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December 6, 2013

Via Email
Original via Mail

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (collectively the Companies)

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

Response to the British Columbia Utilities Commission (BCUC or the Commission) Information Request (IR) No. 2 not Relating to the PBR Methodology

Filed as Response to FEI-FBC BCUC IR No. 2a

On June 10 and July 5, 2013, FEI and FBC, respectively, filed the Applications as referenced above.

FEI notes that the questions 15.3, 15.5, 15.5.1, 17.1, 17.2 17.3, 17.5 and 17.6 in this IR set all relate to non-PBR Methodology issues, rather than PBR Methodology issues as intended. The Companies have provided responses to these questions, but has done so on the basis that they should only form part of the written proceeding records for the Companies and not part of the record for consideration in the oral hearing on the PBR Methodology.

In an effort to differentiate the IR responses relating to the PBR Methodology which are the subject of the oral portion of the hearing jointly for the Companies from those IR responses

which relate to other matters for the written portion of the hearing individually for each of FEI and FBC, the Companies will mark these IR responses as FEI-FBC BCUC IR No. 2a and file them into the record of each proceeding separately for FEI and FBC.

The Companies respectfully submit the attached response to FEI-FBC BCUC IR No. 2a responses not related to the PBR Methodology.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC. and
FORTISBC INC.

Original signed:

Diane Roy and Dennis Swanson

Attachments

cc (email only): Registered Parties

15.0 Reference: FEI Exhibit B-1, pp. 61-62, 231, 239

Growth Capital

"[29] Average Growth Capital Cost per Service Line Addition includes the average cost of a new service line as well the meter, regulator and average main extension costs." (FEI Exhibit B-1, p. 62)

Table C4-15: Historical Mains Activities, Unit Costs & Expenditures

	2010 Actual	2011 Actual	2012 Actual	2013 Projection	2013 Approved
Activities (meters)	81,259	79,355	65,411	75,000	109,680
Unit Costs ($/meter)	56	59	82	67	59
Expenditures (000's)	4,538	4,510	5,374	5,033	6,500

(Source: FEI Exhibit B-1, p. 231)

15.3 Given that the 2013 Projection of the Mains expenditures are 22.6 percent lower than 2013 Approved expenditures, please explain why the 2013 Projection was not used to determine the 2013 Base capital?

Response:

This IR has been identified as relating to Non-PBR Methodology.

FEI recognized that the 2013 base for the 2014-2018 formula should be a number that has undergone a full review in a public hearing. For that reason, FEI used the 2013 approved Capital Expenditures in Order G-44-12 as the starting point for the Capital formula, rather than 2013 projected expenditures. Overall 2013 spending in aggregate is projected to be approximately $6.5 million higher than 2013 approved amounts. As such, using projected expenditures for 2013 as the starting point for the Capital formula would have resulted in a higher 2013 base than that proposed in the PBR Plan

With capital spending, particularly for mains projects which are often discrete in nature, there may be timing issues for project completions that lead to fluctuations in capital additions from year to year. Under-spending in one year does not imply a permanent reduction that would be carried to the subsequent years.

In addition to the issue discussed above, the concept of re-setting the base as proposed in the question is contrary to the general intent of establishing a PBR in the first place. The base levels in the PBR capital formulas and the I-X escalation factors are intended to establish an appropriate reference level of capital spending from which FEI will seek to find efficiencies for the term of the PBR. If the base is to be reset because expenditures in a particular category, such as mains capital, are under-spent in a particular year, this would diminish the incentive

power of the PBR Plan significantly and reduce the motivation to pursue efficiencies for the longer-term benefit of customers.

