Dennis Swanson
Director, Regulatory Affairs

FortisBC Inc.
Suite 100 – 1975 Springfield Road
Kelowna, BC V1Y 7V7
Tel: (250) 717-0890
Fax: 1-866-335-6295
www.fortisbc.com

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

September 20, 2013

Via Email
Original via Mail

Canadian Office and Professional Employees Union Local 378
c/o Jim Quail, Barrister & Solicitor
2nd Floor, 4595 Canada Way
Burnaby, B.C. V5G 1J9

Attention: Mr. Jim Quail

Dear Mr. Quail

Re: FortisBC Inc. (FBC)

Application for Approval of a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018 (the Application)

Response to the Canadian Office and Professional Employees Union Local 378 (COPE) Information Request (IR) No. 1

On July 5, 2013, FBC filed the Application as referenced above. In accordance with Commission Order G-109-13 setting out the Preliminary Regulatory Timetable for the review of the Application, FBC respectfully submits the attached response to COPE IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC INC.

Original signed:

Dennis Swanson

Attachments

cc: Commission Secretary
Registered Parties (e-mail only)

1 TOPIC: MULTI-YEAR PBR MECHANISM

Reference: BCUC IR-1 9.1:

9.0 Reference: Exhibit B-1, p. 39

Principle 3: Unique Circumstances

9.1 Please explain FBC's unique circumstances that are relevant to the PBR design.

1.1 Please explain why the unique circumstances of each of the two separate utilities, FortisBC Inc. and FortisBC Energy Inc., have not produced distinctive PBR designs for each of the two utilities.

<u>Response:</u>

The Companies' circumstances are unique with respect to the extent and nature of their PBR experience relative to other jurisdictions. Unlike Alberta, for instance, both FBC and FEI have long standing experience with PBR. Both Companies had many similar PBR Plan components in their previous plans, despite being under separate ownership and management at the time they were negotiated. Under their common management the Companies are building on their collective experience to produce 2014 – 2018 PBR Plan proposals.

Providing similar proposals, with many elements building upon what was already in the previous FBC and FEI plans, will facilitate the Commission and customer groups understanding and input to the Plans during the Plan term and thus help to mitigate the cost of regulation.

Reference: BCUC IR-1 23.1:

23.0 Reference: Exhibit B-1, pp. 52-54

2014-2018 O&M

23.1 Please explain why FBC chose a revenue cap, which involves forecasting the number of customers in its annual review (page 52) rather than a revenue-per-customer cap which would avoid the need for this forecast? Provide a detailed explanation, including references to any literature or to other PBR plans for gas distribution or electric distribution companies.

1.2 To the extent that some of the relevant factors might justify a revenue-per-customer cap and others might justify the applied-for revenue cap, please discuss the potential for a hybrid formula.

Response:

Any PBR formula requires forecasts and as indicated in the response to the referenced BCUC IR 1.23.1, forecasting the number of customers is necessary for rate setting purposes in both revenue cap and revenue per customer cap to capture the revenue growth associated with increased number of customers. The proposed FBC formulas are already in the hybrid category.

2 TOPIC: CAPITAL EXPENDITURES

PBR presents a potential incentive for a utility to seek to optimize the benefit of the program to its shareholders through the timing of capital expenditures which are necessary but capable of postponement, in order to reduce expenditure in the current year (thus reducing cost without necessarily achieving any corresponding efficiency or ratepayer benefit). Because the timing of capital expenditures may thus be influenced by shareholder interests, and not strictly determined according to the optimal roll-out for the benefit of ratepayers, this creates a potential difference between optimization for the benefit of shareholders and optimization for the benefit of ratepayers.

This dynamic may even, in some circumstances, operate to incent the utility to postpone prudent expenditures beyond the conclusion of the PBR period in order to incorporate them into the utility's future rebased revenue requirement, achieving a double-return for the same project.

2.1 Please discuss how the proposed PBR mitigates this problem.

Response:

This response addresses the responses to COPE IRs 1.2.1 and 1.2.2.

The issue of the timing of the capital expenditure can be better studied by dividing it into two categories: (1) Timing of expenditures during the PBR term and (2) the timing of capital expenditures beyond the conclusion of the PBR term (referred to as capital expenditure deferral issue). Each of these issues and the proposed solutions are discussed in the following sections:

1. Timing of capital expenditures during the PBR term

This problem and FBC's proposed solution have been fully discussed in the ECM section of the Application as follows:

a) The introduction of investment timing problem in PBR plans in section 6.5.1, page 65, lines 31 to 36.

> *For utilities operating under a fixed-term PBR, the value of the stream of savings to provide a payback of the Company's investments in efficiency improvements can only include those savings realized prior to the end of the term of the PBR. Therefore, the motivational power of incentives is highly dependent on the timing of the efficiency improvement gains. The reward for a utility is greatest when the efficiency savings are made in the first year of the PBR plan.*

b) The ECM role as a solution in section 6.5.1, page 65 lines 38 and 39, and page 66 lines 1 and 2.

An ECM is a means of strengthening the incentive to pursue efficiency initiatives throughout the PBR term. The ECM does this by ensuring that the benefits of the efficiency gains are retained for a reasonable period after the PBR term.

