

November 23, 2012

Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.comBritish Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C.
V6Z 2N3Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: FortisBC Energy Inc. ("FEI")**Application for Approval of Rate Treatment of Expenditures under the Greenhouse Gas Reductions (Clean Energy) Regulation ("GGRR") and Prudency Review of Incentives under the 2010 – 2011 Commercial NGV Demonstration Program (the "Application")****Response to the British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 2**

On August 21, 2012, FEI filed the Application as referenced above. In accordance with the Regulatory Timetables set out by Commission Order No. G-154-12 for Phase 3, FEI respectfully submits the attached response to BCUC IR No. 2.

In addition, Appendix W of the Application has been amended to correct the volume assumption used for Waste Management in the derivation of the delivery rate benefit. The Amended Appendix W has been included as Attachment 4.1 provided in the response to the Commercial Energy Consumers Association of British Columbia ("CEC") IR 2.4.1.

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

Yours very truly,

FORTISBC ENERGY INC.

Original signed by: Shawn Hill

For: Diane Roy

Attachment

cc (e-mail only): Registered Parties



FortisBC Energy Inc. ("FEI" or the "Company") Application for Approval of Rate Treatment of Expenditures under the Greenhouse Gas Reductions (Clean Energy) Regulation ("GGRR"), and Prudency Review of Incentives under the 2010 – 2011 Commercial NGV Demonstration Program (the "Application") – Phase 3	Submission Date: November 23, 2012
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1.0 Reference: Greenhouse Gas Reduction (Clean Energy) Regulation

Exhibit B-1, Section 7.4

2011 NGV Incentive Review

Section 7.4 notes that in the Energy Efficiency Conservation (EEC) Incentive Decision the Commission decided that FortisBC Energy Inc. (FEI) did not have approval to use EEC monies to provide incentives for Natural Gas Vehicles (NGV)s.

- 1.1 Did FEI seek or obtain Commission approval before it provided the NGV grants to the recipients?

Response:

As the FEU have described in their final submissions in the NGV Incentive Review proceeding¹, the FEU consider that the incentives at issue fell within the scope of the Innovative Technologies Program Area that had been approved in the 2010-2011 Revenue Requirement under Order No. G-141-09. Order No. G-141-09 was issued by the Commission on November 26, 2009, well in advance of the issue of the first incentive to City of Surrey in 2010. When FEI became aware, based on determinations in the Reasons for Decision of BCUC Order No. G-6-11 (page 5 of 8), that the Commission had concerns about the use of EEC funds to provide vehicle incentives, FEI made a request shortly afterwards that the Commission conduct a review of this matter, and this resulted in the NGV Incentive Review proceeding. The FEU ceased providing EEC funding for NGVs pending the determination of the NGV Incentive Review Proceeding.

The evidence and submissions provided by FEI in support of its position that it had approval for the expenditures were supported by the Final Submissions of other parties in the Incentive Review proceeding including the Ministry of Energy, Mines and Natural Gas, BC Sustainable Energy Association ("BCSEA"), and the Commercial Energy Consumers Association of BC ("CEC").

- 1.2 If FEI did not obtain Commission approval or approval in principle prior to providing the NGV grants to the recipients, does that lack of approval place FEI at potential risk of non-recovery?

¹ See "Final Submissions of the FortisBC Energy Utilities, May 12, 2011", attached to the Application as Item 1 of Appendix K. The FEU's overall position regarding the incentives is described in paragraph 2 of the submissions.



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Response:

In the absence of a prior Commission approval, the recovery of the 2010-2011 NGV Incentives in rates is determined by the application of the prudence test. FEI is at risk for non-recovery to the extent that the expenditures at issue were not prudently incurred. FEI has described the prudence test in its response to BCSEA IR 2.22.1. Given that there is no requirement under the *Act* to seek prior Commission approval of the kind of expenditures at issue in this proceeding, the absence of such an approval cannot be said to rebut the presumption of prudence or otherwise determine that the incentives are not recoverable through rates.