Table C4-19: Historical Meter Activities, Unit Costs & Expenditures

	2010 Actual	2011 Actual	2012 Actual	2013 Projection	2013 Approved
Activities (meters)	6,949	5,608	4,720	4,670	6,923
Unit Costs ($/meter)	274	303	297	308	304
Expenditures (000's)	1,905	1,699	1,403	1,438	2,105

(Source: FEI Exhibit B-1, p. 239)

15.5 Given that the 2013 Projection of the Meter expenditures are 31.7 percent lower than 2013 Approved expenditures, please explain why 2013 Projection was not used to determine the 2013 Base capital? Please recalculate the 2013 Base capital using the 2013 Projection Meter expenditures. Please include the requested information in the form of a fully functioning electronic spreadsheet.

Response:

This IR has been identified as relating to Non-PBR Methodology.

Please refer to the response to FEI-FBC BCUC PBR IR 3.15.3 for an explanation of why the 2013 Approved expenditures have been uniformly applied as the Base Capital. Also, please refer to the response to FEI-FBC BCUC PBR IR 3.15.5.1 for the recalculation of the 2013 Base capital using 2013 Projection Meter (and Mains) expenditures.

15.5.1 Please recalculate the 2013 Base capital in Table B6-6 using the 2013 Projection Main and Meter expenditures. Please include the requested information in the form of a fully functioning electronic spreadsheet.

Response:

This IR has been identified as relating to Non-PBR Methodology.

The base year is a starting point from which future productivity is measured and should reflect the current level of required resources for the PBR Plan. To artificially reduce two components of the growth capital (mains and meters) based on projected spending but ignore the fact that there has been a shift in requirements to invest more in services ignores FEI's required investment in growth capital. Table C4-1 shows that the services expenditures were higher than approved in both 2012 and 2013, indicating this is a sustained investment requirement.

FEI has completed the analysis requested by the Commission to reduce only the mains and meters capital, but has also completed the analysis that also contemplates the overall growth capital portfolio, on which the PBR formula is based. FEI also notes that using the projected numbers to recalculate Table B6-6 requires a further adjustment to Table B6-7 to reflect using the projected number of service additions (7,762 rather than the approved number of service additions of 7,989) and has included updated versions of this table under both scenarios provided as well. Please see attached spreadsheet with the calculations, which result in an Average Growth Capital Cost per Service Line Addition for the 2013 Base of $2,544 when only mains and meters are adjusted, and of $3,044 when the growth capital category as a whole is adjusted. These amounts compare to $2,739 as FEI has proposed. FEI submits that if growth capital is adjusted to the projected, then it is not appropriate to single out only categories of growth capital that are lower. This approach ignores the realities faced by FEI in its current operating environment.

Please refer to Attachment 15.5.1.

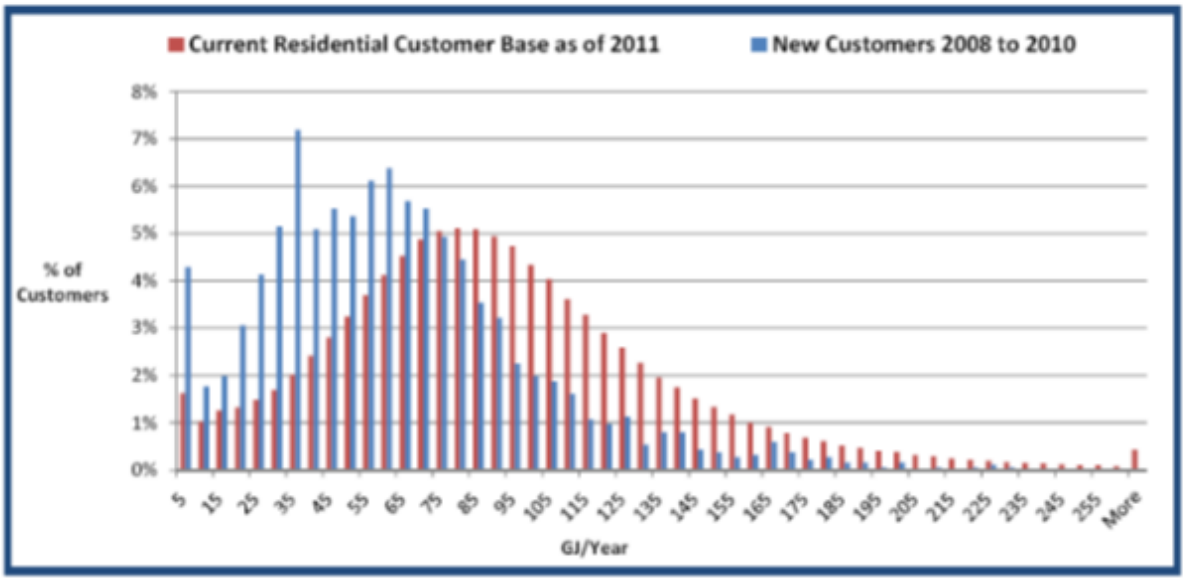
17.0 Reference: FEI Exhibit B-1, pp. 98-99; 2012 Generic Cost of Capital Proceeding (2012 GCOC), Business Risk, Appendix H, p. 34; 2012 GCOC, BCUC 1.108.1

