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June 30, 2014

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) Panel Information Request (IR) No. 1 – REPLACEMENT FILING

On June 27, 2014, the Companies filed their response to BCUC Panel IR No. 1. It has come to our attention that revisions are required in the response to BCUC Panel IR No. 1.3.2.

The Companies hereby attach a replacement response for BCUC Panel IR No. 1, which replaces the previous submission in its entirety and includes a revised response to BCUC Panel IR No. 1.3.2.

We apologize for any inconvenience this may have caused. If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC. and
FORTISBC INC.

Original signed:

Diane Roy and Dennis Swanson

Attachment

cc (email only): Registered Parties

1.0 Reference: MULTI-YEAR PERFORMANCE BASED RATE-MAKING MECHANISM

FEI-FBC Final Submission on PBR Issues, p. 21

"Dr. Lowry's I-X-Formula Imposes Unrealistic Expectations: Dr. Overcast assessed the practical implications of Dr. Lowry's I-X formula (an exercise that, significantly, Dr. Lowry never sought to perform),[45] correctly noting that "I – X is not just an academic debate….If the results of the application of a formula provide no opportunity for the utility to earn its allowed return there is no reasonable basis for adoption of the formula."[46] Dr. Overcast summarized the practical outcome of Dr. Lowry's formula as follows:

> The PEG formula produces a cumulative shortfall in O&M revenues and capital expenditures relative to forecasts of between $112 million and $129 million for FEI depending on the low or high construction cost case and $34 million for FBC. These values are up to four and a half times as large as the required savings under the Companies PBR Plan. In other words, the PEG formula would require that the Companies achieve over four times the efficiency savings than those already proposed by the Company.[47]"

1.1 For the cumulative shortfall in O&M revenues and capital expenditures relative to forecasts shown below, please provide a copy of the calculations in the form of a fully functional spreadsheet:

(i) $112 million FEI cumulative shortfall in O&M revenues and capital expenditures.

(ii) $129 million FEI cumulative shortfall in O&M revenues and capital expenditures.

(iii) $34 million FEI cumulative shortfall in O&M revenues and capital expenditures.

The spreadsheet should provide a breakdown of the shortfall by O&M revenues and capital expenditures by year.

<u>Response:</u>

The calculation of the cumulative shortfall in O&M revenues and capital expenditures is provided in the form of a fully functional spreadsheet as Attachment 1.1. The spreadsheet applies Dr. Lowry's suggested I-factor and X-factors to the O&M and capital base amounts proposed in FEI's and FBC's PBR applications. The resulting shortfalls of $112 million and $129 million for FEI can be found in the FEI tab cells M87 (low construction scenario) and M90 (high construction scenario), and of $34 million for FBC in the FBC tab cell M58.

For clarity, the analysis includes the following I-Factor, X-Factor and other assumptions:

- The I-Factor is based on the BC Gross Domestic Product Implicit Price Index on Final Domestic Demand (BC-GDPIPIFDD). Since the Companies could not locate a forecast of the BC-GDPIPIFDD, 1.47%, which is the average of the most recent five year period (2008 – 2012), was utilized, as calculated by PEG in Table 7 of CEC's Errata Evidence (Exhibit C1-9-1 in FEI's proceeding and Exhibit C6-9-7 in FBC's proceeding).
- The X-Factor for the FEI scenario is equal to Dr. Lowry's Total Revenues X Factor recommendation (1.13% MFP plus 0.2% stretch) as set out in Exhibit C1-13-1, CEC's response to BCUC IR 1.22.1.
- The X-Factor for the FBC scenario is equal to Dr. Lowry's Total Revenues X Factor recommendation (1.18% MFP plus 0.2% stretch) as set out in Exhibit C6-12-1, CEC's response to BCUC IR 1.22.1.
- The growth factors are as forecast by FEI and FBC.
- The Base O&M and Base Capital are as proposed by FEI and FBC.