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**2.0 Reference: Greenhouse Gas Reduction (Clean Energy) Regulation
Exhibit B-1, Sections 7.3 and 7.5.3, Appendix B
2010-2011 NGV Incentives**

2.1 The Greenhouse Gas Reductions Regulation (GGRR) ends on March 31, 2017. Is it FEI's position that the 6th Year of Undertaking ends on March 31, 2017? Is it also FEI's position that the 1st Year of Undertaking begins on April 1, 2011 and ends on March 31, 2012? If not, please explain.

Response:

This does not describe FEI's position. FEI's position regarding these questions is described in Exhibit B-14 (FEI's submissions dated November 2, 2012, entitled "Supplemental Submission Defining the Parameters of a Prescribed Undertaking under the *Greenhouse Gas Reduction (Clean Energy) Regulation*). FEI has produced the relevant excerpts from its submissions setting out its position on these questions for ease of reference:

FEI is anticipating committing to its first vehicle incentives under Prescribed Undertaking 1 before the end of Q1 2013, although the feasibility of this timetable for LNG grants will depend on when the Commission approves Rate Schedule 16 on a permanent basis such that FEI is able to make available an amount of LNG sufficient to fuel the vehicles. Based on the assumption that FEI enters into written commitments with grant applicants before April 1, 2013, FEI submits that the table in section 2(1)(b) of the GGRR applies to FEI as follows:

	Year of Undertaking					
	1 (April 1, 2012 to March 31, 2013)	2 (April 1, 2013 to March 31, 2014)	3 (April 1, 2014 to March 31, 2015)	4 (April 1, 2015 to March 31, 2016)	5 (April 1, 2016 to March 31, 2017)	6 N/A
Percentage of the difference between the cost of the eligible vehicle and the cost of a comparable vehicle that uses gasoline or diesel	≤100	≤80	≤70	≤60	≤50	≤40

If FEI's first CNG or LNG grant commitment is not made until after March 31, 2013, then the year April 1, 2013 to March 31, 2014 would become "year 1 of the undertaking".

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FEI submits that this interpretation is consistent with accepted principles of legislative interpretation, which look to the wording of the GRR in the context of the overall object of the regulation and the intention of the legislator. The GRR specifies that the undertaking period "means the period that ends on March 31, 2017", but it does not specify start and end dates of each "year of the undertaking". It is necessary to look to the overall purpose of the GRR and the intention of the legislator to interpret the words.

The object of the GRR is to encourage adoption of natural gas for transportation ("NGT") to reduce GHGs. The GRR structures the annual limits on grants and zero-interest loans in recognition that larger incentives are required at the outset to kick-start the market for NGT; the ramping-down of grants and zero-interest loans implicitly expects that market forces will be better able to drive adoption once the early adopters have moved to NGT. With this object in mind, it makes the most sense for "year 1 of the undertaking" for a particular utility to be defined with reference to when that public utility commences its incentive program under Prescribed Undertaking 1. The time of the first grants or zero-interest loans is the point at which the "kick-starting" of the market is initiated within the utility's service area.

By contrast, an interpretation that would count backwards from March 31, 2017 (such that April 1, 2016 to March 31, 2017 is year 6, and so on), is less consistent with the object of the GRR because it reduces the potential for any public utility to offer incentives at higher percentages. (In fact, as a practical matter, it precludes basing grants or zero-interest loans on 100% of the cost differential due to the passage of time.) FEI's interpretation also recognizes that not all of the eligible public utilities across the province are going to be at the same stage of preparedness to pursue Prescribed Undertakings. It would be much more difficult for Pacific Northern Gas, for example, to spur adoption of NGT within its service territory if the GRR was interpreted such that it has already foregone the ability to provide grants at higher percentages because of the passage of time.

It is important to note that the percentages specified in section 2(1)(b) of the GRR are maximums. FEI has been consulting with Government on what level of grants are actually required based on information gleaned from the first call for expressions of interest. Based on those discussions, FEI is not intending to award the maximum in "year 1 of the undertaking". Rather, FEI's evidence was that the current round of grants will be based on 75% of the differential. The next round (possibly to occur in "year 2 of the undertaking") may be based on 60%, although the timing and percentage awards may change as the marketplace develops and experience with the current round is gained.