Growth Capital

"The Commission first approved the RSAM in 1994; a deferral account mechanism that stabilizes the margins recovered from residential and commercial customers.[39]

The RSAM stabilizes delivery margin received from residential and commercial customer classes on a UPC basis. If UPC rates vary from the forecast levels used to set the rates, whether due to weather variances or other causes, FEI records the delivery charge differences in the RSAM deferral account for refunding or recovering through a rate rider to the RSAM rate classes." (FEI Exhibit B-1, pp. 98-99)

Figure 23. FEI's Residential Frequency Distribution



Impact of Residential Customer Additions with Low Use

	% of < 5 GJ Customers	Total Customers	Total Customers < 5 GJ	Average UPC (GJ)	Low Volume UPC	Usage Variance per Customer (GJ)	Total Usage Variance (GJ)	Delivery Rate ($/GJ)	Total Delivery Variance ($)
	(A)	(B)	(C)	(D)	(E)	(E)-(D)=(F)	(C)X(F)=G	(H)	
Year 1	1.75	770,000	13,475	96.0	5.0	-91.0	-1,226,225	$3.488	-$4,277,073
Year 5	4.00	792,200	31,688	92.2	5.0	-87.2	-2,763,194	$3.488	-$9,638,019

(Example prepared by Commission staff)

The table above is an example of the impact of residential customer additions with low use.

17.1 Please confirm that the delivery variance of $4.3 million in Year 1 and $9.6 million in Year 5 would be recovered in the Revenue Stabilization Adjustment Mechanism (RSAM). If not, please explain why not.

Response:

This IR has been identified as relating to Non-PBR Methodology.

FEI confirms that the RSAM would capture delivery charge revenue differences between the delivery charge revenues from the average UPC used to set rates and the delivery charge revenues of low UPC customers. The amounts recorded in the RSAM are then recovered from all RSAM customers (including low UPC customers). Subject to the observation that the calculations presented in the table in the question are approximations FEI agrees that amounts of $4.3 million and $9.6 million are directionally reasonable for the first and fifth years respectively.

17.2 Does FEI agree that the addition of low use residential customers will tend to increase rates for existing customers covered by the RSAM? Please explain why, or why not.

Response:

This IR has been identified as relating to Non-PBR Methodology.

No. FEI does not agree that a blanket conclusion of this nature can be drawn. Although it may generally be the case that larger use residential customers subsidize lower use customers it is not true in all cases. This series of questions makes a number of assumptions that need to be considered and challenged:

1. The series of questions appears to assume that the addition of lower use customers is the sole driver of a lowering of the Use per Customer (UPC). This is not correct. Existing customers also reduce their consumption as a result of improving building and appliance efficiency. For example a customer replacing a low efficiency appliance with a high efficiency appliance will cause a drop in consumption. Note that Company incentives are provided to existing customers to reduce their consumption by way of EEC programs, costs that are paid for by all non bypass customers. As such both existing and new customers' use per customer are lower than historical consumption.