This analysis was used in the Companies' Rebuttal Evidence to the CEC filed on March 3, 2014 (Exhibit B-45 in both FEI and FBC's proceedings). As noted above, the analysis was completed based on the Total Revenue X-factor recommendations provided in CEC's response to BCUC IR 1.22.1, which was filed on January 30, 2014. Dr. Lowry revised his recommendation in response to BCUC IR 2.4.1 (Exhibit C1-22 in FEI's proceeding and Exhibit C6-21 in FBC's proceeding) which was filed on February 26, 2014. The Companies requested that the Commission strike the response to BCUC IR 2.4.1 from the record on February 27, 2014 (Exhibit B-40 in FEI's proceeding and Exhibit B-39 in FBC's proceeding). As the Commission had not yet made a determination on this request at the time rebuttal evidence was filed on March 3, 2014, the Companies' rebuttal evidence to CEC was based on Dr. Lowry's Total Revenue recommendation in BCUC IR 1.22.1, and not his revised Total Revenue recommendations in BCUC IR 2.4.1.

Using Dr. Lowry's revised X-Factors of 1.16% for FEI (0.96% MFP plus 0.2% growth) and 1.13% for FBC (0.93% MFP plus 0.2% growth)[1] in the analysis results in the following cumulative shortfalls in O&M revenues and capital expenditures:

FEI low construction scenario	$ 103 million
FEI high construction scenario	$ 121 million
FBC	$ 30 million

[1] BCUC IR 2.4.1 (Exhibit C1-22 in FEI's proceeding and Exhibit C6-21 in FBC's proceeding)

1.2 Please provide the X-factor assumptions and show the calculation of I-factors used in the calculation of the cumulative shortfall in O&M revenues and capital expenditures in the preceding question.

Response:

Please refer to the response to BCUC Panel IR 1.1.1.

1.3 For the FEI shortfalls of $112 million and $129 million and the FBC shortfall of $34 million, please provide by year the capital and non-capital (O&M, depreciation and amortization, and taxes) expenditures subject to the “X-I” mechanisms proposed FBC/FEI and Dr. Lowry.

Response:

Please refer to the Attachment 1.1, provided in response to BCUC Panel IR 1.1.1, which shows the shortfall in capital and O&M expenditures by year.

2.0 Reference: MULTI-YEAR PERFORMANCE BASED RATE-MAKING MECHANISM

FEI, Exhibit B-1, Section B4.2, p. 34; FBC, Exhibit B-1, Section B4.2, p. 31

2.1 For FEI, please calculate the O&M and Capital spending envelope for each of the following years: 2010, 2011, 2012 and 2013 give the following assumptions:

1. Using the formula from the 2004 PBR Plan for the year 2009.
2. Using the formula proposed in this proceeding.

Base the 2010 calculation on the 2009 formula driven spending envelope. Include the requested information in the form of a fully functioning electronic spreadsheet.

Response:

FEI has provided the requested fully functioning electronic spreadsheet as Attachment 2.1. The spreadsheet also includes the actual 2010 through 2013 amounts spent as requested in BCUC Panel IR 1.2.1.1.

The results are summarized in the table below.

	Formula Higher (Lower) than Actual ($000s)				
	2010	2011	2012	2013	Total
New Formula O&M	5,061	4,406	17,939	17,977	45,383
2004 Formula O&M	2,383	(812)	9,919	7,750	19,240
					26,143
New Formula Capital	10,208	(1,224)	(9,262)	(30,394)	(30,672)
2004 Formula Capital	7,912	(4,712)	(14,566)	(36,875)	(48,242)
					17,569

To avoid any misinterpretation of the above results, FEI offers the following four observations on these calculations that FEI requests the Commission take into consideration.

First, it can be seen that the formula-driven O&M amounts are higher than the actual amounts incurred in 2010 through 2013, except in 2011 when using the 2004 formula. This result is attributable to the fact that, as requested, FEI has used the 2009 formula-driven amounts (from the 2004-2009 PBR) as the base for the above calculation. Since the 2009 formula O&M and capital amounts were higher than the 2009 actual amounts (the 2009 formula driven amounts reflect the final year of a six year PBR period with no rebasing), using the 2009 formula-driven amount causes the formula-driven amounts in subsequent years also to be above actual amounts. In particular, FEI notes that the 2009 formula-driven O&M was approximately $11.1