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- 2.2 For the incentive amounts given to the customers identified in Table 7-1 and updated in Sections 7.3.1 to 7.3.4, please identify the grants given to each of the four customers by date and amount. In FEI's view if the 1st Year of Undertaking does not begin until April 1, 2011, does the GRR provide any direction to the Commission on cost recovery of the grants issued prior to April 1, 2011? Please explain.

Response:

FEI has provided a table below which summarizes each incentive payment made to each customer, sorted by date. The first incentive payment was calculated at 50% of the total proposed award and released to the customer at the point when FEI received confirmation of a purchase order for vehicles by the customer. The remaining 50% was issued once the vehicles were placed into service. Due to the LNG vehicle production and delivery timeline, Vedder implemented their LNG tractors over a period of months.

Customer	Date	Amount
City of Surrey	30-Sep-10	\$ 13,350
Waste Management	15-Dec-10	\$ 401,780
Vedder Transport	24-Dec-10	\$ 2,196,650
Waste Management	15-Apr-11	\$ 401,780
Kelowna School District	15-Apr-11	\$ 181,643
Kelowna School District	29-Jul-11	\$ 181,643
Vedder Transport	12-Dec-11	\$ 878,660
Vedder Transport	23-Feb-12	\$ 571,129
Vedder Transport	24-Apr-12	\$ 571,129
Vedder Transport	12-Jul-12	\$ 175,732
Total:		\$ 5,573,496

Please refer to the response to BCUC IR 2.2.1 for FEI's position on what constitutes the 1st Year of Undertaking.

FEI is not claiming that the \$5.6 million of grants provided in 2010-2011 specifically qualify as Prescribed Undertaking 1 grants and is not seeking recovery on that basis.² Rather FEI is seeking recovery on the basis that the \$5.6 million of grants awarded in 2010-2011 were

² However, as FEI has noted in section 7.7 of the Application, the 2010-2011 incentives as issue are consistent with the provisions of the GRR and Prescribed Undertaking 1.



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prudently incurred in their own right. Since these grants were awarded with the same intent and policy background as the grants authorized by the GRR (see section 7.7 of the Application), FEI has proposed that they receive the same rate recovery treatment as GRR grants and that FEI will reduce the total grants awarded under the GRR by the portion of the 2010-2011 grants approved for recovery. FEI has also noted in the responses to CEC IRs 2.2.1 and 2.2.2 that is open to the Commission to approve recovery of the 2010-2011 NGV grants separately from and in addition to the \$62 million of expenditures in Prescribed Undertaking 1 of the GRR.

FEI discusses what can be inferred from the GRR with respect to recovery of the 2010-2011 NGV Incentives in response to BCUC IR 2.2.6.

- 2.3 For grants given to recipients prior to the 1st Year of Undertaking is it FEI's position that the Commission should consider the government policy and legislation that were in effect at that time?

Response:

FEI confirms that government policy and legislation in effect at the time the incentives were made is relevant to stage 2 of the prudency inquiry. Please refer to the response to BCSEA IR 2.22.1 for a discussion of the prudence test.

- 2.4 Is FEI proposing that the Commission utilize hindsight when it evaluates whether FEI's decision to issue grants were prudent and supported by government policy, legislation or Commission approvals at that time?

Response:

Please refer to the response to BCSEA IR 2.22.1.

- 2.5 FEI states that the four incentive agreements were established after the June 3, 2010 enactment of the *Clean Energy Act (CEA)*. In FEI's view if the government intended that these four incentive agreements would meet the objectives of the



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CEA why didn't the GRR have 7 years of undertaking so that grants given from April 1, 2010 to March 31, 2011, would also be covered under the regulation?

Response:

Please refer to the response to BCUC IR 2.2.6.

- 2.6 Does the 6 year limitation to the year of undertaking exclude the grants issued from 2010 until April 1, 2011 simply from the application of the GRR? In FEI's view is the government signaling that NGV grants do not qualify under the CEA by excluding the time period of April 1, 2010 to March 31, 2011 in the GRR, or is the government providing the Commission with the discretion to determine if the grants are prudent and recoverable?

