compete for talent. Our current executives have come from a variety of industries, including: financial consulting, properties, energy and utilities.

<p>FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson)</p> <p>2012-2013 Revenue Requirements and Natural Gas Rates Application</p>	<p>Submission Date: August 19, 2011</p>
<p>Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO")</p> <p>Information Request ("IR") No. 2</p>	<p>Page 22</p>

8.0 Reference: BCOAPO IR 1.9.4

Executive Compensation

- 8.1 Please provide the amounts included and their impacts on the revenue requirements for 2012 and 2013 associated with the notional contributions in excess of the RRSP maximum.

Response:

The FEU 2012 and 2013 pension expense estimates include \$250,000 in each year for the estimated expense associated with the notional contributions. The annual revenue requirement impact of the notional accounts is \$250,000 (excluding the minor impact on capitalized overhead).

- 8.2 Please explain the benefits to ratepayers of having the impact of these notional contributions in excess of the RRSP maximum reflected in the revenue requirement.

Response:

The notional contributions benefit ratepayers since they form one component of a total compensation program for executives that contributes to the on-going success of the company and the delivery of valued service to customers. The total compensation program enables FEU to attract and retain talented executives who are able to provide strong leadership.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 23

9.0 Reference: BCOAPO IR 1.11.2

Capital Spending

- 9.1 Please provide a summary list that includes, by historical year, any and all changes made by the Board of Directors to past capital budgets that had been previously approved at the executive level (ELT, UOC, or other). Also, please provide the rationale of the Board of Directors in each case for varying the capital budget with respect to what had been approved at lower levels.

Response:

Under Fortis ownership, there has not been an instance where the capital budgets that were approved at the executive level (ELT and UOC) have been changed by the Board of Directors.

The Board of Directors is primarily responsible for the governance of the FEU and for providing strategic guidance. The Board of Directors reviews for approval the strategic plan and the annual business plans and budgets of the Corporation as a pre-condition to the implementation of such plans. The Board appropriately assigns operational responsibility of the FEU to senior management.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 24

10.0 Reference: BCOAPO IR 1.13.1

Forecast Customer Additions

- 10.1 Please comment on the significant variance between 2010 Actual and 2010 Forecast Additions.

Response:

The 2010 customer additions forecast was prepared in 2009 using the latest CMHC forecast available at the time (2008 CMHC Forecast completed January 2009). The CMHC forecast predicted a decline in housing starts for 2010 compared to 2009. This decline was applied to the projected FEI customer additions for 2009, resulting in a decline in forecast customer additions for 2010. However, instead of negative growth in 2010 as forecast by the CMHC, actual housing starts increased significantly over 2009 actuals. As a result FEI customer additions increased, resulting in the observed variance between 2010 actual and forecast Additions.

- 10.2 For 2011, please provide the most recent year-to-date actual additions by Region.

Response:

The following net¹ customer additions (all rate classes) have been recorded by the FEU for the months shown:

¹ Net customer additions is the difference between gross customer additions and disconnects. If we acquire 100 new customers but 10 close their accounts then we have 90 net additions. It is possible in some months to have more disconnects than new customers. As a result some months show a negative value for net additions.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 25

FEI	2011	2010		FEVI	2011	2010
January	368	616		January	136	163
February	357	264		February	147	122
March	233	194		March	135	202
April	-460	-313		April	43	148
May	188	59		May	70	198
June	-391	10		June	162	202
FEW	2011	2010		FEFN	2011	2010
January	-2	4		January	2	0
February	3	2		February	2	2
March	0	0		March	1	0
April	-4	-4		April	-7	-8
May	2	2		May	11	-7
June	8	-3		June	-2	-13

10.3 For the same months used in answering part 10.2 above for 2011, please provide the actual additions by Region for 2010 (for the same months in 2010).

Response:

Please refer to response in BCOAPO IR 2.10.2.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 26

11.0 Reference: BCOAPO IR 1.17.1 (ii)

Forecasted Commercial Demand

- 11.1 Has the FEU ever attempted to forecast commercial demand using econometric techniques that included a regressor for GDP?

Response:

No, the FEU have not used econometric techniques to forecast commercial demand. GDP is not an input to the FEU's forecasting model. The Companies forecast use per customer (UPC) and accounts, and the forecast commercial demand is a product of forecast UPC and forecast accounts.

The FEU's commercial customers are grouped by consumption. Each rate class includes customers from diverse business sectors which behave differently in response to economic conditions. In the short run, the heat-sensitive customers have limited abilities to change their energy consumption pattern. When weather deviates greatly from the normal, the weather impact will likely dominate the consumption and overshadow the impact due to economic changes. On the other hand, customers with mostly process loads are likely to be more responsive to changes in the economy. The FEU currently do not separate the customers' heating loads and process loads. Therefore, using econometric techniques to forecast commercial demand does not result in a better forecast than the current method. The Companies believe trend analysis is still the best method to forecast gas consumption at the rate class level.

- 11.2 Please provide the statistic that indicates that the correlation coefficient is significant at the 95% confidence level.

Response:

The correlation coefficient ($r=0.65$) between GDP and the FEU's commercial demand is calculated based on the following data:

<p>FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson)</p> <p>2012-2013 Revenue Requirements and Natural Gas Rates Application</p>	<p>Submission Date: August 19, 2011</p>
<p>Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO")</p> <p>Information Request ("IR") No. 2</p>	<p>Page 27</p>

	GDP	Commercial
Year	(2002\$M)	Demand
		(in PJs)
2001	133,403	51.8
2002	138,193	52.4
2003	141,435	53.5
2004	146,541	53.3
2005	153,489	52.2
2006	159,729	52.3
2007	164,496	53.8
2008	164,869	54.0
2009	161,851	55.1
2010	161,850	54.5

Testing for the significance of the correlation coefficient r:

Null Hypothesis: There is no relationship between GDP and Commercial Demand $H_0: r = 0$

$r = 0.65$ and $n = 10$

$$t \text{ value} = r \times \sqrt{\frac{(n-2)}{(1-r^2)}} = 2.4031$$

Level of significance: $\alpha = 0.05$ (95% confidence level)

For $df = n-2 = 8$ and two-tailed test, the critical value of t is 2.3060

$t \text{ value} = 2.4031 > \text{critical value}$

So the null hypothesis of no relationship ($r=0$) can be rejected.

We conclude the correlation coefficient $r = 0.65$ is statistically significant at the 95% confidence level.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 28

12.0 Reference: BCOAPO IR 1.19.5

Utility Risk

12.1 Please explain why earnings volatility does not signify the presence of risk.

Response:

In theory, volatility is not exactly the same as risk but reflects the impact of certain risks and opportunities playing out. Volatility or variability in returns is one aspect of risk that shareholders are exposed to in the short term. However, the probability that, in the long run, investors will not fully recover the capital which they have committed to the enterprise is not necessarily reflected in the volatility of returns, be they stock market returns or accounting returns. The presence of volatile earnings may offset each other over time and still allow the recovery of capital over time. However, a utility might be protected by contracts or have a regulatory framework which mitigates its short-term earnings volatility risks but still face long-run capital recovery risks which are not captured in the year to year variability in returns, and which are not captured in measures of market volatility such as beta.

12.2 Please provide a list of the short-term risks faced by the FEU, ordered by their significance.

Response:

Utility or business risk for the FEU is the ability to recover (i) the capital investments it has made to serve customers over the long term and (ii) an appropriate return on those investments. There are short term and long term aspects of risk.

With respect to short term risks, it is logical to consider those risks to be primarily ones that impact the net income of the FEU on an annual basis, which impacts the ability to earn an appropriate return. It is difficult to order short-term risks in terms of their significance. Some examples of short-term risks for 2012 and 2013 in no particular order include operating and maintenance expense, customer additions, industrial margin and timing of completion of projects affecting forecast depreciation expense. There may also be risk to recovery of capital if project expenditures are over budget and deemed imprudent, and the risk could be significant for large projects (an example of a large project would be the Customer Care Project).



FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 29

When evaluating the business risk of a gas distribution utility, it is the fundamental business risks that must be given primary consideration, such as regulatory, market, competitive and supply risk. These should be considered over a longer-term.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 30

13.0 Reference: BCOAPO IR 1.22.1

Normalization Methodologies

- 13.1 Does the FEU intend to harmonize the normalization methodology so that the same methodology is used for Vancouver Island as for the Mainland?

Response:

Yes, the FEU do intend to harmonize the normalization methodologies across all regions.

The new Customer Information System (CIS) currently being implemented will store both actual and normalized use rates using consistent methodologies for all regions. After implementation, the FEU will be able to evaluate the new data to determine if it is consistent with existing values. If the results are satisfactory then this method will be used to provide normalized use rate data for all regions.