million higher than 2009 actual amount. FEI was able to achieve these lower O&M amounts in the 2004 to 2009 PBR Period largely through the Utilities Strategy Project (USP) which was undertaken with the acquisition of FEVI. In the Shared Services Management Agreement that was filed as part of FEI's 2004 Application for Approval of 2005 Revenue Requirements and Delivery Rates and approved by Commission Order G-112-04, the annual O&M savings realized by FEI that resulted from the USP were $7.6 million in 2004, which carried forward to all other years of the PBR Period. When FEI returned to cost of service regulation in 2010, there was a significant rebasing that occurred, through which the lower actual O&M and capital expenditures achieved over the previous PBR term were embedded into rates. While these savings are therefore reflected in the 2010-2013 Actual amounts, they are not reflected in the formula driven amounts in the calculations above.

Second, to demonstrate the point above, if the calculations were based on the 2009 actual O&M amounts, there would be a cumulative *O&M shortfall* of $2.3 million using the new formula and a cumulative *O&M shortfall* of $26.9 million using the 2004 formula.

Third, with respect to capital, even using the 2009 formula-driven amounts as a base, neither the 2004 formula nor the new formula is capable of providing a spending envelope to accommodate the increase in sustainment capital that occurred in the years 2011 through 2013.

Fourth, as expected, the results show that the cumulative formula O&M and Capital amounts would have been greater using the new formula as opposed to the 2004 formula. These results are to be expected given the higher composite I-Factor and lower X-Factor associated with the new formula compared to the 2004 formula. As FEI has discussed in detail in its evidence and submissions, the proposed I-Factor and X-Factor are appropriate since the proposed I-Factor is reflective of the actual inflation to be experienced by FEI, and the proposed X-Factor reflects the fact that FEI has already realized significant efficiencies under its previous PBR that can only be achieved once, such as the USP discussed above. Drs. Overcast and Lowry agree that the efficiencies that can be expected to be achieved under PBR decline over successive PBR terms.

In short, the 2004 formula was based on the state of the Company going into the PBR period in 2004, whereas the current formula proposes an (I-X) that appropriately reflects the level of efficiency that can reasonably be expected given the past success of PBR and current cost structures.

2.1.1 In each of the above cases, please compare the formula driven spending envelope to actual spending.

Response:

Please refer to the response to BCUC Panel IR 1.2.1.

2.2 For FBC, please calculate the O&M spending envelope for each of the following years: 2012 and 2013 give the following assumptions:

1. Using the formula from the 2007 PBR Plan for the year 2009.
2. Using the formula proposed in this proceeding.

Base the 2012 calculation on the 2011 formula driven spending envelope. Include the requested information in the form of a fully functioning electronic spreadsheet.

Response:

FBC assumes the reference in item 1 above should read "for the year 2011", which is the last year of FBC's 2007 PBR Plan. The requested fully functioning electronic spreadsheet has been provided as Attachment 2.2. The spreadsheet also includes the actual 2012 and 2013 amounts spent as requested in BCUC Panel IR 1.2.2.2.

The results are summarized in the table below.

	Formula Higher (Lower) than Actual ($000s)		
	2012	2013	Total
New Formula O&M	2,978	4,250	7,227
2007 Formula O&M	1,652	1,582	3,234
			3,993

It can be seen that the formula-driven O&M amounts are higher than the actual amounts incurred in 2012 and 2013. This results from the Commission's request that FBC use the 2011 formula-driven O&M amount (from the 2007-2011 PBR) as the base for the above calculations. Since the 2011 formula O&M amount was higher than the 2011 actual amount, using the 2011 formula-driven amount causes the formula-driven amounts in subsequent years to be artificially inflated.

2012 and 2013 O&M Expense are reflective of the Company managing to (re-based) approved amounts that were based on a scope of work, and the associated costs of that scope. These requested and approved O&M levels were re-set under a cost of service framework in the 2012-

2013 Revenue Requirements Application and approved after an extensive and public review of that scope of work and costs.

While the results show that the cumulative formula O&M would have been greater using the new formula as opposed to the 2007 formula, the results are expected given the higher composite I-Factor and lower X-Factor associated with the new formula being applied to the 2011 base amount. As FBC has discussed in detail in its evidence and submissions, the proposed I-Factor and X-Factor are appropriate since the proposed I-Factor is reflective of the actual inflation to be experienced by FBC, and the proposed X-Factor reflects the fact that FBC has already realized significant efficiencies under its previous PBR.

