



Diane Roy
Director, Regulatory Affairs

FortisBC Energy
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

October 11, 2013

Via Email
Original via Mail

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

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: FortisBC Energy Inc. Fort Nelson Service Area
Application for Deferral Account Treatment for 2014 and Changes to the
Revenue Stabilization Adjustment Mechanism (RSAM) Rider (the Application)

FEI submits the attached Application for the Fort Nelson Service Area.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachment

cc (email only): BCPSO (Registered Intervener in FEFN 2011 RRA)



FORTISBC ENERGY INC.
FORT NELSON SERVICE AREA

**Application for Deferral Account
Treatment for 2014 and Changes to the
RSAM Rider**

October 11, 2013

Table of Contents

1. Purpose of the Application	1
2. Revenue Surplus	4
3. Items Under Review	5
3.1 <i>Muskwa River Crossing.....</i>	<i>5</i>
3.2 <i>FortisBC Energy Inc. Multi-Year Performance Based Ratemaking Plan (2014-2018).....</i>	<i>5</i>
4. RSAM Rate Rider Calculation	6
5. Summary and Approvals Sought	7

1. PURPOSE OF THE APPLICATION

The Fort Nelson service area of FortisBC Energy Inc. (FEFN or the Company) is applying for the following.

1. The continuation of current rates for 2014.
2. The Revenue Stabilization Adjustment Mechanism (RSAM) rider to be set to \$0.084/GJ (a decrease of \$0.061/GJ from the current approved RSAM rate of \$0.145/GJ) as per Table 4.1, effective January 1, 2014.
3. The approval of a Generic Cost of Capital Application deferral account, as well as continuation of the Fort Nelson Revenue Surplus/Deficit deferral account and the Muskwa River Crossing deferral account and other existing deferral accounts, and amortization and discontinuance of other deferrals as set out below.

FEFN has reviewed its forecast revenue requirements for 2014 and determined there to be a revenue surplus of \$17 thousand for 2014 based on the continuation of the 2013 rates approved by Order No. G-44-12, dated April 12, 2012. Return of this revenue surplus would require a delivery rate decrease of 0.86 percent. While FEFN is forecasting a revenue surplus, the Company is proposing to maintain delivery rates at 2013 levels rather than proceed with a full revenue requirement application.

The 2014 revenue requirements, which are summarized in Section 2, have been calculated using the equity thickness of 38.50% and Return on Equity (ROE) of 8.75% approved by Order G-75-13. FEFN is proposing to capture the variance between the equity thickness and ROE approved in Order G-75-13 and its 2013 interim ROE and capital structure in the Fort Nelson Revenue Surplus/Deficit deferral account. The amount of this variance (\$49 thousand credit) was set out in the FortisBC Energy Utilities' May 28, 2013 Compliance Filing in response to Order G-75-13, where this same treatment was proposed.

At this time, there are two items currently under review which have the potential to impact revenue requirements in the future. These are the Muskwa River Crossing Project (the Project), and FortisBC Energy Inc.'s Application for Approval of a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018 (the FEI PBR Application).

After reviewing the options with respect to the 2014 revenue requirements, the Company believes that the most appropriate approach, taking into consideration the time and resource costs necessary for a full revenue requirement proceeding, would be to roll over the 2013 rates for 2014, and capture the actual 2014 revenue surplus or deficiency in its existing Fort Nelson Revenue Surplus/Deficit deferral account.

FEFN is also proposing the following for 2014:

FORTISBC ENERGY INC. FORT NELSON SERVICE AREA
APPLICATION FOR DEFERRAL ACCOUNT TREATMENT FOR 2014 AND CHANGES TO THE RSAM RIDER

- 1 • FEFN is requesting a new deferral account (the Generic Cost of Capital Application
2 deferral) to capture FEFN's portion of the costs related to the GCOC application.
- 3 • FEFN is requesting approval to adopt the amortization periods for the GCOC Application
4 Costs deferral account, the Customer Service Variance deferral account, and the
5 Revenue Stabilization Adjustment Mechanism that are ultimately approved in the FEI
6 PBR Application.
- 7 • FEFN is requesting continuation of existing deferral accounts, with the exception of
8 those accounts classified as "Residual Deferred Charges" in Table 1.1 below which
9 FEFN requests be discontinued once the balance is fully amortized. FEFN also
10 requests approval of the amortization of deferral accounts for 2014 in the total amount of
11 \$27 thousand, also as shown in the following Table 1.1.