A well-designed ECM decouples the link between the timing of efficiency gains and the PBR incentives and ensures that the stream of savings resulting from an investment in efficiencies will be allocated to help repay the investment regardless of how close the investment is to the end of the term of the PBR plan.

c) The FBC's proposed ECM design as a solution to the investment timing problem in section 6.5.2 page 67 lines 16 to 20.

Under a rolling ECM, efficiency gains are carried over for a specific number of years (5 years in the case of FBC's proposed term) following the year in which they occurred. The major advantage of a rolling ECM over other efficiency carry-over approaches is that it eliminates the timing issue from the decision making process of efficiency improvement investments. That is, the incentive power of PBR will remain the same for the entire PBR term.

2. Deferral of the capital expenditures beyond the conclusion of PBR

The preamble to this question articulates a position that has been advanced by some interveners in respect of the previous FEI PBR. FBC does not accept the logic of what has been articulated. FEI has performed an analysis of its previous PBR results and determined that deferrals of capital expenditures were actually minimal. (This analysis appears in Appendix D-4 of the FEI PBR Application.) Moreover, although the argument advanced in the preamble assumes that customers are worse off as a result of a deferral, deferring capital expenditures would actually yield net benefits for customers in most instances as the basis for deferral is a net present value of costs and benefits otherwise the deferral would become either a project cancellation or would proceed without deferral based on the economics of project.

FBC intends to focus on sustainable efficiencies in its capital programs and expects capital expenditure deferrals of the type described in the preamble to be very limited. In addition, FBC's proposed PBR plan mitigates the risk of any major capital expenditure deferral in two ways:

a) <u>Limiting the benefits of capital expenditures deferral</u>:

As mentioned in Table 6-1 of the Application and further fully described in responses to BCUC IR 1.58.1 and BCPSO IR 1.25.1, "limited rebasing of capital will occur if annual capital expenditures are above or below the formula-based amount by more than 10%." Therefore FBC will not benefit from the variance between formula-based and actual capital expenditures of over 10% even if the excess variance is the result of real efficiency gains.

b) Inclusion of Capital and O&M expenditures in ECM:

Under the proposed ECM, both O&M and capital expenditures are included in efficiency carry-over mechanism which will incent the Company to invest in capital projects (rather than deferring capital) that can produce O&M benefits for the Company and its customers beyond the PBR term.

2.2 Please explain why the proposal for "efficiency carryover" does not exacerbate the potential for the gaming of capital investment timing by the utility, and even the potential divergence between ratepayer and shareholder interest in relation to the timing of capital expenditures.

Response:

FBC's proposed rolling ECM is recognized by regulatory authorities in other jurisdictions[1] as a solution to the potential problem of investment timing in PBR plans. FBC does not see how a rolling ECM could exacerbate the potential for the gaming of capital investment timing. Please also refer to the response to COPE IR 1.2.1.

[1] For instance please refer to page 7 of the report issued by Queensland Competition Authority: http://www.qca.org.au/files/EfficiencyCarryoverMechanism.pdf

3 TOPIC: SERVICE QUALITY INDICATORS

Reference: Exhibit B-1-1, Tab D, Appendix D6 – Service Quality Indicator Report,

Section 3.3.2 All Injury Frequency Rate, p. 9

Lost Time Injuries (LTI) and Medical Treatment Injuries (MT) Indicators

3.1 How would a fatality be recorded in the proposed AIFR?

Response:

A workplace related fatality would be recorded as a recordable incident in the All Injury Frequency Rate (AIFR).

3.2 What would be the quantitative impact of a fatality on the proposed AIFR, beyond the loss of work over the balance of the shift upon the day when the worker was killed on the job? Please explain.

Response:

As the AIFR measures only the frequency or number of injuries, a workplace related fatality would be recorded as one recordable injury for the purpose of calculating the AIFR.

Reference: Exhibit B-1 Section A Table A1-1

3.3 Confirm that the only mechanism in the operation of the proposed PBR where a degradation in Service Quality indicators would come into play would be to trigger the "Off Ramp".

Response:

This question is identical to FEI's 2014-2018 PBR Application, COPE IR 1.7.1. This response is identical to the FEI response to that IR, with the exception of the name change to FBC.

The Commission and interveners will have the opportunity to review FBC's SQI results during the Annual Reviews and Mid-term Review. In the case of a sustained and significant degradation of SQI result, the Commission's recourse would be to explore with FBC potential means of rectifying the issue, or if the issues cannot be rectified then the Commission could trigger the off-ramp provision for the complete overview of the PBR plan elements or its possible termination. In the determining whether to trigger the off-ramp provision, the Commission should consider whether or not the source of the possible degradation is under the control of FBC's management.

3.4 Confirm that the "Off Ramp" mechanism consists of the premature termination of the PBR regime through the intervention of the Commission.

Response:

This question is identical to FEI's 2014-2018 PBR Application, COPE IR 1.7.2. This response is the same as the FEI response to that IR, which is Yes.

Please refer to the response to the COPE IR 1.3.3.

3.5 Please provide a chart showing every instance in which an "Off Ramp" has been activated by a regulator of any utility in Canada operating under a PBR regime, and indicating the reason for the invocation of the Off Ramp by the regulator.