In short, the 2007 formula was based on the state of the Company going into the PBR period in 2007, whereas the current formula proposes an (I-X) that appropriately reflects the level of efficiency that can reasonably be expected given the past success of PBR and current cost structures.

2.2.1 In each of the above cases, please compare the formula driven spending envelope to actual spending.

Response:

Please refer to the response to BCUC Panel IR 1.2.2.

3.0 Reference: OPERATATIONS AND MAINTENANCE EXPENSES

FEI Exhibit B-1-5, Covering Letter, p. 2; FBC Exhibit B-1, p. 112

3.1 For FBC, please provide the Actual 2013 O&M and capital expense by Department as compared to the 2013 Approved and the 2013 Projection.

Response:

2013 Approved, Projected and Actual O&M is provided in the table below.

FBC has included in Line 16 of the table an adjustment to 2013 Actual O&M to account for O&M that was delayed to 2014. This adjustment captures $576 thousand in O&M expenses that were planned for 2013, but were delayed due to the labour disruption and that will instead be completed in 2014. As explained in response to BCUC IR 2.90.13, this situation arises only due to timing, and these costs will not affect 2014 rates or earnings sharing. As stated in response to BCUC IR 2.90.13, FBC originally estimated approximately $800 thousand in approved O&M activities planned for 2013 would be delayed to 2014 due to the labour disruption. The actual amount is $576 thousand.

As, in the absence of the labour disruption, 2013 Actual O&M would have incorporated this $576 thousand amount, it should be incorporated in the comparison of 2013 Actual O&M against the 2013 Approved and Projected amounts. After taking this into consideration, 2013 Actual O&M is $103 thousand higher than 2013 Projected O&M, and $349 thousand lower than 2013 Approved O&M. Even with the adjustment, 2013 Actual O&M is not fully representative of the Company's base year requirements. While the utility managed at a lower cost than approved, this was not sustainable and reflected management's efforts over a short period of time to respond to a challenging labour dispute situation. The reasons for this are described in more detail in the Company's response to BCUC Panel IR 1.3.2.

		2013 Approved	2013 Projection	2013 Actual
			($000s)	
1	Generation	$ 2,492	$ 2,556	$ 2,513
2	Operations	20,816	20,938	20,886
3	Customer Service	7,541	7,510	7,631
4	External Relations	1,469	1,440	1,426
5	Energy Supply	1,124	1,124	1,083
6	Information Technology	2,974	2,988	2,948
7	Engineering	2,791	2,822	2,737
8	Operations Support	1,252	1,205	1,252
9	Facilities	3,466	3,389	3,493
10	Environment, Health & Safety	953	953	877
11	Finance & Regulatory	4,271	4,080	3,908
12	Human Resources	1,874	1,874	1,835
13	Governance	2,373	2,490	2,400
14	Corporate	4,225	3,800	3,706
15	**Total O&M Expense**	**$ 57,621**	**$ 57,169**	**$ 56,696**
16	2013 O&M Adjustment	-	-	576
17	**Total O&M**	**$ 57,621**	**$ 57,169**	**$ 57,272**

2013 Approved, Projected and Actual Capital is provided in the table below. Similar to O&M, Actual capital expenditures in 2013 cannot properly be compared against the Approved or Projected expenditures. As FBC stated in its response to BCPSO IR 2.27.1, much of FBC's capital expenditure program was placed on hold on June 26, 2013 and has been rescheduled for completion in 2014 and 2015. In total, 2013 capital expenditures are $4.0 million lower than the Projection in FBC's Evidentiary Update and $49.3 million lower than 2013 approved.

