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November 28, 2013

Via Email
Original via Mail

Coalition for Open Competition
c/o Highcliff Energy Services Ltd.
2920 Highbury Street
Vancouver, BC
V6R 3T8

Attention: Mr. Ronald L. Cliff, President, HESL

Dear Mr. Cliff:

Re: FortisBC Energy Inc. (FEI)

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

Response to the Second Information Request (IR) No. 2 from the Coalition for Open Competition[1] (COC)

On June 10, 2013, FEI filed the Application as referenced above. On October 4, 2013, the British Columbia Utilities Commission issued Order G-164-13 setting out the Amended Regulatory Timetable for the review of the Applications, establishing November 15, 2013 as the deadline for submission of Intervener IRs No. 2 to FEI and FortisBC Inc. (jointly) on their PBR Methodology. On November 15, 2013, the second IR No. 2 was submitted by COC (COC IR No. 2a) to FEI.

FEI respectfully submit the attached response to COC IR No. 2a in advance of the December 6, 2013 deadline for IRs on the PBR Methodology.

FEI notes that the questions in this IR set all relate to non-PBR Methodology issues, rather than PBR Methodology issues as intended. FEI has provided responses to these questions, but has done so on the basis that they should only form part of the FEI Application written proceeding record and not part of the record for consideration in the oral hearing on the PBR Methodology. FEI will object to further questions of this nature at the oral hearing, should COC pursue them.

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1 consisting of the Mechanical Contractors Association of British Columbia (MCABC); Heating, Refrigeration and Air Conditioning Institute of Canada (HRAI); Independent Contractors and Business Association (ICBA) and Ameresco Canada Inc. (Ameresco)

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachment

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

FEI notes that the questions in this IR set (COC IR 2a) all relate to non-PBR Methodology issues, rather than PBR Methodology issues as intended. FEI has provided responses to these questions, but has done so on the basis that they should only form part of the FEI Application written proceeding record and not part of the record for consideration in the oral hearing on the PBR Methodology. FEI will object to further questions of this nature at the oral hearing, should COC pursue them.

16.0 EEC Program Costs

Reference: Exhibit B-1, FEI Application, page 153:

"<u>Energy Efficiency and Conservation (EEC)</u>

This group is responsible for the development of programs designed to conserve energy, promote energy efficiency or reduce customers energy demand. While the majority of the expenditures for these programs are accounted for in the EEC deferral accounts, the expenditures for the high carbon fuel switching program, which is managed by this group, are included in O&M. This approach is consistent with the 2012-2013 RRA Decision."

16.1 Please confirm that all costs related to developing and administering the EEC Program are included in the EEC deferral accounts other than the "high carbon fuel switching program"? Specifically, will the costs of a third party review (such as the PWC proposed work) be included in O&M or in an EEC deferral account?

<u>Response:</u>

Confirmed. It is proposed that the incurred costs of the PWC proposal be included in the EEC deferral account.

16.2 Will the EEC Program costs that are included in the O&M be subjected to PBR methodology as proposed by FEI?

<u>Response:</u>

Yes. The High Carbon Fuel Switching Program is included in the 2013 Base O&M which will be used for setting rates under FEI's PBR plan.

16.3 Will the EEC Program costs that are included in EEC deferral accounts be subjected to PBR methodology as proposed by FEI?

Response:

No. Please refer to the response to FEI BCUC IR 2.365.2 (Exhibit B-24). The Companies, including FEI, are proposing to continue with the currently-approved financial treatment for EEC expenditures, where these expenditures are capitalized and amortized over a 10 year period. The balances will be re-forecast each year for purposes of annual rate determination and will not be included in the PBR formula-driven amounts.

17.0 Forecast Overhead Recovery

Reference: Exhibit B-1, FEI Application, page 292.

"This account will capture the difference between the currently forecasted amount of overheads recovered by FEI from thermal energy customers and any changes to the allocation that may result from the TESDA Report and the Transfer Pricing Policy/Code of Conduct review requested in the AES Inquiry to be undertaken with the Commission later in 2013. The amount of O&M currently forecasted to be recovered from thermal energy customers in the 2013 O&M Base is $854 thousand, as approved by Commission Order G-44-12. This amount will be inflated by the O&M formula for the PBR Period."

Reference: Exhibit B-13, FEI Response to COC 1.6.3

"The quote in the preamble to this IR is from the AES Inquiry Report issued on December 27, 2012, after the allocations and amounts of $854 thousand for 2013 were set.

Reference: AES Inquiry Report, page 34: (emphasis added)

"An approved Transfer Pricing Policy should ensure that costs are allocated on the basis of the higher of <u>fully allocated cost</u> or market pricing and an approved Code of Conduct should ensure that the sharing of operational and management services is appropriate."

17.1 Does FEI consider the $854,000 recovery from FortisBC thermal energy customers for 2013 to be a fixed number (ie. not subject to further review)?

<u>Response:</u>

No. Please refer to the response to FEI BCUC IR 2.356.1 (Exhibit B-24) for a discussion and example of FEI's proposal to ensure that the overhead recovery will reflect the determinations that are made as part of the TPP/CoC review.