Response:

This question is identical to FEI's 2014-2018 PBR Application, COPE IR 1.7.3. This response is identical to the FEI response to that IR.

Among the PBR plans presented in Appendix D-1 of the Application, Union Gas' 2008-2012 PBR plan was the only utility for which the off-ramp provision was activated. In the Union Gas case, the weather-normalized actual ROE in the first year of the plan exceeded the benchmark ROE by more than 300 basis points which triggered the off-ramp and ultimately led to changes in some elements of the Union Gas plan. For more information about these changes, please refer to page 22 of Appendix D-1 of the Application.

Reference: Exhibit B-1. Section B5: Jurisdictional Comparison

Page 36, Table B5-1, footnote 17

3.6 Please confirm that under the OEB 4th Generation IR (Electricity), SQIs form part of the mechanism to determine rate setting, and please describe how they are applied in this context.

Response:

This question is identical to FEI's 2014-2018 PBR Application, COPE IR 1.7.4. This response is identical to the FEI response to that IR, with the exception of the name change to FBC.

The OEB's report established four distinct areas of performance that it expects distributors to achieve. These performance areas are: customer focus, operational effectiveness, public policy effectiveness and financial performance. The OEB also concluded that a scorecard shall be used to monitor individual distributor performance and to compare performance across the distribution sector. Distributors will be required to report their progress against the scorecard on an annual basis.

The Board engaged stakeholders in further consultation on the standards and measures to be included in the distributor scorecard. On July 4, 2013, the Staff Report to the Board on Performance Measurement and Continuous Improvement for Electricity Distributors was released. The Staff's proposed scorecard design includes similar elements to FBC's SQIs and balanced scorecard. However, no decision has been made yet as to the exact form and design of the scorecard or its connection with the rate setting by the OEB.

Reference: Exhibit B-1. Section B5: Jurisdictional Comparison

Page 37, Table B5-1

3.7 Please confirm that in the Gaz Metro 2007-2012 PBR, SQIs were linked to financial incentives to the utility, and please describe how they were linked.

Response:

This question is identical to FEI's 2014-2018 PBR Application, COPE IR 1.7.5. This response is identical to the FEI response to that IR.

Confirmed. As indicated in Table B5-1 of the Application, the SQIs in Gaz Metro's 2007-2012 plan were linked to financial incentives. According to Gaz Metro's settlement, Gaz Metro's claim of the performance incentive was dependent on its ability to meet the selected Service Quality Metrics agreed to in the Settlement. A higher achievement equaled a higher claim of the performance incentive as described in the table below:

Overall attainment percentage	Percentage of performance incentive awarded
0% to 84%	0%
85% +	corresponding percentage

The overall attainment percentage was calculated based on the weighted average of results achieved for individual service quality indicators. The attainment percentage for individual SQIs was calculated based on the following formula[2]:

$$B = (R - 50\,\%) * \frac{85\,\%}{(C - 50\,\%)}$$

Where

B = Resulting percentage for indicator (maximum 100%)

R = Percentage achieved for indicator

C = Percentage target result for indicator, i.e. 85%, for all indicators except one which was 75%

In addition, to ensure Gaz Metro did not neglect service quality when in a shortfall situation, it agreed to reimburse customers between $100,000 (for seven SQIs) and $200,000 (for two SQIs) for each of the SQIs for which a minimum 85% score is not attained.

Reference: Exhibit B-1. Section B5: Jurisdictional Comparison

Page 38, line 36-7

3.8 Please describe the indirect reward or penalty mechanism, or other nexus between SQIs and the setting of rates, rewards or penalties in Alberta and Ontario.

[2] Two SQIs attainment percentages were determined by non-formula mechanisms.

Response:

This question is identical to FEI's 2014-2018 PBR Application, COPE IR 1.7.6. This response is identical to the FEI response to that IR.

The Alberta Utilities Commission's (AUC) Decision 2012-237 rejected the use of any PBR specific reward or penalty mechanism. However the AUC's Rule 002 and 003 are used to monitor the utilities' service quality indicators performance. In addition, the AUC indicated that Alberta's Gas and Electric Utilities Acts provide the Commission with the legislative authority to take necessary actions when the Commission is of the opinion that a utility has failed to comply with its rules respecting service standards. The AUC also started a consultative process for a review of Rule 002.

Enbridge Gas Distribution Inc. (EGD) and Union Gas were also subject to service quality requirements according to the OEB's "Gas Distribution Access Rule" which was approved by the Board before the approval of incentive rate-setting plans in a separate proceeding. The OEB's consultant report titled "Assessment of Union Gas Ltd. and Enbridge Gas Distribution Inc. Incentive Regulation Plans" explained the SQIs monitoring process:

> *"The Board monitors information the Companies provide each year on their performance on the selected indicators, and if Staff believes there are service problems the Board can investigate the issues, request more in-depth explanations from Company managers, or work co-operatively with the Company to develop an action plan to become compliant with a requirement. However, there are no monetary penalties (or rewards) tied specifically to EGD's or Union's measured performance on the selected service quality metrics relative to their standards".*

Reference: Exhibit B-1, Section B6: FBC 2014 Proposed PBR

Section 6.7, Off-ramp Provision

Heading 6.7.2.2, Non-Financial Triggers

FBC states at page 71: "Triggering the off-ramp provision would be warranted only if there is sustained serious degradation of the SQIs."