		2013 Approved	2013 Projection	2013 Actual
			($000s)	
1	**Regular Capital**			
2	Generation	2,363	2,823	1,546
3	Transmission-Station-Distribution	36,591	52,031	24,838
4	Other Capital	8,134	10,755	8,324
5	**Total Regular Capital**	**47,088**	**65,609**	**34,708**
6				
7	**Major Projects**			
8	Generation	-	425	390
9	Transmission-Station-Distribution	11,886	7,464	5,056
10	Other Capital	42,996	21,929	12,564
11	**Total Major Project**	**54,882**	**29,818**	**18,010**
12				
13	**Other Adjustments**			
14	City of Kelowna Acquisition [1]	37,766	37,766	37,722
15	2013 Capital Deferred [2]	-	(38,825)	-
16				
17	**Total Gross Capital Expenditures**	139,736	94,368	90,440

(1) *2013 Approved capital expenditures restated to include the acquisition of the City of Kelowna distribution assets.*

(2) *2013 Capital Deferred is reflected in 2013 Actual by category*

3.2 For FBC and FEI 2013 Actuals, please provide an outline of the sustained versus temporary savings with an explanation of why each has been classified as such.

Response:

Overview:

In any given year, FortisBC may experience temporary (i.e. one-time), unanticipated higher or lower expenses. Circumstances like vacancies due to staff turnover may result in a short term reprioritization of work activities and result in temporary savings in the year. Unanticipated one-time higher expenses such as legal expenses also occur, with the higher expenses offsetting savings. In any given year, FortisBC manages these unanticipated cost pressures and opportunities, reprioritizing funds available and ensuring the funds are spent prudently.

<u>FBC:</u>

With respect to FBC, 2013 Actual O&M was $103 thousand more than the 2013 Projection, taking into account the 2013 Delayed O&M, which is explained in the response to BCUC Panel IR 1.3.1. As explained in FortisBC's Final Argument paragraphs 31 through 33, the difference between FBC's 2013 Projection and FBC's 2013 Approved O&M has already been reflected in FBC's requested base O&M. With respect to 2013 Actual O&M, even with the adjustment for 2013 delayed O&M, the 2013 Actual O&M Expense does not reflect typical operating conditions as the O&M activities of supporting departments were also impacted by the labour disruption during nearly half of 2013. For example, and explained further below, employees were redeployed from other departments to Operations to cover labour dispute duties which in turn impacted the ability of their own departments to complete typical O&M activities. Therefore, 2013 Actual expenditures are not representative of normal operating conditions and requirements and should not be used as a basis for determining 2013 Base O&M under the PBR Plan.

FBC explained in its Evidentiary Update (Exhibit B-1-6) that the labour disruption resulted in certain IBEW cost reductions, but also cost increases in other areas, including:

- Costs of benefits remaining substantially unchanged, with a greater proportion of benefit loading costs charged to 2013 O&M expense rather than capital as a result of reduced capital spending in 2013 (benefit costs that do not get charged to capital default to O&M);
- A greater proportion of labour and vehicles costs being charged to 2013 O&M expense rather than capital as a result of reduced capital spending in 2013 (labour and vehicle costs that do not get charged to capital default to O&M); and
- Incremental labour costs incurred by Management and Exempt staff for completing IBEW work, offsetting the savings in IBEW labour.

The department variances in the table below reflect the net impact of these factors, including the charging of Management and Exempt time between departments for completing IBEW work.

Despite the fact that the 2013 Actuals are not comparable by department, the following table and explanations address increases or decreases from the net sustainable savings already identified and embedded in the Base O&M.

		2013 Projection	2013 Actual	2013 Act vs Proj	Sustained	Temporary
				($000s)		
1	Generation	$ 2,556	$ 2,513	$ (43)	$ -	$ (43)
2	Operations	20,938	20,886	(52)	-	(52)
3	Customer Service	7,510	7,631	121	-	121
4	External Relations	1,440	1,426	(14)	-	(14)
5	Energy Supply	1,124	1,083	(41)	-	(41)
6	Information Technology	2,988	2,948	(40)	-	(40)
7	Engineering	2,822	2,737	(85)	-	(85)
8	Operations Support	1,205	1,252	47	-	47
9	Facilities	3,389	3,493	104	-	104
10	Environment, Health & Safety	953	877	(76)	-	(76)
11	Finance & Regulatory	4,080	3,908	(172)	-	(172)
12	Human Resources	1,874	1,835	(39)	-	(39)
13	Governance	2,490	2,400	(90)	(60)	(30)
14	Corporate	3,800	3,706	(94)		(94)
15	**Total O&M Expense**	**$ 57,169**	**$ 56,696**	**$ (473)**	**$ (60)**	**$ (414)**
16	2013 Adjustment	-	576	576	-	576
17	**Total O&M**	**$ 57,169**	**$ 57,272**	**$ 103**	**$ (60)**	**$ 162**