Table 1.1: Forecast Deferral Balances for 2014

FortisBC Energy Inc.
Deferred Charges Continuity
(\$000)

Particulars	Forecast						Recoveries		Balance 12/31/2014	Mid-Year Average 2014
	Balance 12/31/2013	Opening Adjustment	Gross Additions	Less- Taxes	Net Additions	Amortization Expense	Rider	Tax on Rider		
										26.0%
<u>Margin Related</u>										
Revenue Stabilization Adjustment Mechanism (RSAM)	80			-	-		(54)	14	40	60
Interest on CCRA / MCRA / RSAM / Gas Storage	1			-	-		(1)	0	0	1
Gas Cost Reconciliation Account (GCRA)	(55)		75	(19)	55		-		-	(28)
<u>Non-Controllable Items</u>										
Property Tax Deferral	(45)			-	-	15			(29)	(37)
Interest Variance	(28)			-	-	15			(13)	(20)
Customer Service Variance Account	(66)			-	-	13			(53)	(60)
<u>Cost of Current Applications</u>										
Generic Cost of Capital Application	-	5	-	-	-	(2)			2	4
<u>Other</u>										
Gains and Losses on Asset Disposition	92			-	-	(5)			87	90
Negative Salvage Provision/Cost	34		11	-	11	(54)			(9)	13
Muskwa River Crossing	(186)			-	-	-			(186)	(186)
Fort Nelson Revenue Surplus/Deficit Account	(50)			-	-	-			(50)	(50)
<u>Residual Deferred Charges</u>										
Depreciation Expense Variance	9			-	-	(9)			-	5
2010-2011 Revenue Requirement Application	-			-	-	-			-	-
2012-2013 Revenue Requirement Application	2			-	-	(2)			-	1
Fort Nelson ROE & Capital Structure Deferral	(1)			-	-	1			-	(1)
Total Deferred Charges for Rate Base	(214)	5	86	(19)	66	(27)	(55)	14	(210)	(209)

14

15 In addition, FEFN intends to adopt any accounting policy changes approved for FEI in its
16 Decision in FEI's PBR Application proceeding. Specifically, these changes relate to:

- 17 • Modification to the approved Lead Lag days with the removal of the HST lead days
18 and the insertion of GST and PST lead days; and

FORTISBC ENERGY INC. FORT NELSON SERVICE AREAAPPLICATION FOR DEFERRAL ACCOUNT TREATMENT FOR 2014 AND CHANGES TO THE RSAM RIDER

- 1 • Depreciation to commence January 1 of the year following when the asset is placed
2 into service.

3

4 The following sections outline the revenue surplus, the two items that are currently under
5 review, the RSAM rider and the requested approvals.

6

7

FORTISBC ENERGY INC. FORT NELSON SERVICE AREA

 APPLICATION FOR DEFERRAL ACCOUNT TREATMENT FOR 2014 AND CHANGES TO THE RSAM RIDER

2. REVENUE SURPLUS

Based on the review of its forecast revenue requirements, FEFN forecasts an overall revenue surplus of \$17 thousand in 2014, based on the allowed ROE and capital structure as approved by Order G-75-13. A summary of the overall cost of service and revenue surplus is provided in Table 2.1 below.

Table 2.1: FEFN Revenue Deficiency/(Surplus) Details (\$000)

Cost of Service	Approved 2013	Projected 2013	Forecast 2014
Operation and Maintenance	769	1,023	797
Property Tax	178	178	144
Depreciation and Amortization	332	269	369
Revenue Surplus / Deficit	(86)	(86)	-
Other Operating Revenue	(24)	(24)	(25)
Income Tax Expense	31	(20)	91
Earned Return	737	597	578
Total Margin	1,937	1,937	1,954
			Forecast 2014
Rate Impacts			
Delivery Margin @ Existing Rates			1,971
Margin Deficiency/(Surplus)			(17)
Delivery Rate Change Required (%)			-0.86%

The table above indicates that overall, 2014 forecast delivery revenue requirements are essentially unchanged from the 2013 approved amounts with the exception of earned return. Pursuant to GCOC decision G-75-13 and Fort Nelson's adoption of FEI's Equity Ratio of 38.5% and ROE of 8.75%, 2014 earned return is forecast to be lower than 2013 approved.