Response:

If by "exclude" the first part of this question is asking whether the 2010-2011 NGV incentives are captured by the GRR, then FEI reiterates that it is not applying for recovery of these amounts as prescribed undertakings. As described in the Application and in response to BCUC IR 2.2.2, FEI is seeking recovery on the basis that the \$5.6 million of grants awarded in 2010-2011 were prudently incurred in their own right. . Since these grants were awarded with the same intent and policy background as the grants authorized by the GRR (see section 7.7 of the Application), FEI has proposed that they receive the same rate recovery treatment as GRR grants and that FEI will reduce the total grants awarded under the GRR by the portion of the 2010-2011 grants approved for recovery.

With respect to the second part of this question, FEI's position, which it will speak to further in final submissions, is that the provisions of the GRR and relevant external evidence of legislative intent indicate that the Commission has the discretion to determine if the grants are prudent and recoverable. FEI's position is based on, among other things, the following submissions by the Ministry of Energy and Mines in the NGV Incentive Review proceeding:

6. *The Ministry already outlined, in its submission of May 20, 2011, its argument that FEU's NGV program is in the interests of ratepayers and the public.*
7. *The Commission, when setting rates, has the opportunity to determine if expenditure on a program is prudent. It is the view of the Ministry that submissions made during this proceeding have shown that the \$5.587 million in committed NGV incentive*



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grants, and the \$3.780 million in future 2011 commitments for commercial vehicles are prudent."

In fact, the government's support of FEI's NGT initiatives was further demonstrated by the enactment of the GRR, the development of which was triggered by the Commission's denial in BCUC Order G-145-11 of 2010-2011 NGV Incentives as an EEC program. The Ministry's submissions are included in Appendix K of the Application.

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**3.0 Reference: Greenhouse Gas Reduction (Clean Energy) Regulation
Exhibit B-1, Sections 7.1 and 7.5.2, Appendix F
Good Faith Belief**

FEI states in Section 7.1 of the Application that it issued approximately \$5.6 million in natural gas incentives in 2010 and early 2011 under an EEC program called the Commercial NGV Demonstration Program. In Section 7.5.2 FEI states that when it issued the 2010-2011 NGV Incentives it did so in good faith and on the belief that the approved EEC framework permitted it to do so. Appendix F contains Order G-145-11 and the Reasons for Decision on the Commission's NGV Incentives Review (NGV Incentive Review Reasons) which determined that FEI did not have approval to use EEC monies to provide incentives for NGVs.

3.1 Please explain why FEI believes it has the good faith belief that it was permitted to issue the 2010-2011 NGV Incentives when the following excerpts from the Reasons for Decision on the Commission's NGV Incentives Review appear to have contrary statements:

- The May 2008 FEI Energy Efficiency and Conservation Programs Application proposed, among other items, NGV-Natural Gas Vehicle Projects which contained the notion of providing vehicle grants to customers not otherwise eligible for grants under Rate Schedule 6. In the EEC Decision the Commission Panel rejected all proposed expenditures in this area. The Panel commented that FEI might wish to bring forward projects in this program area for consideration as they become more fully developed. (NGV Incentive Review Reasons, pp. 3-4)
- The January 14, 2011 Reasons for Decision that approved the FEI-Waste Management Agreement on an interim basis, questioned whether FEI had approval to make incentive payments to Waste Management outside of those in existing Rate Schedules given the explicit rejection of expenditures in the EEC Decision as well as the withdrawal of requests relating to NGVs in the 2010-2011 Negotiated Settlement Agreement (NSA). (NGV Incentive Review Reasons, p. 5)
- Only the Commission has the ability to accept EEC expenditures pursuant to section 44.2. For clarity the stakeholder engagement is a consultative process and not an approval process. Neither the mere consent of the EEC stakeholder group nor the inclusion of information in a compliance report to the Commission can alter the overall scope of an accepted expenditure schedule. (NGV Incentive Review Reasons, p. 5)