If the CIS data is determined to be inconsistent with the current results then further analysis will be performed using the current methodologies to select a single, harmonized process.

FortisBC Energy Utilities (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.) (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and FortisBC Energy Inc. Fort Nelson Service Area (Fort Nelson) 2012-2013 Revenue Requirements and Natural Gas Rates Application	Submission Date: August 19, 2011
Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization et al ("BCOAPO") Information Request ("IR") No. 2	Page 31

14.0 Reference: BCOAPO IR 1.25.1

O&M Budgets

- 14.1 Please provide a summary list that includes, by historical year, any and all changes made by the Board of Directors to past O&M budgets that had been previously approved at the executive level (ELT, UOC, or other). Also, please provide the rationale of the Board of Directors in each case for varying the O&M budget with respect to what had been approved at lower levels.

Response:

Under Fortis ownership, there has not been an instance where the O&M budgets that were approved at the executive level (ELT and UOC) have been changed by the Board of Directors.

The Board of Directors is primarily responsible for the governance of the FEU and for providing strategic guidance. The Board of Directors reviews for approval the strategic plan and the annual business plans and budgets of the Corporation as a pre-condition to the implementation of such plans. The Board appropriately assigns operational responsibility of the FEU to the senior management.

Attachment 3.1



Diane Roy
Director, Regulatory Affairs - Gas
FortisBC Energy Inc.

16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 576-7349
Cell: (604) 908-2790
Fax: (604) 576-7074
Email: diane.roy@fortisbc.com
www.fortisbc.com

Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

July 29, 2011

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Ms. Alanna Gillis, Acting Commission Secretary

Dear Ms. Gillis:

Re: FortisBC Energy Inc. ("FEI") Certificate of Public Convenience and Necessity ("CPCN") for the Customer Care Enhancement Project ("the Project")

British Columbia Utilities Commission (the "Commission") Order No. C-1-10 dated February 26, 2010 – Compliance Filing

Quarterly Progress Report for the period ending June 30, 2011

On February 26, 2010, the Commission issued Order No. C-1-10 granting a CPCN for the Project. Paragraph 3(i) of Order C-1-10 directed FEI to:

- (i) file Quarterly Progress Reports on the Project with the Commission including planned versus actual schedule, planned versus actual costs, and identification of any variances or difficulties the Project may be encountering and any other items as determined necessary by Commission staff. The Quarterly Progress Reports are to be filed within 30 days of the end of each reporting period. A Final Report is to be filed within six months of completion of the Project;*

Further on March 12, 2010, the Commission issued Order No. G-46-10 approving the establishment of a non-rate base deferral account for recording of currency exchange rate differences. Pursuant to Order No. G-46-10, paragraph 2, FEI has provided the deferral account transactions as CONFIDENTIAL Appendix 5 to the Quarterly Progress Report. Appendix 4 is also provided on a CONFIDENTIAL basis and FEI requests that the information be made accessible only to the Commission.

If you require further information or have any questions regarding this submission, please contact the undersigned.

Yours very truly,

FORTISBC ENERGY INC.

Original signed by:

Diane Roy

Attachments



FortisBC Energy Inc.

**Customer Care Enhancement Project
Quarterly Progress Report**

For the Period April 1 to June 30, 2011

**Compliance Filing in Accordance with
Commission Order C-1-10**

**Submitted to the
BRITISH COLUMBIA UTILITIES COMMISSION**

July 29, 2011

Table of Contents

1	Executive Summary	1
2	Reporting Directives	3
3	Project Background	4
4	Project Activities	5
4.1	Customer Relationship Billing and Operation Process Integration (“OPI”).....	5
4.2	Contact Centre Technologies (“CCT”) and Contact Centre Facilities (“CCF”)	5
4.3	Organizational Design and Staffing (“ODS”)	5
5	Detailed Project Status	6
5.1	Major Accomplishments, Work Completed and Issues Resolved	6
5.1.1	<i>Customer Relationship and Billing and Operation Process Integration</i>	<i>6</i>
5.1.2	<i>Contact Centre Technologies and Contact Centre Facilities</i>	<i>8</i>
5.1.3	<i>Organizational design and Staffing.....</i>	<i>9</i>
5.2	Plans for Next Period (July to Sept 2011)	10
5.2.1	<i>Customer Relationship and Billing and Operation Process Integration</i>	<i>11</i>
5.2.2	<i>Contact Centre Technologies and Contact Centre Facilities</i>	<i>11</i>
5.2.3	<i>Organizational design and Staffing.....</i>	<i>12</i>
5.3	Quality Assurance Review	12
6	Project Scope.....	13
7	Project Schedule	14
7.1	Milestone Summary.....	14
7.2	Project Schedule	14
8	Project Costs	15
9	Project Risks.....	17

List of Appendices

Appendix 1 Project Schedule

Appendix 2 List of Major Contractors

Appendix 3 Glossary of Acronyms and Terms

Appendix 4 Five Point Partners Assurance Review - **CONFIDENTIAL**

Appendix 5 Currency Exchange Rate Deferral Transactions – **CONFIDENTIAL**

Appendix 6 Photographs of the Contact Centre Facilities

1 EXECUTIVE SUMMARY

This Quarterly Progress Report (the “Progress Report”) for the Customer Care Enhancement (“CCE”) Project (the “Project”) is the fifth Progress Report filed for the Project, and covers the quarter ending June 30, 2011.

The current expected cost of the CCE Project including allowance for funds used during construction (“AFUDC”) remains unchanged at \$115.5 million and the scheduled date that FortisBC Energy Inc. (“FEI” or the “Company”) will go live with the new system continues to be January 1, 2012. No material scope changes were issued this quarter and no new risks have been identified.

Currently the Project team is engaged in the first cycle of Integration Testing¹ which commenced as scheduled on May 16, and this activity is progressing well. In the last quarterly report, there was mention of schedule slippage on the technical development primarily due to a loss of a few key resources. This schedule slippage resulted in the overlap of some non-critical technical development activities with the start of Integration Testing and therefore both activities are being managed concurrently with daily status updates to ensure sufficient daily progress is made. These activities have not affected the critical path schedule, particularly as Integration Testing is slightly ahead of schedule due to a lower defect rate than originally planned, which is also an indication of the quality of the system design and build. Additionally, the planning of cutover activities for the in-sourced transition has commenced with workshops being held with participation from the existing service provider.

Construction improvements and furniture installation at both the Prince George and Burnaby facilities are close to completion, with corrections to some minor deficiencies in progress. The recruitment team, currently at six members, will be relocating to the Burnaby contact centre facility from Surrey on July 4, in preparation for the mass hire recruiting exercise.

Recruiting plans are progressing according to schedule, with interviews and the selection process currently underway for the recruitment of team managers, senior analysts and work-leaders for both the contact centres and the billing operations groups. Additionally, the mass hire media materials are complete and ready for release in July. With substantial completion of the business process designs, a greater focus has been placed on the completion of the training materials and end-user documentation, as these will be utilized to train the new mass hires. While the majority of this work is on track, the development of the Billing Operations training material is taking longer than anticipated largely due to its greater complexity. As such, restructuring of the Training and Documentation team was initiated in June to facilitate faster knowledge transfer and a more effective decision-making and review process. Furthermore, additional resources were added to this group to assist with completion of this activity. FEI

¹ Integration Testing is part of the Realization Phase of the Project and involves aggregating the individual system components and testing them as a group.

believes these remediation efforts will have a positive impact on the production of training materials and in bringing these activities back on track as per schedule.

In May, the FortisBC Energy Utilities (“FEU” or “the Companies”) filed their 2012–2013 Revenue Requirements and Rates Application (“the RRA Application”), which describes the forecasted staffing requirements and operating expenditures of the in-sourced operations. The RRA Application explains in detail the functional structure of the new Customer Service department along with the forecasted 2012 and 2013 operating costs, which are lower than the preliminary estimates supplied with the CCE Project Certificate of Public Convenience and Necessity (“CPCN”). The FEU believe the completion of this Project and the new ongoing in-sourced customer service framework will enable the FEU to better meet the current needs of their customers along with the ability to efficiently adapt as those needs change over time. For more information, please see Pages 190 to 206, Section 5: Cost of Service of the the RRA Application.

Five Point Partners, LCC (“Five Points”), a specialized provider of application management consulting services to organizations within the energy and utility industry, continues to evaluate the progress of the Project on seven key dimensions: schedule, resources, ongoing activities, project management, costs, scope and risks. Their independent review of the Project progress has been included as Confidential Appendix 4 of this Quarterly Progress Report.