An explanation by department follows:

Generation:

Generation O&M was $43 thousand less than Projection. Labour costs were lower than projected as a result of the labour disruption, but this reduction was offset by reduced recoveries for third party and capital work which could not be performed during the disruption. Therefore, the $43 thousand is a temporary variance.

Operations:

Operations O&M was $52 thousand less than Projection. This variance reflects the net impact of the labour disruption, which also is a temporary variance.

Customer Service:

The 2013 O&M variance of $121 thousand over Projection is primarily due to an increase in bad debt expense during 2013, increased labour in preparation for the BC LiveSmart program that did not materialize, and lower charges to capital (related to new construction which was not being completed during the labour disruption), all of which are temporary.

External Relations:

2013 Actual O&M was $14 thousand less than the Projection. The major cause of the under expenditure was due to the labour disruption with redeployment of three employees to Operations during the dispute. This has been classified as a temporary variance.

Energy Supply:

Actual O&M was $41 thousand less than Projection. This temporary variance resulted from employees performing work related to the labour disruption.

Information Technology:

2013 Actual O&M was $40 thousand less than the Projection. The major cause of this under expenditure was the temporary cancellation of employee training due to the labour disruption; this variance is therefore temporary.

Engineering:

Engineering O&M was $85 thousand less than the Projection. This variance is temporary since it also is due to the labour disruption. Offsetting the labour cost reduction due to Engineering personnel being redeployed to operating activities, other activities that normally would have reduced the department's O&M, such as training and technical development (for which labour time is charged from the department to general loadings), were not carried out because of operating requirements.

Operations Support:

Operations Support consists of material services and procurement, fleet services and property services, all of which were impacted by the labour disruption. O&M Expense for 2013 was $47 thousand higher than the Projection due to lower vehicle recoveries partially offset by savings in labour and vehicle expenses. This variance is temporary.

Facilities:

Facilities O&M was $104 thousand higher than Projection, primarily resulting from the temporary increased security costs during the labour disruption.

Environment, Health & Safety:

The temporary variance of $76 thousand was due to reduced labour costs from the absence of EH&S IBEW employees during the labour disruption.

<u>Finance and Regulatory:</u>

Finance and Regulatory Affairs' O&M was $172 thousand less than Projection. The variance is attributable to the redeployment of one M&E employee to Operations during the labour disruption and vacancies which aggregated approximately 10 months of fully loaded vacant positions in 2013. The vacancies were driven by both the 2013 labour disruption and challenges in recruiting candidates with the relevant financial skills and experience. The Finance department was successful in recruiting all vacancies for 2014. On a short term basis, FBC was able to cover off the vacancies through a combination of reprioritizing activities where possible and through unpaid overtime by management employees. These actions, while successful to manage the vacancies over a short period of time, are not sustainable over the long term given the impact on employees and thus this is considered a temporary variance for 2013.

<u>Human Resources:</u>

Human Resources 2013 O&M was $39 thousand less than Projection. This temporary reduction is due to HR employees assigned and charged to Operations activities during the labour disruption.

<u>Governance:</u>

2013 O&M was $90 thousand less than Projection. Of this amount, approximately $60 thousand is the result of lower insurance premiums which are expected to persist. Insurance premiums are excluded from the proposed PBR formula and will be flowed through to customers in any event. Of the remaining $30 thousand variance, $20 thousand relates to lower external legal fees. Due to the labour disruption, certain work requiring external legal resources was temporarily delayed. The remaining variance of $10 thousand is related to internal audit ($7 thousand) and other insurance costs ($3 thousand). These variances are temporary in nature.