3.9 What in FBC's view would constitute "sustained serious degradation of the SQIs"?

Response:

This question and response are very similar to CEC IR 1.52.1 in FEI's 2014-2018 PBR Application. The equivalent response is included below.

FBC does not believe that "sustained serious degradation" can be defined in a manner that would foresee all circumstances. For example, a fire or other unexpected event might lead to a short term degradation of certain SQIs. Such a circumstance might not be considered as a sustained serious degradation while a lesser but persistent long-term degradation of the same SQIs might be regarded as a sustained serious degradation.

Please refer to the response to COPE IR 1.3.10 for the proposed process to handle a potential sustained serious degradation of the SQIs.

3.10 Please describe all of the mechanisms under the proposed PBR by which the Commission can enforce the maintenance of satisfactory performance, as measured by the SQIs, short of invoking the "Off Ramp". With respect to the process in the proposed mid-term assessment review, please describe all mechanisms available to the Commission following a negative review, short of the "Off Ramp".

Response:

This question and response are the same as COPE IR 1.7.8 in FEI's 2014-2018 PBR Application.

As outlined in the Application (Exhibit B-1), Section B6.8 Annual Review, the Commission and interveners will have the opportunity to review and comment on the SQI results during the annual review process. In the case of a failure of a specific SQI result, FBC will provide the necessary reasoning and explanations and will work co-operatively with the Commission and stakeholders to ensure compliance with requirements.

With respect to the mid-term assessment review process outlined in the Application (Exhibit B-1), Section B6.7.1 Mid-Term Assessment Review, the proposed review will be held as part of the third Annual Review. If at this time a material change to service quality is raised, stakeholders will work to identify a change than can address that element and put it forward to the Commission. FBC will work co-operatively to ensure compliance with requirements.

4 TOPIC: O&M

Reference: BCUC IR-1 101:

101.0 Reference: Exhibit B-1, pp. 112-113 O&M – 2012 Postponed Expenditures

"While 2012 O&M was approximately $1.3 million lower than the approved amount, resulting from certain expenditures being postponed pending an RRA decision that was issued in August of that year, 2013 O&M is projected to be within 1.0 percent of approved." (p. 112)

101.1 Please confirm, or explain otherwise, that the "2013 Projection" figures represent the projected actual 2013 expenditures.

101.2 Please provide a list, by department, of O&M expenditures deferred from 2012 to 2013. For each department, please provide a description of the deferred expenditures.

4.1 What expenditures previously planned for 2013 are expected to be postponed into 2014 and, in each instance, why?

<u>Response:</u>

The 2013 approved O&M expenditure was $57.6 million, while 2013 projection is $57.2 million (Exhibit B-1, Page 113, Table C4-2). The variance of $0.4 million, is expected to be achieved during 2013 by managing costs within the budgets and is not related to expenditures previously planned for 2013 which are expected to be postponed into 2014.

5 TOPIC: EXECUTIVE COMPENSATION

Reference: BCUC IR-1 103:

103.0 Reference: Exhibit B-1, p. 114

Executive Compensation

FBC states that: "The Company's executive compensation program involves four main elements:

1. base pay;

2. short term incentive pay;

3. long term incentive pay; and

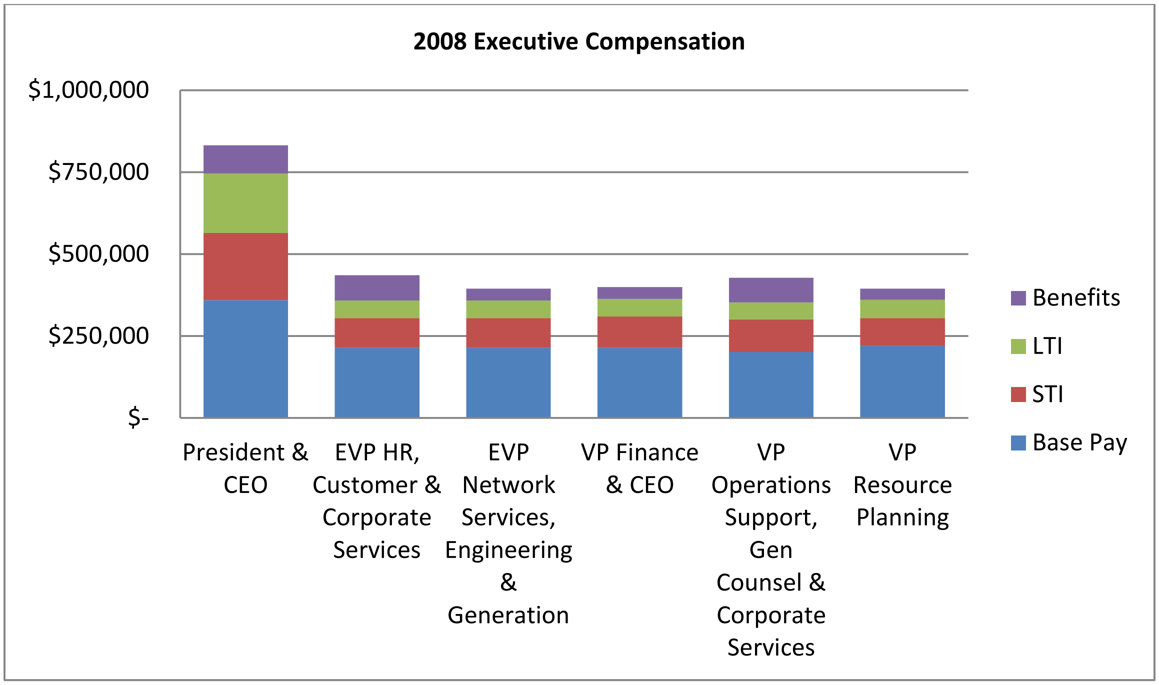
4. benefits."