2 REPORTING DIRECTIVES

This report is the Quarterly Progress Report for the CCE Project CPCN, granted by the British Columbia Utilities Commission (the “Commission”) Order No. C-1-10. This Progress Report is submitted in compliance with the directives of Order No. C-1-10. Specifically, FEI was directed in paragraph 2(i) to:

“file Quarterly Progress Reports on the Project with the Commission including planned versus actual schedule, planned versus actual costs, and identification of any variances or difficulties the Project may be encountering and any other items as determined necessary by Commission staff. The Quarterly Progress Reports are to be filed within 30 days of the end of each reporting period. A Final Report is to be filed within six months of completion of the Project.”

Furthermore, as per Order No. G-46-10, paragraph 2, FEI was directed to file the deferral account transactions as a confidential Appendix to the Quarterly Progress Reports.

This report serves to provide these particulars along with a comprehensive overview of the Project progress and accomplishments for the period ending June 30, 2011. The specific items identified above can be located in the following sections of this report:

Table 2-1: Report Sections

Order No.	Item	Section Reference
C -1-10	Planned versus Actual Schedule	Section 7.1: Milestone Summary
C-1-10	Planned versus Actual Costs	Section 8: Project Costs
C-1-10	Variances or Difficulties Encountered	Section 5: Detailed Project Status
G-46-10	Deferral Account Transactions	Appendix 5: Confidential

3 PROJECT BACKGROUND

The Project involves the in-sourcing of key components of customer service activities and the implementation of a new Customer Information System (“CIS”) under FEI’s control. This involves the implementation of technologies, including a new CIS technology platform, integrated with new contact centre technologies for managing customer interactions together with the creation of a new strategic sourced Customer Service group to support the capability to deliver customer service excellence. SAP’s CIS, the Customer Relationship and Billing (“CRB”) system, is the technology platform that will be used to enable the business processes needed to deliver customer care services. The Project represents a transition from the current Business Process Outsourcing² model to a Strategic Sourcing model for customer service activities. These include:

- Contact Centre
- Billing and Payments
- Collections
- Contract Management
- CIS Systems Support and Maintenance
- Meter Reading

The successful CCE implementation will enable FEI to fully own the direct customer experience and better position FEI to adapt to evolving customer needs. Customers will benefit from the expanded functional capabilities inherent in the SAP Utilities CRB module together with an internally managed Customer Service group based in British Columbia. The employee representatives of FEI will have improved knowledge of our broader environment and the impact of events in our marketplace in order to better understand and relate to customer experiences. Direct ownership and oversight of employee training will ensure that customers can access the information that they need from knowledgeable service representatives.

² See Appendix 3 – Glossary – for definition

4 PROJECT ACTIVITIES

In order to manage the various Project activities the Project work has been divided into five workstreams and these workstreams have been categorized into the three groups described below. The detailed activities of the Project's progress are presented in this report based on these three groups of activities.

4.1 Customer Relationship Billing and Operation Process Integration (“OPI”)

The CRB workstream involves the implementation of the CRB for Utilities module of SAP and other related components of SAP. For delivery of the CRB system, FEI has partnered with HCL-Axon³.

The OPI workstream involves the reworking of various integrated processes and technology components that connect utility operations to the existing CIS (Peace 8).

4.2 Contact Centre Technologies (“CCT”) and Contact Centre Facilities (“CCF”)

The CCT workstream entails the implementation of Interactive Intelligence's⁴ all-in-one solution for managing multi-channel customer interactions, integrated with the SAP solution being implemented under the CRB Project. For the implementation of the CCT, FEI has partnered with Altivon⁵, who is the implementation partner of Interactive Intelligence.

The CCF workstream includes establishing two new contact centre facilities, one in the Lower Mainland and one in Prince George, to house the new Customer Service department being implemented through the Organizational Design and Staffing Program described below.

4.3 Organizational Design and Staffing (“ODS”)

The ODS workstream involves the design and establishment of the new Customer Service organization, including the documentation of the processes and controls required for service operations, together with the hiring, on-boarding and training of all of the new personnel. The ODS workstream is also responsible for the change management and communications activities for the entire CCE Project.

³ See Appendix 2 – List of Major Contractors - for background information on HCL-Axon

⁴ See Appendix 2 – List of Major Contractors – for background information on Interactive Intelligence

⁵ See Appendix 2 – List of Major Contractors – for background information on Altivon

5 DETAILED PROJECT STATUS

This section provides details of the Project team's major accomplishments, work completed and issues resolved for the period ending June 30, together with a description of the Project plans for the next period, summarized by the three groups of activities described in Section 4.

The overall critical path Project schedule continues to remain on track with a system go-live date of January 1, 2012. The first two phases of the Project, the Preparation and Business Blueprint phases, are complete and the team is currently engaged in the Realization Phase of the Project. The Realization Phase of the Project encompasses the building and testing of the developed CIS, along with the continuation of knowledge transfer, and the final months of this phase include two cycles of Integration Testing. Integration Testing involves aggregating the tailored system components and running them in an end-to-end series to validate the overall business outcomes. The first cycle of testing, which encompasses conversion of 10 percent of the legacy data to create an integration test environment, commenced on May 16, and is currently in progress. As such, the Project team is currently performing full functional tests of the build solution utilizing this converted data. The purpose of Integration Testing is to verify the function, performance and reliability requirements placed on the major system design. The current progress with Integration Testing is promising, with a lower defect rate experienced than initially anticipated.

5.1 Major Accomplishments, Work Completed and Issues Resolved

This past quarter, the Project team has been focussing its efforts on the configuration and development of reports and interfaces, Integration Testing of the new system along with the documentation of the business process designs. Additionally, recruiting, training and end-user documentation activities are in progress. With the breadth of activities currently underway, Project resources are close to being fully staffed, with some additional members to support training and documentation and the mass hire recruiting activities to be added over the coming months.

5.1.1 CUSTOMER RELATIONSHIP AND BILLING AND OPERATION PROCESS INTEGRATION

- Final system configuration is complete;
- Execution of configuration unit testing is substantially complete;
- Functional specification development is approaching completion with 95% completion;
- Technical specing and technical development is ongoing with 85% completion;
- Completed development of Integration Test cases and test steps for the first cycle of testing;

- Commenced Integration Test cycle one phase and activities are progressing according to schedule;
- Initial test mock conversion of data completed for creation of an Integration Test environment;
- Completed plans and detailed schedule for the second cycle of Integration Testing;
- Commenced the development of the scripts for the second cycle of Integration Testing;
- Completed development and unit testing of iEM⁶;
- Development of user security roles has commenced and is on schedule with completion anticipated by the end of July;
- Continued development and commenced unit testing of user security roles;
- Commenced development of batch processing functional specifications;
- All Request for Proposals for customer statement printing vendor have been evaluated and a vendor has been selected;
- Contracted with Worksoft to provide performance testing services;
- Commenced testing of the CRB module with existing systems;
- Development of reporting is ongoing and slightly behind schedule, with no impact to the overall schedule. The tasks are being managed daily to bring the reporting activities back on track; and
- Commenced testing of Interactive Voice Response (“IVR” system).

In the First Quarter 2011 Quarterly Report, there was mention of the corrective action activities taken on the three weeks of schedule slippage (in late February and into early March) on the technical development schedule, due to staff shortages and some activities taking longer than anticipated. With swift remedial action, including the replacement of three key resources along with the daily management of the development activities, these activities are back on track with minimal impact to the overall schedule. As such, the first cycle of Integration Testing commenced on time, on May 16, with the overlap of only non-critical development activities continuing through this transition. For both these activities, resources are being managed carefully through this period of overlap, with direct and daily management oversight to ensure both activities continue as scheduled. The initial outcome of the first cycle of Integration Testing looks promising, with a lower defect rate than originally anticipated which suggests a high quality of the system and as such, the Project’s critical path schedule for this element continues to remain on track.

The plans for detailed cutover activities are currently being assessed and encompasses the development of a transition plan of services from the current outsourced provider. The

⁶ iEM is the “Account On-Line” application being developed by HCL-Axon

comprehensive plan is currently under development and is being prepared in collaboration with Accenture and outlines the schedule, roles and responsibilities of items such as pre-live and post-live cutover tasks, last activity business processing along with knowledge transfer. The plan, once complete, will ensure both parties recognize and are equipped to fulfil their respective roles, expectations and accountabilities during the transition phase throughout late December through to early January. Furthermore, a review of all existing third party contracts held by Accenture and CWLP has been completed, with identification of those that will be assigned to FEI and those that will require new contracts.

Throughout the life of the Project, the team has been evaluating the impacts of the implementation of the CIS and associated new processes on existing systems and processes in other departments in the organization. In the last few months, there has been a greater focus in this area, with the development of training material and a training schedule for existing users, particular in the Operations department, where the greatest impact will be experienced. Furthermore, a cutover process for integrated processes, such as open work-orders and meter exchange activity, is currently underway to ensure a smooth transition. The Project team has completed process walkthroughs of all impacted processes with the Operations department stakeholders, and are now ready to begin regression testing⁷ of the existing processes.