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- The Companies admit that the programs identified in the Innovative Technologies section of the 2010-2011 RRA did not include NGV's. The CEC further submits that the Companies have not changed the scope of the Innovative Technologies Program Area but have added the NGV Incentives funding program to the suite of programs in the Innovative Technologies Program Area. The Commission Panel disagrees with the suggestion that approval of the Innovative Technologies Program Area could in any way be considered approval of EEC funding for NGVs. (NGV Incentive Review Reasons, pp. 6-7)
- FEI's November 13, 2009 letter that was attached to the 2010-2011 NSA described that the amount of marketing costs in the revenue requirements for 2010 and 2011 were very modest and issues relating to NGV have been deferred by the terms of the Settlement Agreement. No other applications concerning EEC funding for NGV initiatives were made. (NGV Incentive Review, p. 8)

Response:

FEI's good faith belief that it was permitted to issue the 2010-2011 NGV Incentives within the EEC framework was articulated in its final submissions in the 2011 NGV Incentives Review proceeding, which has been provided as the first item of Appendix K in the Application. The response below provides a summary of those submissions but please see the full text in Appendix K, Item 1 for the complete response to this question.

The FEU's position in the NGV Incentive Review proceeding was summarized in the following passages of the FEU's Final Submissions in the NGV Incentive Review proceeding:

2. ... *In particular, the Commission's letter expresses the view that NGV was "an initiative that was specifically excluded in prior Decisions and Orders (G-36-09, G-140-09 and G-141-09)". The root of the issue in this proceeding is that the FEU did not consider NGVs to be "an initiative that was specifically excluded in prior Decisions and Orders (G-36-09, G-140-09 and G-141-09)"; rather, the FEU considered that these new activities fell within the scope of the Innovative Technologies Program Area that had been approved in the 2010-2011 RRA.*³

...

6. *The FEU's position on NGV programs is rooted in the EEC framework approved in the EEC Decision, which is discussed below. The FEU submit that, in introducing NGV related initiatives after the RRA, they were exercising a*

³ See Application, Appendix K, Final Submissions of the FortisBC Energy Utilities, May 12, 2011, para. 2.



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*discretion contemplated in the EEC Application and EEC Decision to introduce new programs within the approved Innovative Technologies Program Area in order to optimize the portfolio. This same approach has been used in program development in several Program Areas to date.*⁴

The detailed submissions that followed these paragraphs provide a coherent and reasonable explanation as to why the FEU believe that they had approval to issue the 2010-2011 NGV Incentives. The explanations that were provided in these final submissions were based on beliefs genuinely held by the FEU in good faith. While the Commission ultimately disagreed with the FEU's explanation of why it had approval to issue the incentives, the FEU maintain to this day that the understanding that the FEU had at the time, as captured in those submissions, was a reasonable and coherent position held in good faith.

As indicated above, the FEU's final submissions from the NGV Incentive Review are included in Appendix K of this Application. In particular, see paragraphs 6 through 17 for the FEU's explanation of the 2008 EEC Decision framework. Paragraphs 18 through 26 provide the FEU's explanation as to how the incentives fit within the approved EEC framework, including a discussion of the circumstances of the 2010-2011 RRA proceeding and negotiated settlement agreement.

⁴ See Application, Appendix K, Final Submissions of the FortisBC Energy Utilities, May 12, 2011, para. 6.

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4.0 Reference: Exhibit B-1, Section 7.5.4

Prudency and Cost Recovery

FEI states that at the time the \$5.6 million of grants were made, they were anticipated to result in immediate load benefits that would accrue to all natural gas ratepayers.

- 4.1 If any of the NGV grants were made prior to the 1st Year of Undertaking of the GGRR then shouldn't the rate that is charged to the customer receiving the grant be on a full cost recovery basis similar to the full cost recovery of the Vehicle Fuel Stations under GT&C 12B? If not, please explain.

Response:

Please refer to the response to BCUC IR 2.2.2 for discussion of the fact that FEI is seeking recovery of the \$5.6 million of 2010-2011 vehicle incentives on the basis that they were prudent expenditures in their own right, not on the basis that they comply with the GGRR.