17.2 As the allocation to thermal energy customers is subject to the current or future COC/TPP, why is FEI proposing to use the PBR methodology?

Response:

Please refer to the response to COC IR 2a.17.1 above.

17.2.1 Is it FEI's position that the natural gas ratepayers should only recover the overheads determined by the PBR formula?

Response:

No. Please refer to the response to COC IR 2a.17.1 above.

17.2.2 If a PBR formula is solely being used, please reconcile this concept with the determination in the AES Inquiry Report that states "that costs are to be allocated on the basis of the higher of fully allocated costs or market pricing"?

Response:

The assumption in the question is not applicable. Please refer to the response to COC IR 2a.17.1 above.

17.3 In the event, that FEI is to recovery additional overheads from thermal energy customers over the 2014 to 2018 period, what proportion of the additional recovery is shared with (a) natural gas ratepayers and (b) FEI shareholders?

Response:

There is no sharing involved since the incremental or decremental amount will be captured in a deferral account (the TESDA Overhead Variance deferral account) for return to or recovery from natural gas ratepayers only.

17.3.1 For illustration purposes in FEI's most likely PBR scenario or base case, in the event that the FortisBC thermal energy customers contribute $100,000 more each year (eg. $954,000 in 2014, $1,054,000 in 2015, $1,154,000 in 2016 …. etc.), what would the annual share of the incremental $100,000 per year be as between natural gas ratepayers and FEI shareholders? Please state any assumptions as needed to answer the question.

Response:

A table showing a possible scenario was provided in response to FEI BCUC IR 2.356.1 (Exhibit B-24). FEI has also provided below the requested scenario of $100 thousand more each year (starting from $854 thousand in 2013), although it is an unlikely scenario. If there was a requirement for a continually growing level of support from the thermal energy business, TES would likely contract its own dedicated personnel for some of the services currently provided through the overhead allocation, and over time the amount would be expected to decline rather than grow.

Amounts in $ thousands

	2013	2014	2015	2016	2017	2018
(I - X)		1.018085	1.019165	1.018435	1.018615	1.017975
Base and Formula	$ 854	$ 869	$ 886	$ 902	$ 919	$ 936
Amount determined by TPP/CoC		$ 954	$ 1,054	$ 1,154	$ 1,254	$ 1,354
Difference to deferral		-$ 85	-$ 168	-$ 252	-$ 335	-$ 418

In the scenario presented in the table above, the amount that is included as a credit to the O&M will be escalated by the formula. So $854 thousand is the base, and it will increase each year (i.e., a larger amount of credit going to natural gas customers each year). The amount that is determined as a result of the TPP/CoC review is shown in the line called "Amount determined by TPP/CoC". This is the amount that FEI will actually charge to the TESDA and will be recovered from FAES customers. In order to hold FEI natural gas customers whole, the difference between the two amounts (in 2014 the amount of $85 thousand) will be credited to the deferral account and returned to FEI customers, so that FEI customers will receive the same $954 thousand credit ($869 thousand credit to O&M in the formula plus $85 thousand credit through amortization of the deferral) that is charged to the TESDA.

The entire amount determined as a result of the TPP/CoC review is recovered from TES customers and provided to natural gas customers. There is no sharing with FEI shareholders involved.

17.4 In the event, that FEI is to recovery less overheads from thermal energy customers over the 2014 to 2018 period, what proportion of the recovery reduction (ie. loss) be shared with (a) natural gas ratepayers and (b) FEI shareholders?

Response:

Refer to the response to COC IR 2a.17.3.

17.4.1 For illustration purposes in FEI's most likely PBR scenario or base case, in the event that the FortisBC thermal energy customers contribute $100,000 <u>less</u> each year (eg. $754,000 in 2014, $654,000 in 2015, $554,000 in 2016 …. etc.), what would the annual share of the $100,000 per year reduction be shared as between natural gas ratepayers and FEI shareholders? Please state any assumptions as needed to answer the question.

Response:

The requested analysis is provided below. The entire amount determined as a result of the TPP/CoC review is recovered from TES customers and provided to natural gas customers. There is no sharing with FEI shareholders involved.

Amounts in $ thousands

	2013	2014	2015	2016	2017	2018
(I - X)		1.018085	1.019165	1.018435	1.018615	1.017975
Base and Formula	$ 854	$ 869	$ 886	$ 902	$ 919	$ 936
Amount determined by TPP/CoC		$ 754	$ 654	$ 554	$ 444	$ 334
Difference to deferral		$ 115	$ 232	$ 348	$ 475	$ 602

In the scenario presented in the table above, the amount that is included as a credit to the O&M will be escalated by the formula. So $854 thousand is the base, and it will increase each year (i.e., a larger amount of credit going to natural gas customers each year). The amount that is determined as a result of the TPP/CoC review is shown in the line called “Amount determined by TPP/CoC”. This is the amount that FEI will actually charge to the TESDA and will be recovered from FAES customers. In order to hold FEI natural gas customers whole, the difference between the two amounts (in 2014 the amount of $115 thousand) will be charged to the deferral account and recovered from FEI customers, so that FEI customers will receive the same $754 thousand credit ($869 thousand credit to O&M in the formula less $115 thousand debit through amortization of the deferral) that is charged to the TESDA.