5.1.2 CONTACT CENTRE TECHNOLOGIES AND CONTACT CENTRE FACILITIES

The contact centre technology build and testing continues to remain on track, with the commencement of IVR testing along with the completion of the hardware installation at the Prince George facility.

- IVR “voice” selected and approved;
- IVR design script recordings have been completed;
- IVR test scripts have been completed;
- Functional specifications for Dialer interface (SAP to Interactive Intelligence) have been completed;
- Prince George hardware has been installed;
- The development and unit testing of integration work with SAP has been completed; and
- A training strategy plan has been completed which outlines Altivon’s scope of delivery to support end user training development and delivery.

Construction improvements and furniture installation at both the Burnaby and Prince George facilities are substantially complete (please see photographs of the facilities in Appendix 6), with corrections to some minor deficiencies in progress. The recruitment team, currently at six

⁷ Regression testing is software testing that seeks to uncover any errors, or regressions, in functionality after changes have been made to the system

members, will be moving into the Burnaby facility on July 4 in preparation for the mass hire recruiting exercise. An initial set of computers and telephones has been installed at the Burnaby facility with the remainder to be installed at both the Burnaby and Prince George facilities in the coming months.

5.1.3 ORGANIZATIONAL DESIGN AND STAFFING

As of the end of June, there were a total of thirty-six FEI employees working on the Project, who will continue to support the new Customer Service department in their respective areas of expertise in customer service, information technology or human resource management, beyond January 1, 2012. The various customer service and billing managers and work leaders, hired throughout the last six months, have been working on the preparation of process designs, training materials, and documentation, and will subsequently play a key role in the training of the new customer service representatives and billing representatives to be hired later this year. Furthermore, recruiting efforts for an additional twenty-five positions, comprising team managers, work-leaders and senior analysts' roles are currently underway and FEI expects these positions to be filled between July and the end of August; and once on-board they will provide support in training and testing activities. The application response for the Burnaby location positions posted earlier this year was overwhelming, while the initial response for the recent Prince George location postings was not as high as anticipated. FEI believes that by providing for a greater awareness of the Company and its career opportunities in and around the Prince George area, the application response rate can be significantly increased. Furthermore, the mass hire recruiting preparations are well underway with the release of the job postings and media materials scheduled for July. FEI believes this campaign will facilitate a greater awareness of the Customer Service career opportunities available at FEI and increase applicant response rates.

The development of the business process design (BPath) documentation is close to completion after falling a little behind schedule in the earlier half of this quarterly period. These documents will serve as the primary inputs to develop the training and end-user documentation. The development of these training materials is currently underway and while most documentation is on track, increased attention has been directed to the Billing Operations training materials due to its greater complexity, and as such, additional resources have been added to complete this activity. Additionally, the Training and Documentation team was restructured in June in order to facilitate increased knowledge transfer between team members along with a more effective decision-making and review process. Detailed activities completed in this area this quarter include:

- The detailed learning objectives for the training curriculum are complete;
- Training templates are complete;
- Commenced development of the curriculum and lesson plans and architecture;
- The development of instructor materials is ongoing;

- Commenced preparation of logistics for the delivery of training;
- Completed the development of the end-user knowledge base repository.. User acceptance testing (UAT) of the tool will be completed in July and loading of materials to this repository will begin in August;

The training and end-user documentation will continue to be a key focus for Project management over the coming months due to its critical path connection to the on-boarding and training of the mass hires. FEI believes the recent restructuring of this group to maximize the transfer of business knowledge along with the addition of resources will have a positive impact on the timely production of the training materials and end-user documentation.

Forecasted operating expenditures for the in-sourced customer service activities for both 2012 and 2013 were filed with the BCUC in May as part of the RRA Application. Since the filing of the CCE Project CPCN Application in 2009, the operating expenditure estimates have been refined by drawing on the detailed functional design of the new CIS and other information from the CCE Project. As such, the revised estimates for both years are lower than those estimates originally filed with the CPCN Application. The O&M forecast for 2012 is lower by \$0.7 million and for 2013 by \$1.5 million. Due to the uncertainties, the FEU will be facing in the first years of operating under a new service model and technology platform, a deferral account is being sought to capture any differences between actual and forecasted 2012 and 2013 O&M expenditures for the in-sourced customer service activities. The implementation of the CCE Project will provide the FEU with better control over critical customer touch points and processes and enable the FEU to respond effectively to customers changing expectations. The 2012 and 2013 forecasted O&M levels along with the deferral account will enable the FEU to deliver these benefits through an in-sourced customer service operations framework at a lower operating cost than the current outsourced arrangement, where any further savings realized in 2012 and 2013 will accrue to customers by way of the proposed deferral account. For more information, please see Pages 190 to 206 , Section 5: Cost of Service of the RRA Application

5.2 Plans for Next Period (July to Sept 2011)

Over the next three months, the Project team will complete the first cycle of Integration Testing and will begin the second cycle. Additionally, all technical development and functional specification development will be completed. Training and end-user documentation will be substantially complete and train-the-trainer activities will commence, wherein managers will be trained in the effective delivery of the training materials.

5.2.1 CUSTOMER RELATIONSHIP AND BILLING AND OPERATION PROCESS INTEGRATION

The first cycle on Integration Testing will be completed at the end of July with the second cycle, utilizing a full set of converted data, to commence subsequently. Specific activities planned for the quarter include:

- Complete mock conversion 1.1;
- Complete mock conversion 2 with the creation of the environment for Integration Test Cycle 2;
- Complete Integration Test Cycle 1;
- Complete functional specification development;
- Continue development and unit testing of technical items; and
- The development of integrated process designs and detailed procedures for the Operations department will be ongoing along with the development of end-user training and documentation.

Planned activities for the next quarter will entail a “mock cutover” exercise wherein the team will simulate a conversion of the entire database from the Peace system to SAP along with testing using the full set of converted data. This quarter will also see the start of performance testing and comparison testing, which involves the loading of controlled meter read files into both the legacy Peace System and the new SAP system to compare and evaluate results. Furthermore, planning of detailed cutover activities will continue with the ongoing development, refinement and practicing of the cutover execution.

5.2.2 CONTACT CENTRE TECHNOLOGIES AND CONTACT CENTRE FACILITIES

Activities for the upcoming quarter will include the continuation of testing activities of the new contact centre technology, including:

- Continue IVR testing and SAP integration testing;
- Complete pilot desktop implementation and soft phone testing;
- Complete Internet Protocol (“IP”) readiness testing for both the Burnaby and the Prince George sites; and
- Order and install the remaining desktops for both facilities.

Over the coming months, all minor construction deficiencies will be corrected at both the Burnaby and the Prince George facility. In July, the Customer Service team will begin their transition to the Burnaby facility, with the recruitment team scheduled to move first. Customer Service Contact Centre Managers and Billing Operations Managers will transition from mid-August through to September.

The recruiting team will facilitate all recruitment efforts at the new employees' place of work, at either the Burnaby or Prince George facility, together with on-boarding and training activities. Furthermore, the transition of the existing operational staff to the new facilities will enable staff to settle into the new "residence" for several months before go-live and test and train utilizing the new system in the environment in which it will be employed. Additionally, these moves will ease the challenges the Project team has been facing in recent weeks with workspace availability. The Project team currently is occupying the two largest adjoining meeting rooms on the first floor at the Surrey Operations Centre, along with three other regular meeting rooms in the building, which have been outfitted for Project team members.

5.2.3 ORGANIZATIONAL DESIGN AND STAFFING

FEI will be conducting interviews and selecting approximately twenty-five candidates to fill manager, work-leader, and analyst roles for both the Billing Operations group, and the two Contact Centres. Furthermore, the media campaign for the mass hires will commence in July and subsequently the processing of applications will take place.

The development of end-user training materials and documentation will continue with substantial completion expected this quarter in preparation for train-the-trainer activities in September, when managers will be trained on the effective classroom delivery of the training materials.

5.3 Quality Assurance Review

Five Points has been engaged to provide assurance of on-time execution of the Project together with guidance on mitigation of risks. Five Points is a specialized provider of application management consulting services to organizations within the energy and utility industries. They bring expert knowledge and experience in managing the development of CIS. They will be utilizing their experience with numerous similar projects throughout North America to evaluate the Project on seven key dimensions: schedule, resources, ongoing activities, project management, costs, scope, and risks. Please see Confidential Appendix 4 for Five Points Project status report.

6 PROJECT SCOPE

All scope changes and requests for funding for specific items from the Project contingency budget are reviewed and approved by the CCE Project Steering Committee before implementation. While there were no material functional scope changes in the Second Quarter of 2011, specific requests for spend of the Project contingency budget follow the same process, and therefore, for the purpose of this report are characterized as “scope changes”. There were four such scope changes issued and approved during this period and are described below.