As with the planned grants under the GGRR, the 2010-2011 NGV grants were designed to be incentives to stimulate the transition of the heavy duty transportation market from diesel to natural gas. If the grants had been provided to customers on a full cost-recovery basis then it would not have been a grant but a loan. Since the barriers to adoption of NGT for commercial operators are significant (see Exhibit B-8), this target market would be unlikely to make the transition to natural gas unless the economic argument was compelling enough to overcome the barriers and risks. Since commercial loans are available at relatively low rates, getting a loan from the utility, even at a low or zero interest rate, would be unlikely to improve the economics enough to spur adoption.

FEI awarded the grants based on the benefits that would be achieved from the program which include GHG reductions, emissions reductions, rate reductions for all non-bypass customers from more efficient utilization of the FEI system and the expectation that the grant program would stimulate further growth in the use of natural gas vehicles. All of these benefits have subsequently been demonstrated.

- 4.2 For each of the grants issued before April 1, 2011 please identify by recipient, the amount of the grant and the present value of the expected delivery margin that is to occur. Please identify the number of years and the discount rate that was used in the net present value calculation.



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Response:

In the response to BCUC IR 1.2.2 FEI provided the following table, which identifies the recipients and the date of the incentive payment of the total \$5.6 million.

Customer	Date	Amount
City of Surrey	30-Sep-10	\$ 13,350
Waste Management	15-Dec-10	\$ 401,780
Vedder Transport	24-Dec-10	\$ 2,196,650
Waste Management	15-Apr-11	\$ 401,780
Kelowna School District	15-Apr-11	\$ 181,643
Kelowna School District	29-Jul-11	\$ 181,643
Vedder Transport	12-Dec-11	\$ 878,660
Vedder Transport	23-Feb-12	\$ 571,129
Vedder Transport	24-Apr-12	\$ 571,129
Vedder Transport	12-Jul-12	\$ 175,732
Total:		\$ 5,573,496

The expected delivery margin benefits are tied to the customer purchase commitment as a whole, and cannot be broken down by payment event. Please note that approximately half of the \$5.6 million was issued after April 1, 2011. This is because only 50% of the total grant awards were provided when the contractual commitments were made (i.e. before April 1, 2011) and the remainder was provided when the vehicles were delivered and put in service. FEI assumes that the question is seeking an analysis based on the full contractual commitments for the four customers rather than the specific date that the portions of the incentive funding was provided to customers.

The delivery margin benefits from each customer, based on information and estimates known at the time the incentives were issued are as follows:

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Customer	Amount of Incentive	Load (TJ)	NPV of Net Delivery Margin (2012-2030)
City of Surrey	\$13,350	1,538	\$83,000
Kelowna School District	\$363,286	6,000	\$297,000
Waste Management	\$803,560	21,140	\$464,000
Vedder Transport	\$4,393,300	138,500	\$5,288,000 ⁵
Total		167,178	\$6,132,000

These delivery margin benefits are based on the individual customer assumptions and calculations used in the amended Appendix W, Schedule 1 (see Attachment 4.1, CEC IR2.4.1). That is, they are based on incremental margin from additional load created by these customers from 2012 through to 2030, and a discount rate based on FEI's WACC⁶.

FEI used the period of 2012-2030 to be consistent with the cost/benefit analysis of the GGRR Prescribed Undertaking 1 vehicle grants where 2030 was established as the target date to achieve the desired market penetration. However, this time period is also reasonable in view of the fact that these customers⁷ have chosen FEI to provide fueling station service to fuel their fleet. Fueling station agreements range from 7 to 15 years with renewal or buyout options extending to 20 years total (for BFI, KSD, WM, Vedder). Since each fleet has a 'take-or-pay' volume commitment it means fleets are motivated to meet minimum consumption levels, thereby securing delivery margin benefits for FEI's natural gas ratepayers until 2030.