<u>Corporate:</u>

The $94 thousand variance between 2013 Actual and Projection is not reflective of sustainable savings as it relates to corporate expenses which can vary by year and do not necessarily trend in a linear manner. The variance primarily relates to decreases in executive labour, which will change annually based on median compensation and cross charges to FEI, as well as decreases in Fortis Inc. charges, which will change annually based on FBC's relative asset base compared to the other Fortis Inc. subsidiary utilities. However, the 2013 Projected Corporate O&M is still considered the most appropriate estimate for the PBR term as it normalizes for items such as the one-time 2013 recovery of approximately $200 thousand in Provincial Sales Tax on materials as it is not a repeatable cost reduction during the term of the PBR.

2013 O&M Adjustment:

FBC delayed $576 thousand related to line maintenance and Generation maintenance programs not completed in 2013 due to the labour disruption but will be required to be performed in 2014, as explained in the response to BCUC IR 2.90.13 and BCUC Panel IR 1.3.1.

FEI:

With respect to FEI, as stated in the cover letter to the Evidentiary Update dated February 21, 2014, and as reflected in the table below, FEI 2013 Actual O&M was $5.4 million less than the 2013 Projection, to which adjustments were made to arrive at the Base O&M for the O&M Formula described in Section B6 of the Application. The variances discussed below do not affect the adjustments made to arrive at the O&M Base. As explained below, $3.578 million of this difference is savings of a temporary nature.

(in $ thousands)	2013 Actual	2013 Projection	2013 Act vs Proj	Sustained	Temporary
Operations	64,237	63,509	728	220	508
Customer Service	36,630	41,825	(5,195)	(1,871)	(3,324)
Energy Solutions & External Relations	19,022	19,215	(193)		(193)
Energy Supply & Resource Dev	3,937	4,000	(63)		(63)
Information Technology	24,249	24,217	32		32
Engineering Services & PM	15,297	15,456	(159)		(159)
Operations Support	11,718	11,867	(149)		(149)
Facilities	9,230	9,249	(19)		(19)
Environment Health & Safety	2,680	2,681	(1)		(1)
Finance & Regulatory Services	12,872	13,279	(407)	(180)	(227)
Human Resources	8,305	8,458	(153)		(153)
Governance	7,995	7,935	60		60
Corporate	(248)	(358)	110		110
	215,924	221,333	(5,409)	(1,831)	(3,578)

Operations:

The additional O&M in the Operations department in 2013 was primarily due to higher activity levels for leak repairs, TPIP activities (cathodic protection evaluations, pipe integrity assessments, natural hazards) and vegetation management. Of the $728 thousand in higher spending realized, $220 thousand reflects higher levels of vegetation management activities that were experienced in 2013 and also reflect an ongoing O&M requirement. The remaining $508 thousand pertains to a combination of temporary higher activity levels, and a one-time legal expense associated with labour grievances. FEI did not propose to include the $508 thousand in the 2013 Base O&M.

Customer Service:

Customer Service realized savings in 2013 as compared to Projection of $5.2 million mainly related to reduction in mass market bad debt, reduction in repeat call volumes, cost savings in bill printing and postage, as well as fewer meter reads. Of this amount, $1.9 million (which includes the reduction of temporary employees discussed in the responses to the BCUC IR 2.251 series totaling $373 thousand) is sustainable and expected to be a permanent variance and has reduced the 2013 Base O&M for the formula.

$3.3 million is considered temporary as Customer Service is expecting an increase in outbound call volumes ($550 thousand), increased postage costs ($700 thousand) and bad debts expense ($1.1 million) and higher costs to meet meter reading service levels for regular and special reads ($750 thousand). In particular, the following factors, which are akin to exogenous factors, were considered in classifying the $3.3 million as temporary only:

1. Meter reading – As discussed in the Application, 2013 was the first year of FEI's new meter reading service provider. Under the new meter reading contract, meters are now read on a monthly basis, which obviates the need for the estimating that was required when meter reads were done every second month. During 2013, the new meter reader was not able to read all the meters on a monthly basis as it took several months to ramp up to the customer service level expected, which resulted in lower costs in 2013. To meet the 2013 customer service levels, the costs should have been higher, as they will be going forward. Given that this lower cost was due to the transition to the new meter reading service and the service levels are already committed to under the meter reading contract, it is fair and reasonable to treat these savings as temporary in nature.