1) Extension of key HCL-Axon and SAP resources

As part of the continuous risk mitigation process, Project Management recommended that key HCL-AXON and SAP resources be extended beyond their original end date. This entails extending resources originally scheduled to be rolled off at the end of Integration Test Cycle 1 to remain on the Project and participate in Integration Test Cycle 2 along with providing ongoing Project support. It is anticipated that expenses associated with the extension of these resources will be managed within the existing expense budget. The total cost of this change request amounted to \$900 thousand.

2) Additional support for performance testing

The Project is utilizing some existing software to support the performance testing of the application. Project Management recommended that the vendor be engaged to support the creation and execution of test scripts to replicate expected production volumes and ensure appropriate system response performance. The total cost of this change request amounted to \$366 thousand.

3) Development of a Knowledge Base application

To support the ongoing operations in the Contact Centres and Billing Operations, the development of an application to maintain all ongoing training and documentation material was recommended. The total cost of this change request was \$330 thousand.

4) Additional resourcing requirements

Similar to the change item #1 listed above, it was necessary to extend some Project resources beyond the original planned roll-off date. It is anticipated that there will be minimal expenses associated with these resources and can be managed within the existing expense budget. Total cost of this change request was \$542 thousand.

The control budget filed as part of the First Quarter 2011 Progress Report outlined a total contingency budget of \$8.611 million. The total scope changes approved this reporting period amount to \$2.138 million and have been managed within the approved budget of \$115.5 million (including AFUDC), and within the +/- 10 percent band established, by drawing down on the contingency budget. Therefore, at the end of the second quarter of 2011, the Project has a remaining contingency budget of \$6.473 million.

7 PROJECT SCHEDULE

The overall Project schedule's critical path remains on track and the scheduled date FEI will go live with the new CIS continues to be January 1, 2012.

7.1 Milestone Summary

The targeted Project milestone dates for each of the Project phases are outlined below. The Project phases are described in more detail in Appendix 1. The Business Blueprint phase of the Project was completed as scheduled on October 29 2010, and the Project team is currently engaged in the Realization Phase. This phase of the Project includes two cycles of Integration Testing, and the entire Realization phase is expected to be completed on October 31, 2011. The Project team is currently engaged in the first cycle of Integration Testing, which commenced on schedule on May 16, 2011.

Table 7-1: Milestone Schedule

Phase	Milestone Start			Milestone End		
	Plan	Forecast	Actual	Plan	Forecast	Actual
1. Project Preparation	Mar 1,2010	n/a	Mar 1,2010	May 15,2010	n/a	Jun 30,2010
2. Business Blueprint	May 3,2010	n/a	May 10,2010	Oct 29,2010	Oct 29,2010	Oct 29,2010
3. Realization	Nov 1,2010	Nov 1,2010	Nov 1 ,2010	Oct 31,2011	Oct 31,2011	n/a
3a. Integration Test 1	Jun 6,2011	May 16,2011	May 16,2011	July 31,2011	July 31,2011	n/a
3b. Integration Test 2	Aug 1,2011	Aug 1,2011	n/a	Oct 31,2011	Oct 31,2011	n/a
4. Final Preparation	Nov 1,2011	Nov 1,2011	n/a	Dec 31,2011	Dec 31,2011	n/a
5. Stabilization	Jan 1,2012	Jan 1,2012	n/a	Mar 31,2012	Mar 31,2012	n/a

7.2 Project Schedule

The Project schedule is attached as Appendix 1 and is a reflection of the full scope of work to be completed for the Project.

8 PROJECT COSTS

The Project spend remains on track with no variance to the approved spend of \$115.5 million, or the +/- 10 percent band established, as shown in the resource view format below.

The table below shows the movement of the total approved contingency amounts for the Project through to the end of June and includes the reclass of the \$2.138 million approved contingency spend (described in Section 6), from Capital Contingency to Capital Consulting.

Table 8.1: Contingency Allocation Report Summary to June 30, 2011

<u>Project Costs (000's)</u>	<u>Project Total</u>		
		<u>Approved Expenditures</u>	
	<u>Control Budget</u>	<u>Against Contingency Budget</u>	<u>Revised Control Budget</u>
<u>Capital</u>			
Internal Labour	4,775	-	4,775
Consulting	30,827	3,494	34,321
Hardware	2,528	615	3,143
Software	6,600	122	6,722
Expenses	5,063	-	5,063
Facilities	14,502	-	14,502
Contingency	6,950	(4,231)	2,719
	71,245	-	71,245
<u>Deferred O&M</u>			
Internal Labour	6,810	136	6,946
Consulting	25,003	-	25,003
Hardware	447	-	447
Software	600	-	600
Expenses	2,025	-	2,025
Facilities	1,380	-	1,380
Contingency	3,890	(136)	3,754
	40,155	-	40,155
Net Total	111,400	-	111,400
AFUDC	4,100	-	4,100
Grand Total	115,500	-	115,500

The following table shows the project spend to date against the revised control budget.

Table 8.2: Cost Report Summary to June 30, 2011

<u>Project Costs (000's)</u>	<u>Actual</u>	<u>Project Total</u>		
	<u>Spend to Date</u>	<u>Revised Control Budget</u>	<u>Project Forecast</u>	<u>Variance</u>
<u>Capital</u>				
Internal Labour	2,455	4,775	4,775	-
Consulting	19,485	34,321	34,321	-
Hardware	1,556	3,143	3,143	-
Software	5,598	6,722	6,722	-
Expenses	2,636	5,063	5,063	-
Facilities	11,198	14,502	14,502	-
Contingency	-	2,719	2,719	-
	42,928	71,245	71,245	-
<u>Deferred O&M</u>				
Internal Labour	1,250	6,946	6,946	-
Consulting	3,709	25,003	25,003	-
Hardware	-	447	447	-
Software	-	600	600	-
Expenses	449	2,025	2,025	-
Facilities	120	1,380	1,380	-
Contingency	-	3,754	3,754	-
	5,527	40,155	40,155	-
Net Total	48,455	111,400	111,400	-
AFUDC	2,160	4,100	4,100	-
Grand Total	50,615	115,500	115,500	-

Although unforeseen opportunities still lie ahead as the Project team continues through a more complex phase of the Project, including building and testing the new system, along with a significant recruitment and training undertaking, the Project budget continues to track well against plan. At this time, the Company has not identified any significant changes in scope that could cause the Project spend to be greater than the +/- 10% band established as per Commission Order No. C-1-10.

9 PROJECT RISKS

The Project management team has identified the following areas of focus in order to manage Project risk.