FEI notes that in the case of both City of Surrey and Vedder, the NPV of the delivery margin benefit exceeds the amount of the incentive. In the case of City of Surrey, the delivery margin benefit exceeds the incentive amount (actually issued) by \$69,650. The year at which the benefit for Surrey "breaks even" with the incentive amount is 2012⁸. In the case of Vedder Transport, the delivery margin benefit exceeds the incentive amount by \$894,700. The year at which the benefit for Vedder Transport "breaks even" with the incentive amount is 2024⁹.

⁵ The net delivery margin benefit for Vedder is based on the Rate 16 charge less the incremental costs of LNG production for transportation use. Detailed analysis of the incremental cost of LNG had not been completed at the time the decision to award the incentives was made so the basis for the incremental cost of LNG has been taken from FEI's Rate 16 Amendment Application, Table 9.3.

⁶ FEI's approved WACC was 6.84% for 2011, 6.82% for 2012 and 6.81% for 2013, which in this analysis, was assumed to hold constant for 2014 and future years.

⁷ FEI provides CNG service to BFI. City of Surrey operates their own fueling station, but their truck purchase led to BFI's purchase of 52 trucks.

⁸ See City of Surrey calculations in the response to BCPSO IR 2.3.5

⁹ See Vedder Transport calculations in the response to BCPSO IR 2.3.5



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KSD and Waste Management provide benefits that are below the incentive amount, however, as FEI has described in the response to CEC IR 2.4.1, the aggregate NPV value of the net cost of service benefit to FEI's ratepayers for all four incentives with updated information is \$3.1 million.

The following table provides updated delivery margin benefits for each of the four incentives based on actual customer volumes and an updated volume forecast:

Customer	Amount of Incentive	Load (GJ)	Updated NPV of Delivery Margin (2012-2030) ¹
City of Surrey	\$13,350	1,150	\$64,000
Kelowna School District	\$363,286	5,000	\$249,000
Waste Management	\$803,560	30,000	\$618,000
Vedder Transport	\$4,393,300	190,000	\$7,255,000
Total		226,150	\$8,186,000

4.3 Please explain if any of the grants issued prior to April 1, 2011, contained a cost recovery obligation on the recipient as required by GT&C 12B?

Response:

None of the agreements for the grants issued contained a cost recovery obligation (assuming the vehicle purchases completed and the vehicles went into service as contemplated in the contribution agreement¹⁰). Inclusion of such a clause would change the grant to a loan which is not consistent with the design or intent of the program (refer to the response to BCUC IR 2.4.1).

For further clarity there is nothing contained in GT&C 12B that required FEI to impose a "cost recovery obligation" on a grant recipient, as grants are not part of the services covered under fueling station services covered by GT&C 12B. In addition GT&C 12B was not in place until February of 2012.

¹⁰ The contribution agreements included a number of repayment conditions, such as requiring the customer to refund any contribution received for cases where the vehicle purchase did not complete.



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- 4.4 If the grants issued prior to April 1, 2011 did not contain a cost recovery obligation from the recipient, then shouldn't the shareholder be at risk for the under-recovery if the grant recipient does not take sufficient volume that results in incremental delivery margin equal to the grant issued?

Response:

FEI does not agree that the approach suggested in this information request should determine whether all or some portion of the incentives were prudent. FEI believes that there are a number of factors that support the conclusion that the incentives at issue were prudent, including but not limited to the question of delivery margin benefit. Those factors are set out in the Application in sections 7.5, 7.6 and 7.7, as updated through responses to information requests. FEI submits that all of the factors described in the Application support full recovery of the incentives. In addition, the fact that the analysis shows or forecasts a positive benefit is one more supporting factor for recovery. This would suggest that FEI is entitled to full recovery of the \$5.6 million, as the evidence demonstrates that the four incentives produce a positive NPV net cost of service benefit. This result follows whether you consider the benefits based on information known at the time the incentives were issued, or based on FEI's most recent and updated information (refer to the response to CEC IR 2.4.1). In other words, the evidence establishes that the grant recipients will take natural gas volume that results in an incremental delivery margin benefit that is equal to or greater than \$5.6 million.