FEFN also notes variances between approved and projected O&M and income tax expense in 2013. Projected O&M expense is higher than Approved due to a requirement to mitigate erosion along the banks of the Muskwa River pending resolution of the Muskwa Project CPCN. Pursuant to the GCOC decision G-75-13, 2013 projected earned return and consequently taxable income is lower than approved, therefore projected 2013 income tax expense is also lower than the 2013 approved amount.

1 **3. ITEMS UNDER REVIEW**

2 **3.1 MUSKWA RIVER CROSSING**

3 The Muskwa River Crossing Project was approved by Order G-27-11 with an anticipated in
4 service date of October 1, 2011. As a result of delays in receiving approval from Public Works
5 and Government Services Canada (PWGSC) to attach the pipeline to the Muskwa River bridge,
6 the Muskwa River Crossing deferral account was first created in 2011 and later extended to
7 2012 and 2013 to capture the cost of service of the Project that had been recovered from
8 customers through delivery rates. The deferral account was necessary to keep customers
9 whole when FEFN was not able to proceed with the Project in the planned timeline. Due to
10 PWGSC's denial of FEFN's application to attach the pipeline to the Muskwa River bridge in May
11 of 2013, FEFN is currently exploring alternative methods of completing the Project and will be
12 filing an application with the Commission once a final recommendation is made. While the
13 capital cost of the project is still uncertain, the Company believes the Project will be completed
14 in 2014. FEFN is therefore proposing that the Muskwa River Crossing deferral account be
15 extended into 2014 to capture the difference between the cost of service of the Project that has
16 been included in rates and the final approved cost of service for 2014.

17 **3.2 FORTISBC ENERGY INC. MULTI-YEAR PERFORMANCE BASED RATEMAKING**
18 **PLAN (2014-2018)**

19 FEI's PBR Application was filed on June 10, 2013. That proceeding will consume significant
20 resources for the FEU, the Commission, and customer groups, and the outcome of that
21 proceeding could impact the O&M allocation to FEFN, as well as the adoption of common
22 accounting policies.

23

FORTISBC ENERGY INC. FORT NELSON SERVICE AREA
APPLICATION FOR DEFERRAL ACCOUNT TREATMENT FOR 2014 AND CHANGES TO THE RSAM RIDER
4. RSAM RATE RIDER CALCULATION

The variance from forecast delivery margin revenues in 2013 due to variances between approved and actual use rates is being captured in the RSAM deferral account and added to the opening 2014 balance. This amount will be recovered over two years, which is the same amortization period requested for the RSAM in the FEI PBR Application. The calculation of the 2014 RSAM rider is as set out in Table 4.1 below.

Table 4.1: Calculation of Rider 5 RSAM for 2014

FortisBC Energy Inc. CALCULATION OF AMORTIZATION OF RSAM (RIDER 5) FOR THE YEAR ENDING DECEMBER 31, 2014 (\$000s)			
Particulars	2014 Volumes (TJ)	2014 Amortization (\$000s)	2014 Amortization of RSAM Unit Rider (\$/GJ)
<u>RSAM (Rider 5) Calculation</u>			
Rate 1	268.8		\$0.084
Rate 2.1	226.1		\$0.084
Rate 2.2	110.4		\$0.084
	48.0		\$0.084
Rate 25	<u>653.3</u>	<u>\$55 ⁽¹⁾</u>	
 <u>Note 1: RSAM Rider Change</u>			
<p>In 2013, FortisBC Energy forecasts that there will be approximately \$54 thousand (net-of-tax) of RSAM additions. After offsetting the 2013 RSAM Rider recovery, the RSAM account including interest is now projected to be a debit balance of \$81 thousand on a net-of-tax basis by the end of 2013. The RSAM balance is to be amortized over two years. Accordingly, the net-of-tax RSAM balance to be amortized in 2014 is a debit of \$41 thousand. On a pre-tax basis, this amounts to \$55 thousand or a recovery from customers of \$0.084/GJ in 2014, which is a \$0.061 decrease from the existing charge of \$0.145/GJ.</p>			
<p>2014 Net-Of-Tax Amortization = 1/2 of Projected December 31, 2013 RSAM Balance = 1/2 * (\$80 RSAM + \$1 RSAM Interest) = 1/2 * \$81 = \$41 Net-of-tax amortization</p>			
<p>2014 Pre-Tax Amortization = Net-of-tax amortization / (1 - tax rate) = \$41 / (1 - 26%) = \$55 Pre-tax amortization</p>			

As indicated in the table, the RSAM rider is estimated to be \$0.084/GJ, a decrease of \$0.061/GJ from the current approved RSAM rider of \$0.145/GJ.

1 **5. SUMMARY AND APPROVALS SOUGHT**

2 In summary, FEFN is forecasting a revenue surplus in 2014 of \$17 thousand. Taking into
3 consideration the time and resource costs necessary for a full revenue requirement proceeding,
4 FEFN believes that the most appropriate approach is to roll over the 2013 rates for 2014, and
5 utilize the Fort Nelson Revenue Surplus/Deficiency deferral account to capture the actual
6 realized revenue surplus or deficiency in 2014. This will save costs and allow time for the
7 resolution of the proceedings currently ongoing before the Commission.

8 Accordingly, the Company respectfully requests the following:

- 9 1. Approval for the continuation in 2014 of the current 2013 rates for the Fort Nelson
10 service area of FortisBC Energy Inc., effective January 1, 2014.
- 11 2. The RSAM Rider 5 for FEFN to be set to \$0.084/GJ (a decrease of \$0.061/GJ from
12 current approved RSAM rate of \$0.145/GJ), effective January 1, 2014.
- 13 3. Approval for the creation of the following deferral account:
- 14 • Generic Cost of Capital Application deferral account to capture costs related to
15 the GCOC proceeding.
- 16 4. Approval of the discontinuance, modification, amortization and disposition of balances of
17 deferral accounts as set out in Section 1 above.

18
19 A draft form of order is attached as Appendix A.

20

Appendix A
DRAFT ORDER

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER**

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC V6Z 2N3 CANADA
web site: <http://www.bcuc.com>



DRAFT ORDER

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by FortisBC Energy Inc. – Fort Nelson Service Area
For Approval of Deferral Account Treatment for 2014 and changes to the
Revenue Stabilization Adjustment Mechanism Rate Rider

BEFORE:

(Date)

WHEREAS:

- A. On October 11, 2013, the Fort Nelson Service Area of FortisBC Energy Inc. (FEFN) filed an application for the continuity and approval of current delivery rates effective January 1, 2014 (the Application) pursuant to sections 59 to 61 and 89 of the Utilities Commission Act (the Act);
- B. FEFN seeks approval to maintain current delivery rates for all customers for a one-year period commencing January 1, 2014;
- C. FEFN seeks approval for the discontinuation, continuation, and creation of deferral accounts and the amortization and disposition of balances in deferral accounts;
- D. FEFN seeks approval of the Rate Stabilization Adjustment Mechanism (RSAM) rider for applicable rate classes as set out in the Application;
- E. The Commission has reviewed the Application and concludes that the requested changes as outlined in the Application should be approved.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER**

2

NOW THEREFORE the Commission orders as follows:

1. Pursuant to sections 59 to 61 of the Utilities Commission Act (the Act), the following approvals are granted for FEFN:
 - a. Approval pursuant to sections 59 to 61 of the Act of the continuation of current delivery rates for FEFN effective January 1, 2014 at the same level as 2013 rates.
 - b. Approval of the discontinuance, modification, and creation of deferral accounts, and the amortization and disposition of balances of deferral accounts, all as set out in Section 1 of the Application.
 - c. Approval of the RSAM rider effective January 1, 2014 of \$0.084/GJ as set out in the Application.
 - d. Approval to adopt the accounting changes approved for FortisBC Energy Inc. in its Application for Approval of a Multi-Year Performance Based Ratemaking Plan for 2014-2018 as set out in the Application.

DATED at the City of Vancouver, In the Province of British Columbia, this day of **<MONTH>**, 2013.

BY ORDER