Table 9-1: Project Risks

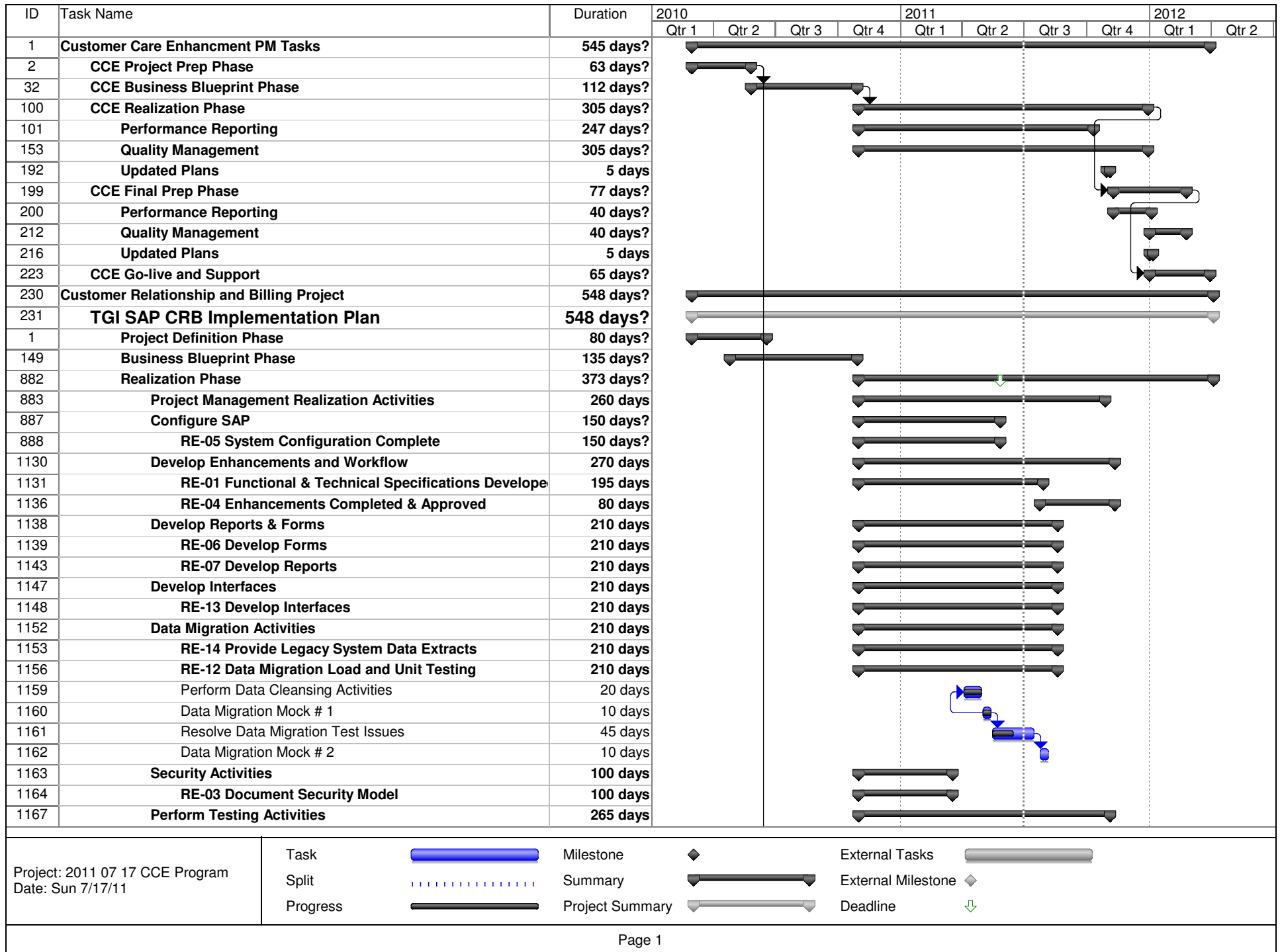
Risk Description	Potential Risk	Mitigation Strategy
Inflexibility of the go-live date	Solution quality may be sacrificed in order to meet the required date	A knowledgeable and experienced design team is engaged in the system design and a strong emphasis will be placed on the quality of the design and the solution. HCL-AXON, SAP, and Five Points have all been engaged to provide additional quality assurance on the Project
System Performance	The stabilization period may be longer than anticipated as a result of system performance issues	SAP's Active Global Services will be on site periodically to assist the Project team with testing and risk mitigation of system performance issues. They have sufficient experience to identify performance risk areas and resolve the types of system issues that could be encountered when the system goes live.

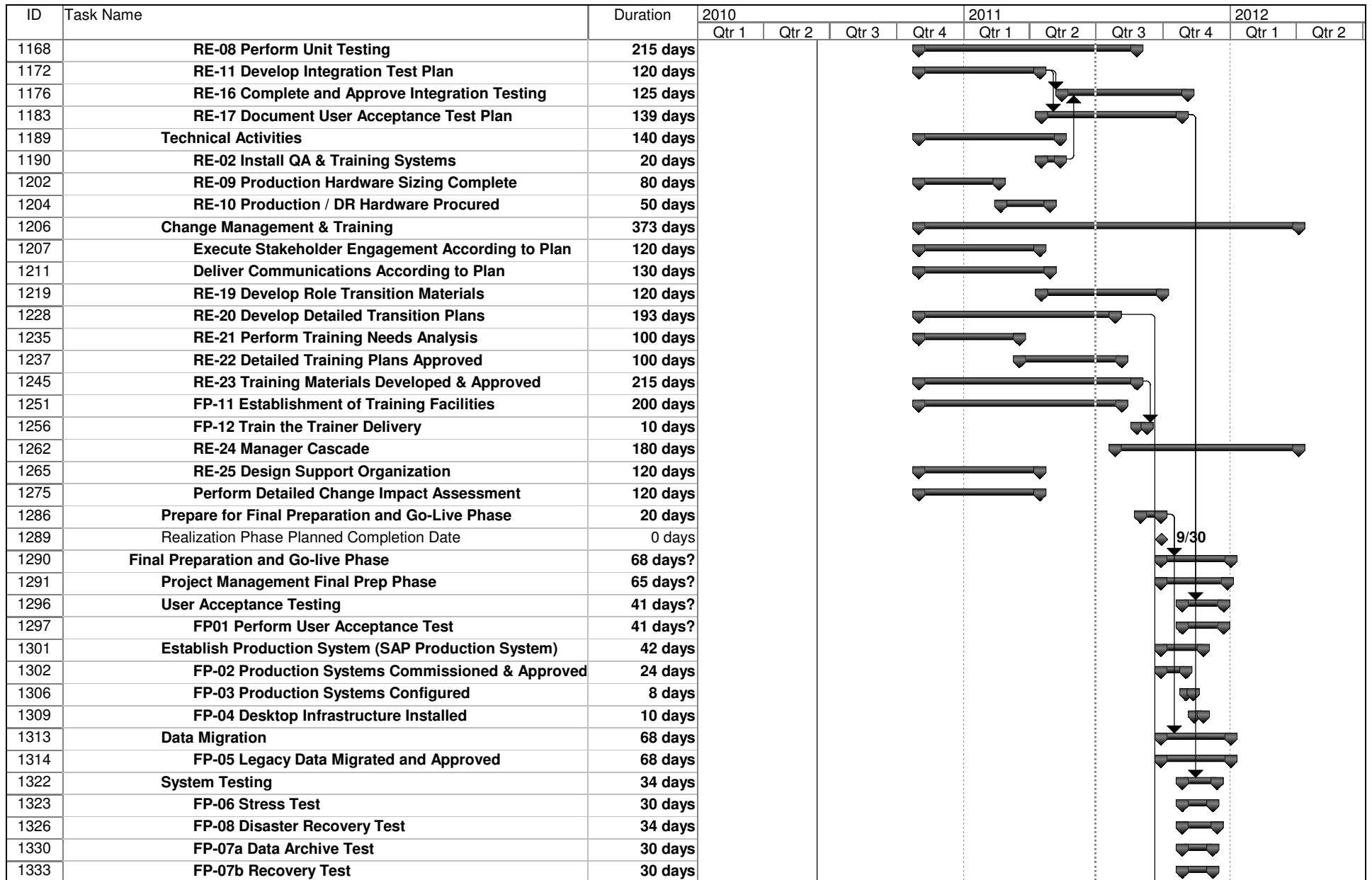
The Project team has started work this quarter on the preparation of cutover activities with the current outsourced provider to ensure a smooth transition in January 2012, and will continue with this work throughout the next quarter.

Various measures have been implemented in order to address uncertainties associated with employment application response rates and the quality of the applicants received for the mass hire recruiting exercise. A comprehensive recruiting plan is in place, utilizing a variety of media channels to communicate the Company's upcoming employment opportunities, including print, radio and social media along with a corporate campaign to encourage Company employees to spread the word. Furthermore, a potential second wave of media coverage has been prepared and can be deployed if initial response rates to the mass hire postings are lower than anticipated. FEI believes these measures will facilitate a greater awareness of the Customer Service career opportunities and increase applicant response rates.