2. Bad debts – FEI forecasts bad debt on the basis of an average of several years, due to the variability in these costs which are affected by many factors beyond FEI's control, including the weather, the economy and the creditworthiness of customers. In 2013, FEI experienced lower bad debt than reflected in the 2013 Projection. Given that these costs are variable and outside of FEI's control, the appropriate amount of bad debt for the 2013 Base O&M for the PBR should reflect the 2013 Projection (as adjusted in FEI's February 21, 2014 Evidentiary Update), rather than the lower one-time actual amount experienced.

3. Postage – In 2013 Canada Post announced a large increase to postage rates effective in 2014. Given that this is a factor completely beyond FEI's control, FEI considers it fair and reasonable to incorporate this known cost into the 2013 Base O&M.

Energy Solutions and External Relations:

Actual O&M was $193 thousand less than Projection, all of which is classified as temporary in nature. This was primarily due to lower incentive spending on the High Carbon Fuel Switching program which is dependent on customer participation. While customer participation may vary by year, it is beyond FEI's control and the 2013 Approved level of funding for this program reflects the approved envelope of funding that FEI should maintain as being available for participants. The 2013 Approved amount is therefore more appropriate to include in the 2013 Base O&M, than the 2013 Actual amount.

Energy Supply and Resource Development:

Actual O&M was $63 thousand less than Projection, all of which is classified as temporary in nature. $105 thousand was due to a one-time reduction in employee expenses and consulting, partially offset by $41 thousand increased labour overtime.

Information Technology:

Actual O&M was $32 thousand higher than Projection due to internal resources being backfilled with contractors to support current projects. Due to the relatively small, temporary nature of this increase above the 2013 Projection, FEI did not propose to include this amount in the 2013 Base O&M.

Engineering Services and PM:

Actual O&M was $159 thousand less than Projection due to difficulties in attracting and hiring technical staff in the current labour markets. Work was reprioritized in the short-term until the positions were filled, such that the savings are temporary in nature.

Operations Support:

Actual O&M was $149 thousand less than Projection due to temporary labour vacancies as a result of retirements and employee movement between departments. Work was reprioritized in the short-term until the positions were filled, such that the savings are temporary in nature.

Finance and Regulatory Affairs:

Finance and Regulatory Affairs' O&M was $407 thousand less than Projection. Approximately half of this amount, or $180 thousand, is considered sustainable, representing permanent labour savings due to integration activities in the regulatory administration and financial reporting areas that were able to be realized earlier than anticipated. The remainder is due to a high level of staff vacancies and turnover, requiring additional unpaid overtime by M&E and reprioritization of work that is not sustainable, resulting in temporary savings.

Human Resources:

Actual O&M was $153 thousand less than Projection due to temporary vacancies and higher cross charges to FBC due to the labour disruption, partially offset by increased training and eLearning expense. With respect to the temporary vacancies, work was reprioritized in the short-term until the positions were filled, such that the savings are temporary in nature. With respect to the higher cross-charges to FBC, these are considered temporary in nature as they are attributable to the labour disruption.

Governance:

Actual O&M was $60 thousand higher than Projection due to temporary increases in legal expense. Due to the relatively small, temporary nature of this increase above the 2013 Projection, FEI did not propose to include this amount in the 2013 Base O&M.

Corporate:

Actual O&M was $110 thousand higher than Projection primarily due to an increase in support costs for the President and CEO's office including consulting fees and corporate expenses. Due to the relatively small, temporary nature of this increase above the 2013 Projection, FEI did not propose to include this amount in the 2013 Base O&M.

Attachment 1.1

REFER TO LIVE SPREADSHEET MODEL

Provided in electronic format only

(accessible by opening the Attachments Tab in Adobe)

Attachment 2.1

REFER TO LIVE SPREADSHEET MODEL

Provided in electronic format only

(accessible by opening the Attachments Tab in Adobe)

Attachment 2.2

REFER TO LIVE SPREADSHEET MODEL

Provided in electronic format only

(accessible by opening the Attachments Tab in Adobe)