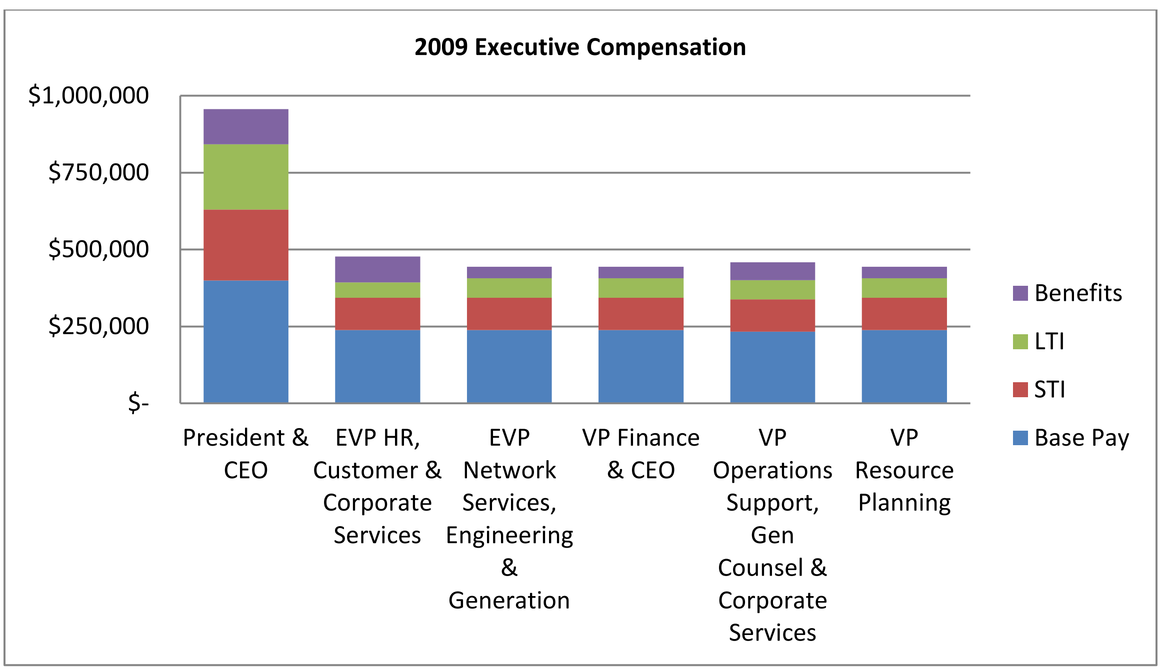
103.1 Please provide the total cost and average cost/executive for each of the four categories for each year from 2008?

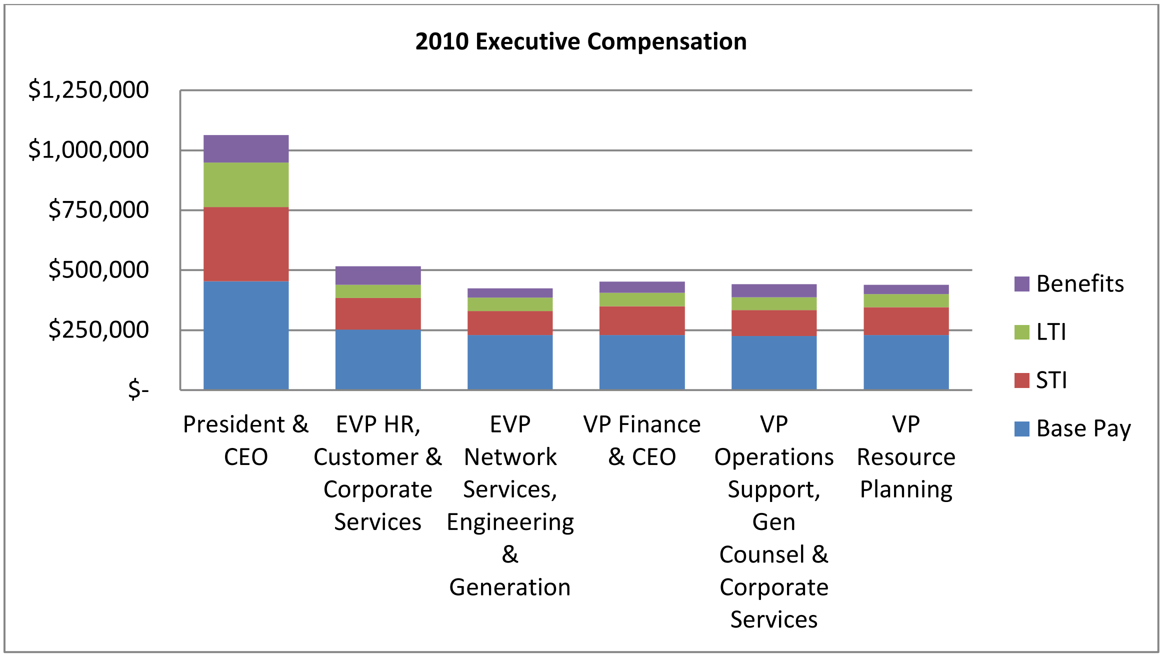
5.1 Please produce a stacked bar graph showing, with respect to each executive position, elements 1 through 4 in each stacked bar segment, for each year from 2008.