Appendix 1

PROJECT SCHEDULE






Project: 2011 07 17 CCE Program
Date: Sun 7/17/11


Task 

Split 


Progress 

Milestone 

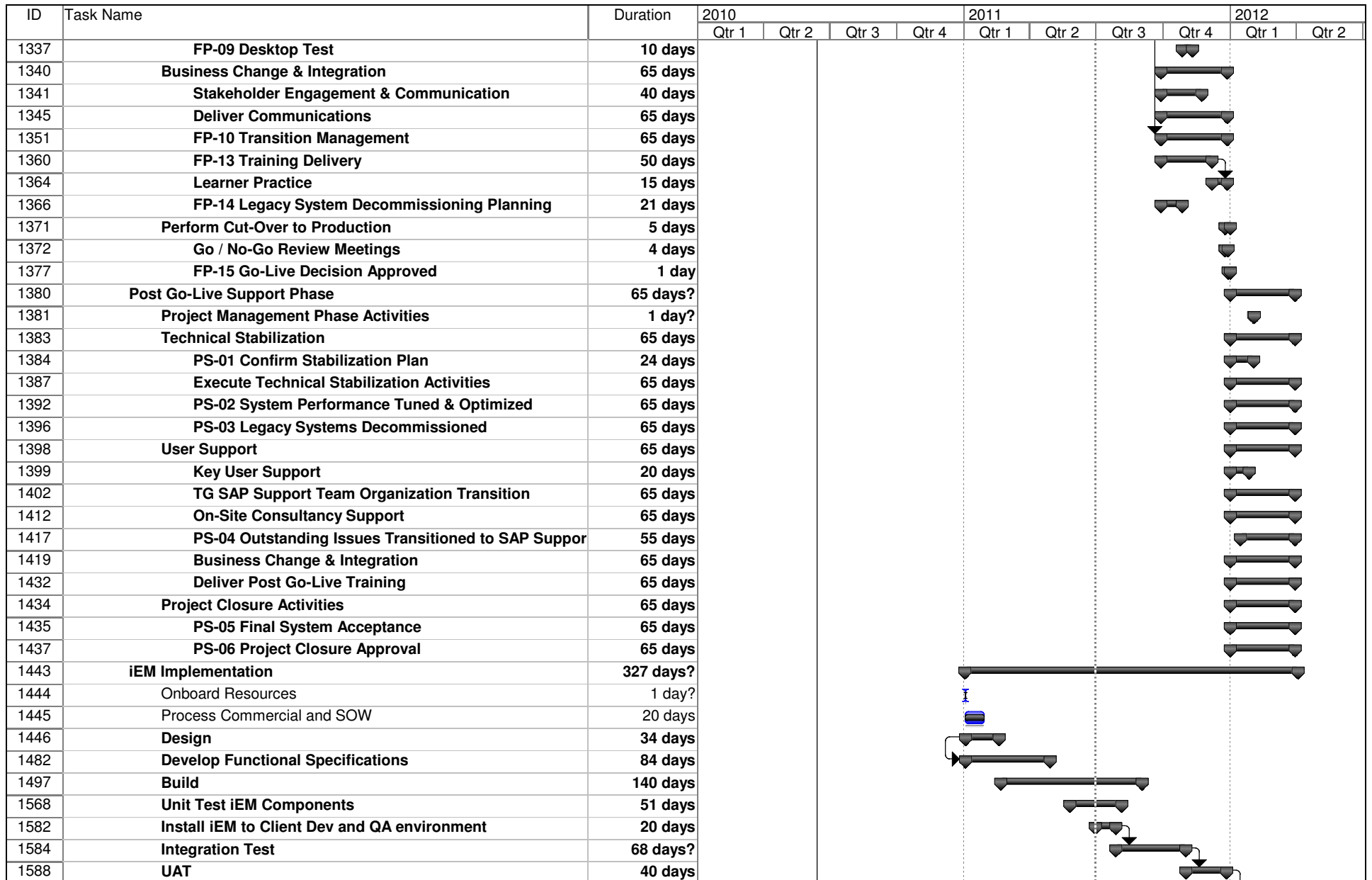
Summary 

Project Summary 

External Tasks 

External Milestone 

Deadline 




Project: 2011 07 17 CCE Program
Date: Sun 7/17/11

Task 

Split 

Progress 

Milestone 

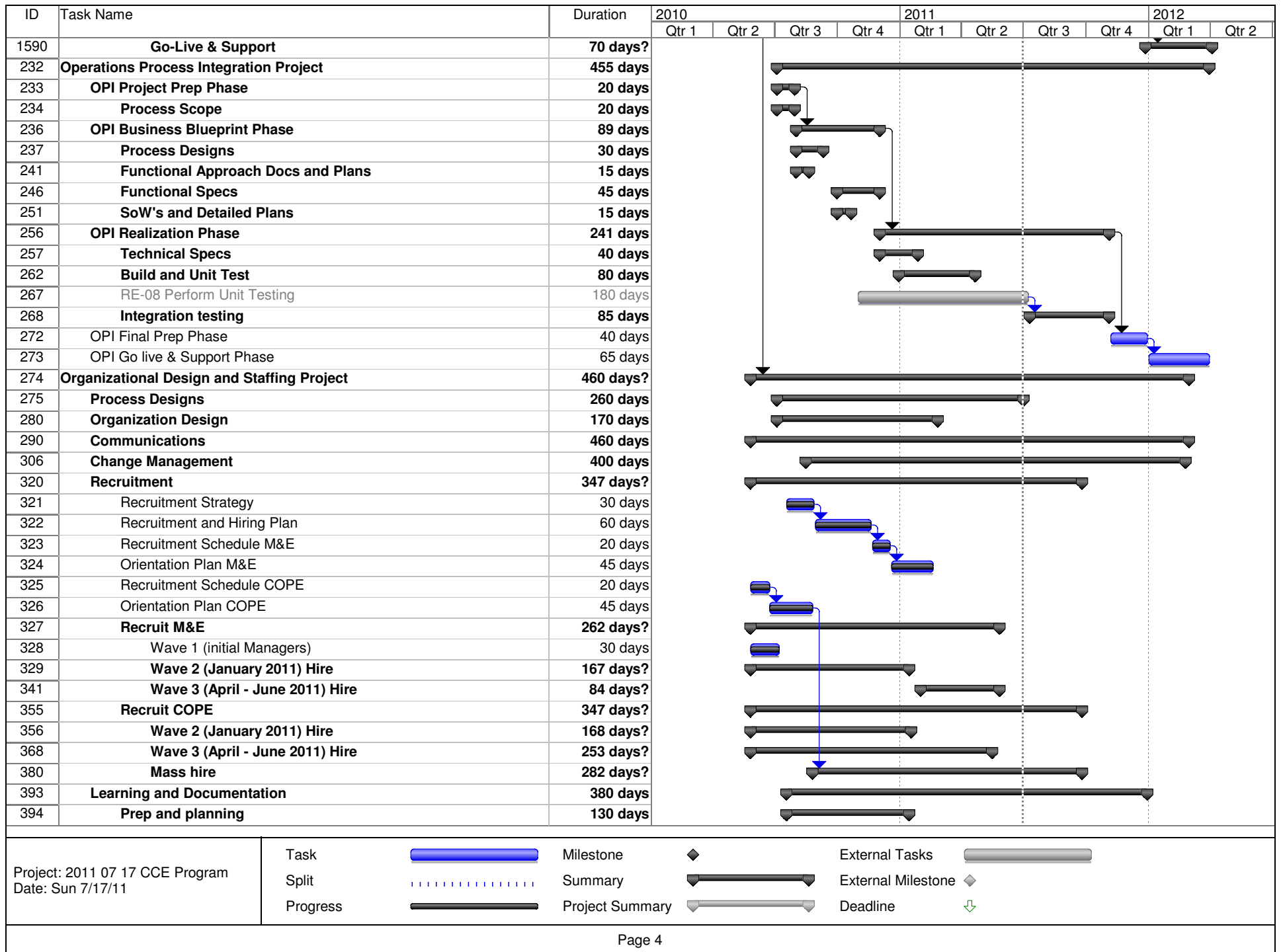
Summary 

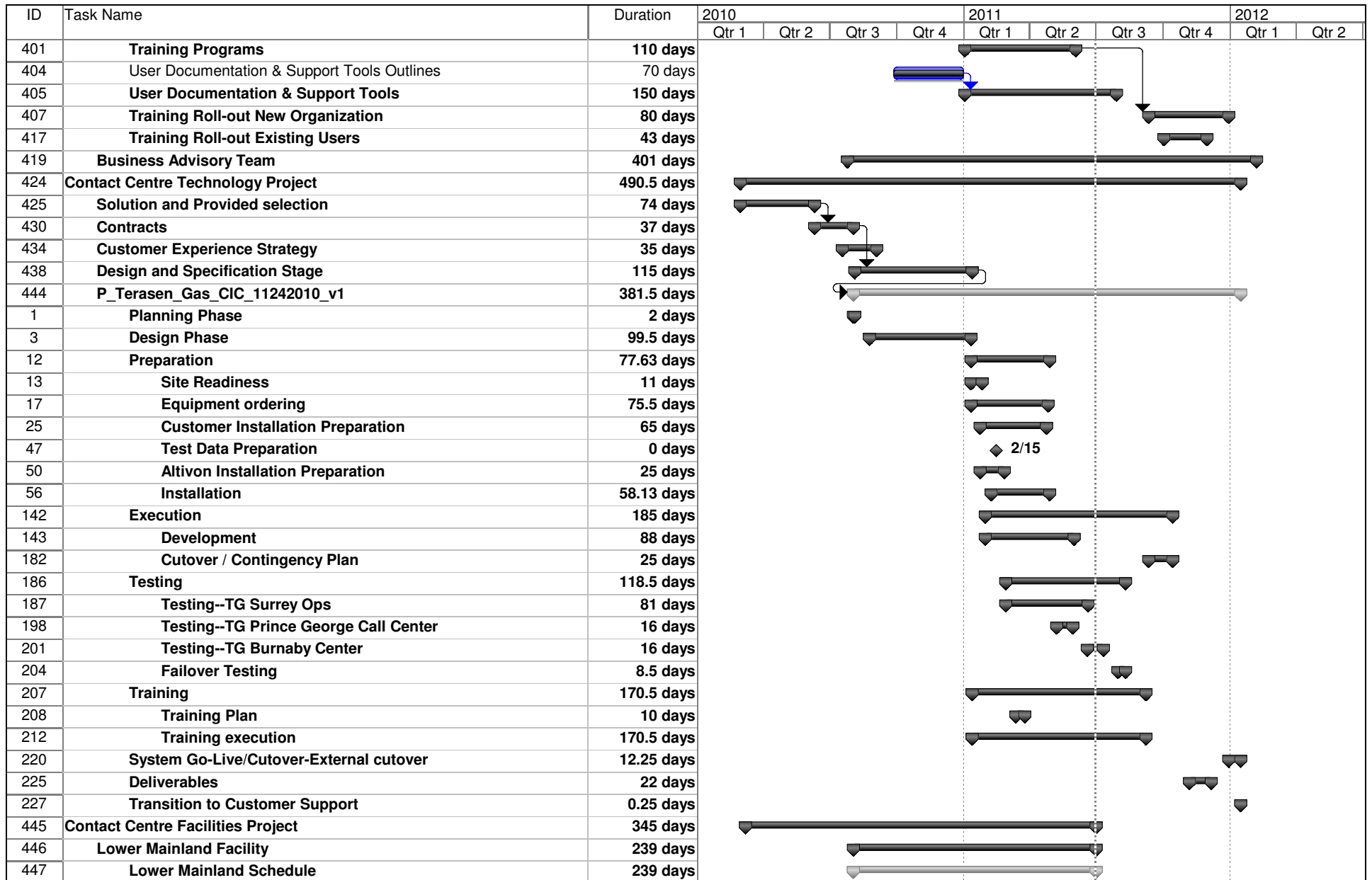
Project Summary 

External Tasks 

External Milestone 

Deadline 





Project: 2011 07 17 CCE Program
Date: Sun 7/17/11

Task

Split

Progress

Milestone

Summary

Project Summary

External Tasks

External Milestone

Deadline


ID	Task Name	Duration	2010				2011				2012	
			Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2
1	Programming	16 days										
8	Space planning + Schematic Design	23 days										
19	Design development	21 days										
26	Consultant Documentation	52 days										
37	Tender	35 days										
42	Permits and Construction	125 days										
49	Furniture	134 days										
448	Prince George Facility	344 days										
449	Prince George Schedule	344 days										
1	Programming	10 days										
7	Schematic Design	27 days										
15	Design Development	19 days										
23	Contract documents	30 days										
39	Tender	25 days										
44	Permits and Construction	277 days										

Project: 2011 07 17 CCE Program
Date: Sun 7/17/11

Task 

Split 

Progress 


Milestone 

Summary 

Project Summary 

External Tasks 

External Milestone 

Deadline 

Appendix 2

LIST OF MAJOR CONTRACTORS

List of Major Contractors

Please see the list below of the major contractors employed on the project and a description of their engagement:

Contractor	Description of Engagement
Accenture	As the current support services provider, Accenture will be providing subject matter expertise in the areas of the existing call centre business processes, technical support specifically around the existing CIS technical environment as well as transition services during the cutover from the existing systems to the new environment.
Altivon and Interactive Intelligence	Interactive Intelligence will be providing the Contact Centre Technologies, an all in one solution integrated with the SAP for managing multi-channel customer interactions. For the implementation of the Contact Centre Technologies, FEI has partnered with Altivon, who is the implementation partner of Interactive Intelligence.
Fujitsu	Fujitsu Consulting provides ongoing technical support for many of the existing systems utilized by FEI. Fujitsu will be providing technical support for changes required to the these systems as well as the interfaces to and from the new CIS.
Habanero	Habanero Consulting provides application support for the Café system. Habanero will provide technical support for the changes required to the Café system as well as provide Microsoft Sharepoint expertise in developing the Customer Service Knowledge base repository.
Hansen Technologies	Hansen Technologies is the product owner of the CIS system currently utilized by FEI. Hansen will provide data migration services from their existing system to the new SAP CIS with the focus on legacy data quality and extraction.

Contractor	Description of Engagement
HCL- Axon	HCL-Axon is an experienced SAP system integrator and specializes in the implementation of SAP computer systems. They also are experienced in the integration of complementary software packages (such as bill composition software from Streamserve) to form a complete solution. They will be taking a leadership role in all phases of the project and providing expertise on the overall design of the system solution to ensure it conforms to FEI's desired requirements. They will also provide guidance in the development of training and change management specific to the CIS implementation.
Knowledgetech	Knowledgetech will supply personnel to the project team to provide expertise in change management activities including business process design, business impact analysis, communication, training and process documentation.
Five Point Partners	Five Point Partners (Five Points) has been engaged to provide assurance of on time execution of the project together with guidance on mitigation of risks. Five Points is a specialized provider of application management consulting services to organizations within the energy and utility industries. Five Points consultants bring expert knowledge and experience in managing the development of Customer Information Systems. They will be utilizing their experience with numerous similar projects throughout North America to evaluate the project on seven key dimensions: schedule, resources, ongoing activities, project management, costs, scope, and risks.