2. Eventually, as existing customers undertake efficiency improvements, their consumption will move towards the consumption patterns seen by new customers.

3. The fact that the low use customers would still be paying their monthly basic charge also appears to be ignored. Therefore the contributions that these low use customers would be making towards FEI's revenue requirement would be much higher than their low annual consumption might appear to suggest.

4. Lower use customers may also be lower cost customers. For instance the per-customer capital cost to serve lower use multi-family complexes may be less than the average capital costs for new customer additions.

5. New mains extensions that involve lower use customers may require a customer contribution to reflect the economic effect on existing gas customers.

In summary FEI can agree at a general level with the statement that higher use customers may be subsidizing lower use customers but this is a much more complex issue when it is examined at a more detailed level.

17.3 For 2007 to 2012 provide a breakdown of December 31 year-end RSAM balance by rate class (Rate 1, Rate 2 and Rate 3/23) by year.

Response:

This IR has been identified as relating to Non-PBR Methodology.

The year-end RSAM balances are not tracked by the individual rate schedules. However, FEI provides the annual RSAM activity (pre-tax) by rate schedule for the years requested in the table below. The columns entitled "Activity Addition" represent the use rate variances from forecast for the year in question and the "Amortization" columns represent recovery or refund of the prior year balance through the RSAM rate rider.

	($000's)					
	Rate Schedule 1		Rate Schedule 2		Rate Schedules 3/23	
	Activity Addition	Amortization	Activity Addition	Amortization	Activity Addition	Amortization
2007	($3,676)	($10,734)	($4,117)	($3,627)	($2,008)	($3,305)
2008	($18,704)	($7,049)	($4,908)	($2,404)	($1,563)	($2,180)
2009	($12,841)	$329	($5,868)	$11	($6,940)	($39)
2010	$13,754	$3,599	$4,464	$1,194	$601	$1,179
2011	($15,424)	$1,383	($3,682)	$505	($6,696)	$513
2012	$4,148	$2,137	($2,463)	$751	($4,613)	$775

Numbers in parenthesis are credits to the deferral account and in the activity addition columns would represent years in which actual use per customer was greater than forecast. These amounts have all been previously provided in FEI's RSAM Annual Status Reports; further information on weather impacts, and monthly and service area amounts are provided in those reports. The largest driver of use rate variations is weather.

17.5 Please confirm that FEI is aware of the declining UPC of new customers, but has not requested changes to the FEI Main Extension Test and customer connection policies.

Response:

This IR has been identified as relating to Non-PBR Methodology.

The Companies confirm that they are aware of the declining UPC of new customers and have been continuously monitoring this decline. Additionally, FEI is aware of declining use of existing customers due to efficiency improvements of existing appliances and building stock. A detailed discussion on the effects of a decline in UPC in relation to the Companies' System Extension Policies can be found in Section 3 of the 2011 Main Extension Report filed on July 31, 2012. The Companies are currently in the initial stages of conducting a system extension policy review. A notice of review was provided to Commission Staff on page 8 of the 2012 Main

Extension Report filed on March 28, 2013. The Company also spoke with Commission Staff about this subject in a face to face meeting following submission of the 2012 Main Extension Report.

The Companies intend to review the existing MX test and policies as a whole, not simply review declining consumption. This is a complex task as the Companies need to consider multiple issues, including the interests of the existing and future customers, government energy policy, the impacts of technology and efficiency, changes to the economic and housing market environments, and intergenerational equity among new and existing customers.

17.6 Please advise when FEI plans to file its next Cost of Service Allocation / Rate Design application.

Response:

This IR has been identified as relating to Non-PBR Methodology.

Please refer to the response to FEI BCUC IR 2.292.4 (Exhibit B-24).

Attachment 15.5.1

REFER TO LIVE SPREADSHEET MODEL

Provided in electronic format only

(accessible by opening the Attachments Tab in Adobe)