<u>Response:</u>

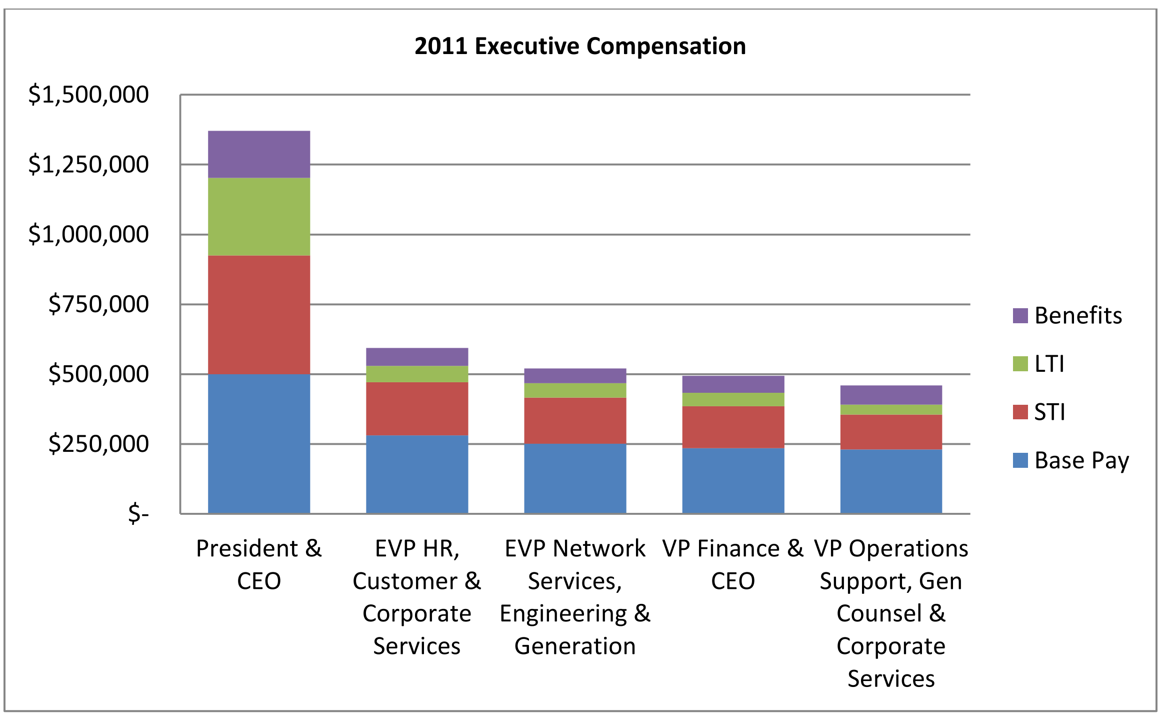
Please refer to stacked bar graphs below showing each of the elements in the preamble for the years 2008 to 2012, by position.


2008 Executive Compensation
$1,000,000
$750,000
$500,000
$250,000
$-
President & CEO
EVP HR, Customer & Corporate Services
EVP Network Services, Engineering & Generation
VP Finance & CEO
VP Operations Support, Gen Counsel & Corporate Services
VP Resource Planning
Benefits
LTI
STI
Base Pay

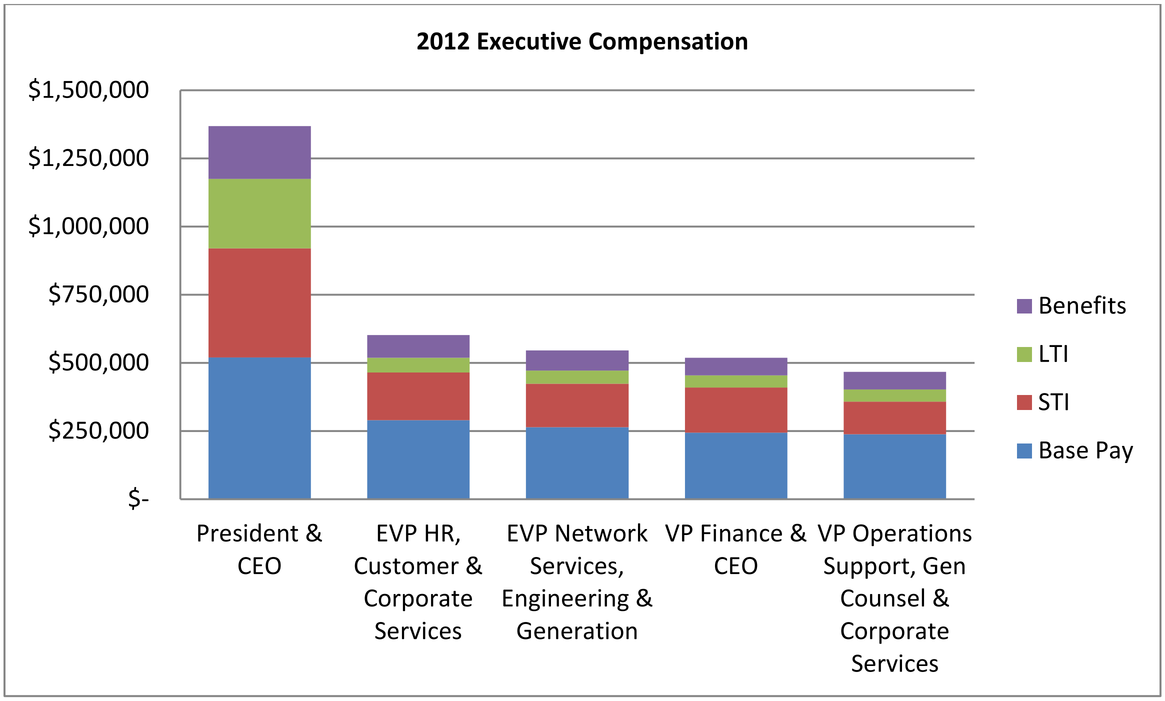

2009 Executive Compensation
$1,000,000
$750,000
$500,000
$250,000
$-
President & CEO
EVP HR, Customer & Corporate Services
EVP Network Services, Engineering & Generation
VP Finance & CEO
VP Operations Support, Gen Counsel & Corporate Services
VP Resource Planning
Benefits
LTI
STI
Base Pay



2010 Executive Compensation
$1,250,000
$1,000,000
$750,000
$500,000
$250,000
$-
President & CEO
EVP HR, Customer & Corporate Services
EVP Network Services, Engineering & Generation
VP Finance & CEO
VP Operations Support, Gen Counsel & Corporate Services
VP Resource Planning
Benefits
LTI
STI
Base Pay



2011 Executive Compensation
$1,500,000
$1,250,000
$1,000,000
$750,000
$500,000
$250,000
$-
President & CEO
EVP HR, Customer & Corporate Services
EVP Network Services, Engineering & Generation
VP Finance & CEO
VP Operations Support, Gen Counsel & Corporate Services
Benefits
LTI
STI
Base Pay



2012 Executive Compensation
$1,500,000
$1,250,000
$1,000,000
$750,000
$500,000
$250,000
$-
Benefits
LTI
STI
Base Pay
President & CEO
EVP HR, Customer & Corporate Services
EVP Network Services, Engineering & Generation
VP Finance & CEO
VP Operations Support, Gen Counsel & Corporate Services

6 TOPIC: LABOUR COSTS

Reference: Table B6-3: BC AWE Forecasts for the PBR Period (Ex. B-1, Section B6, p. 48) and Table C3-3: Forecast Labour and Benefit Inflation (Ex. B-1, Section C3, p. 127).

6.1 Please explain why the utility proposes to escalate its labour-related costs according to Table B6-3 rather than according to Table C3-3.

<u>Response:</u>

FBC is unable to locate the Table C3-3 referenced in this IR. An explanation of the reasons for utilizing the AWE forecast to inflate labour costs is provided in the response to COPE IR 1.6.2.

Reference: Ex. B-1, Section C3 p. 126:

3.3.3.4 Labour and Benefit Inflation

Labour and benefit inflation are primarily non-discretionary costs required to fund expected wage and benefit increases for our employees.

6.2 Please explain why the utility proposes to escalate its labour-related costs according to the Average Weekly Earnings index rather than according to its actual labour and benefit costs.

<u>Response:</u>

The goal of a PBR Plan is to emulate a competitive firm operating in a competitive market. Therefore, an individual firm's labor and benefits-related cost increases should be measured against an industry-wide measure of labor and benefits-related increases. The AWE index is a broad indicator that represents the rate of these increases across all industries in BC, and it is therefore appropriate to use this measure as a benchmark for evaluating an individual firm's performance.

The firm's own escalation in labor-related costs provides a narrow focus, which is in contrast to how a firm should be evaluated. In addition, the selection of AWE is consistent with that of the Alberta Utilities Commission's recent decision to use AWE as a measure of labor inflation in their PBR Plan.

6.3 Please explain why shareholders should benefit from upward changes in the AWE if those are not reflected in the utility's actual negotiated labour costs?

Response:

To the extent that utility management is more efficient in managing labor costs during the PBR period, both shareholders and customers benefit. Labor productivity is an important source of efficiency improvements and cost savings because of its significance in the measurement of inputs. To have a successful PBR Plan, it is important for all employees to find ways to be more productive and to effectively manage costs so the Company remains financially healthy.

6.4 (a) Will net wage and benefit cost savings arising from the current labour dispute between the utility and the International Brotherhood of Electrical Workers flow to the benefit of the shareholders or the ratepayers of the utility?

(b) Under the PBR, to whom would such savings flow?

Response:

FBC has not determined whether there will be any cost savings arising from the current labour dispute. The Company will file an Evidentiary Update to the Application on October 18, 2013.

Under PBR, any O&M variances (increases or decreases) would impact the earnings, which are shared equally with customers.

6.5 Please quantify the total net savings realized by the utility to date arising from that dispute. (We are content with the confidential filing of the response to this question with the Commission provided it will be available to us

Response:

Please refer to the response to COPE IR1.6.4 above.

6.6 Please quantify the annual wage cost difference between the utility's most recent offer to the IBEW and the IBEW's most recent wage offer to the utility. (We are content with the confidential filing of the response to this question with the Commission).

Response:

FBC respectfully declines to provide this information. Details of the Company's unconcluded negotiations with the IBEW are not relevant to this application. FBC is proposing to set O&M Expense for the PBR term in accordance with the formula described in Section B6.

7 TOPIC: PENSION AND OPEB COSTS

Reference: 2014-2018 FORECAST O&M OVERVIEW

Exhibit B-1, Section C-4

7.1 Please file the most recent actuarial estimates provided by the Company's actuaries, referenced at page 117 lines 14-16.

Response:

Please refer to the response to BCUC IR 1.213.1 which includes Towers Watson's actuarial projections of pension and OPEB accounting expense for 2013 to 2018.

8 TOPIC: PENSION AND OPEB COSTS – VARIANCE DEFERRAL

Reference: Exhibit B-1, Section D-3, Heading 4.4.4 Pension and Other Post Employment Benefit Variance

FBC states at page 265 that "The EARSL amortization period more appropriately allocates the costs over the future period to which they are applicable. In its most recent accounting valuation done at December 31, 2012, the EARSL for the defined benefit pension plans is 10 years and the EARSL for OPEBs is 13 years."

8.1 Please explain the difference between in the "Expected Average Remaining Service Life" as between the pension plan and Other Post-Employment Benefits.

Response:

The expected average remaining service lifetime (EARSL) for the pension plans is the average of the EARSLs over all defined benefit pension plans, including both open plans (i.e., plans where employees are still earning benefits) and a closed plan (i.e., plans that are closed to new entrants). While the open defined benefit pension plans have EARSLs that are generally similar to the EARSL of the other post-employment benefits (OPEBs), the closed defined benefit pension plan has a significantly lower EARSL which brings down the overall average EARSL of the pension plans down to 10 years, which is lower than the EARSL of 13 years for OPEBs.

8.2 Please explain the disparity between the EARSL for OPEBS with respect to FBC (13 years) and that for FortisBC Energy Inc. (15 years).

Response:

The calculation of the EARSL for a company's OPEB programs is based on the demographic makeup of the employee group (e.g., each employee's age) and on the assumptions made about when each employee is expected to retiree. Because the employee populations are different between FBC and FortisBC Energy, and because each OPEB uses different retirement assumptions, the resulting EARSLs are different.

Reference: General

Exhibit B-1

8.3 Please provide the total impact on shareholder cost if the Application is approved in its entirety, of FBC's proposals with respect to:

(a) the capitalization of Pension and OPEB costs; and

(b) (Reference section C4 section 43.3.4.2 Table C4-3) the deferral and amortization of the shortfall between the 2013 Approved and Base Pension & OPEB Expense.

Showing both the total impact and the net change for shareholders compared with 2013.

Response:

For item (a) FBC has interpreted the question as being posed in the context of FEI's proposal to adjust 2013 Base for the accounting change to recognize the retiree portion of pensions and OPEBs as capital as opposed to O&M. To clarify, FBC has not requested such a change related to pension and OPEB costs, as all of the Company's pension and OPEB expenses have historically been included in the forecast labour inflation and benefit loads that are applied to the forecast labour force which are allocated between O&M and capital based on the chargeable hours forecast against O&M and capital activities.

For item (b), Section C4.3.3.4.2 and Table C4-3 on pages 116 and 117 of FBC's 2014-2018 PBR Application does not actually identify the shortfall between the 2013 Approved and Base Pension and OPEB Expense, however the variance is identified in the response to BCUC IR 1.212.1.1 as $5,272 thousand and will be recorded in the Pension and OPEB Variance deferral account as shown as an addition in Table 1-B, line 13 of the financial schedules included in Appendix E of the July 5, 2013 2014-2018 PBR Application. While the shortfall between the 2013 Approved and Base Pension & OPEB Expense is recognized as a deferred cost it is offset by an equal amount recognized as a credit to the Prepaid Pension Costs and OPEB liability, resulting in no net change to rate base, and therefore no effect on earnings. Further, this treatment to defer the shortfall variance between the 2013 Approved and 2013 Base O&M is the currently approved treatment and FBC has not proposed to change this treatment in this Application.