R-Tech Technologies	R-Tech will be providing day-to-day program management for the CCE program. They will be responsible for coordinating and providing overall management of the various program streams including the CIS implementation, the Contact Centre Technologies and facilities implementation as well as the other existing business processes that will be impacted by the CCE implementation. R-Tech has partnered with FEU on many initiatives over the last few years, and has in-depth knowledge of SAP, FEI's operating model and provides Project Management Institute certified project management services.

Contractor	Description of Engagement
SAP Active Global Support	SAP's Active Global Services provide production support for all SAP customers. On this project, they will be assisting the project team by proactively reviewing key risk areas that have been experienced with other implementations and providing risk mitigation strategies of technical issues such as system performance. They have sufficient experience to identify performance risk areas and resolve the types of system issues that could be encountered when the system goes live.
SAP Consulting Services	As the CIS product vendor, SAP brings in-depth product knowledge and design architecture oversight to the project. They will also provide a quality assurance role in design, and build reviews to ensure the implementation follows SAP best practices for implementation and maintainability.
Gateway Consulting Services	Gateway Consulting specializes in Strategic Training Management, Instructional Design, Communications, e-Learning, Cross Functional Process Development, Workforce Education, and Transition Management. On the project, Gateway Consulting will be providing program leadership in the area of Change Management, Recruiting, Training and Communications.
TELUS	TELUS will be providing technical infrastructure services to the project. This includes all server, desktop and network implementation and support services.
Worksoft	Worksoft specializes in automated testing solutions. They will provide support in drafting testing scripts to validate the business process workflows along with conducting system performance / volume tests.

Appendix 3

GLOSSARY OF ACRONYMS AND TERMS

Glossary

Acronyms

CCE Customer Care Enhancement

CIS Customer Information System

CRB Customer Relationship and Billing

OPI Operation Process Integration

CRM Customer Relationship Management

FRICE-W Forms, Reports, Interfaces, data Conversion, Enhancements and Workflows

IVR Interactive Voice Response

Terms

AFUDC – acronym for *Allowance for Funds Used During Construction*, which allows for the cost of borrowing funds until a project is placed into service to be included in rates; the requirement for AFUDC forms a separate line item of the overall Project cost.

Business Process Outsourcing – the contracting of a specific business task, including all responsibility for the management of the business processes and underlying information technology systems and applications required for the completion of an activity, such as call handling, to a third-party service provider.

Change Management Strategy – outlines the approach for managing the change impacts of the project.

Data Migration Strategy – defines the management, development and documentation for cleansing and transferring data to the new CIS.

Deferred Costs – operating and maintenance costs that are incurred but that will be expensed in the future.

Development System Infrastructure – the platform for where configuring and coding of the new system will take place.

In-source – a business practice in which work that would otherwise have been contracted out is performed by internal staff.

Interface Strategy – outlines the approach to manage the points of interaction with Terasen's existing systems and the new CIS.

Mobilization Team – This is the initial team required on site for project preparation.

Project Toolset – The project toolset is the AXON Project Support Environment ("APSE"). APSE is a structured project document management system used by the project team to manage the CRB project workflow and will serve as a repository for all CIS documentation throughout the life of the Project.

Appendix 4

FIVE POINT PARTNERS ASSURANCE REVIEW

FILED CONFIDENTIALLY

Appendix 5

CURRENCY EXCHANGE RATE DEFERRAL TRANSACTIONS

FILED CONFIDENTIALLY

Appendix 6

PHOTOGRAPHS OF THE CONTACT CENTRE FACILITIES

Photographs

Burnaby Willingdon Park Customer Service Centre

The exterior of the Burnaby Willingdon Park Customer Service Centre:



The interior of the Burnaby Willingdon Park Customer Service Centre:



Prince George Customer Service Centre

The exterior of the Prince George Customer Service Centre:



The interior of the Prince George Customer Service Centre:



The interior of the Prince George Customer Service Centre:

