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February 5, 2015

Via Email
Original via Mail

British Columbia Public Interest Advocacy Centre
Suite 209 – 1090 West Pender Street
Vancouver, B.C.
V6E 2N7

Attention: Ms. Tannis Braithwaite, Executive Director

Dear Ms. Braithwaite:

Re: FortisBC Energy Inc. (FEI)

Application for 2015 and 2016 Revenue Requirements and Rates for the Fort Nelson Service Area (the Application)

Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO) Information Request (IR) No. 1

On December 3, 2014, FEI filed the Application as referenced above. In accordance with Commission Order G-192-14 setting out the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCOAPO IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

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

1.0 Reference: GENERAL

Exhibit B-1

Sensitivity of Revenue Requirement and Deficiency to Rate Base/Capital Expenditure

1.1 Please provide the impacts on the revenue requirement and on the revenue deficiency for the years 2015 and 2016 (separately) of:

a) An increase in 2014 capital expenditure of $100K;

Response:

Please refer to the table below which provides the approximate impact to the revenue requirement (which is the same as the impact to the revenue deficiency) as well as the impact to the delivery component of the rate in response to BCOAPO IRs 1.1.1(a) through 1.1.1(h).

In order to calculate the impact on the revenue requirement of the various scenarios, the following assumptions have been made:

- The change in capital expenditure is equal to the plant addition and occurs on a mid-year basis consistent with the treatment of plant additions in the Application;
- The change is rate base is assumed to be the result of changes in gross plant in service as opposed to changes in deferred charges or working capital;
- A change in mid-year rate base has been derived by assuming that the plant additions are double the desired change in mid-year rate base (i.e. to arrive at a mid-year increase of $100 thousand, the plant additions change would be $200 thousand[1];
- A change in opening rate base is derived by increasing the opening gross plant in service balance and assuming that depreciation is applicable in that year (i.e. this assumes that the closing balance from the previous year was $100 thousand greater);
- Average depreciation rates;
- Average CCA rates; and
- Forecast return on rate base.

[1] Alternatively, the opening balance could be increased by $100 thousand to achieve an increase in mid-year rate base of $100 thousand; however, this approach would result in the exact same impact as the opening balance scenario and FEI expects that this may not have been what the question intended.

Impact of Change of $100 Thousand	2014 Capital Expenditure	2014 Mid-Year Rate Base	2015 Opening Rate Base	2015 Capital Expenditure	2015 Mid-Year Rate Base	2016 Opening Rate Base	2016 Capital Expenditure	2016 Mid-Year Rate Base
Reference	BCOAPO 1.1(a)	BCOAPO 1.1(b)	BCOAPO 1.1(c)	BCOAPO 1.1(d)	BCOAPO 1.1(e)	BCOAPO 1.1(f)	BCOAPO 1.1(g)	BCOAPO 1.1(h)
2015 ($ Thousand)	11	21	11	3	5	-	-	-
2015 (%)	0.5%	1.1%	0.5%	0.1%	0.3%	0.0%	0.0%	0.0%
2016 ($ Thousand)	(0)	(0)	(0)	8	16	11	3	5
2016 (%)	0.0%	0.0%	0.0%	0.4%	0.8%	0.5%	0.1%	0.3%
Total ($ Thousand)	10	21	10	11	21	11	3	5
Total (%)	0.5%	1.1%	0.5%	0.5%	1.1%	0.5%	0.1%	0.3%

b) An increase in 2014 mid-year rate base of $100K;

Response:

Please refer to the response to BCOAPO IR 1.1.1(a).

c) An increase in 2015 beginning rate base of $100K;

Response:

Please refer to the response to BCOAPO IR 1.1.1(a).

d) An increase in 2015 capital expenditure of $100K;

Response:

Please refer to the response to BCOAPO IR 1.1.1(a).

e) An increase in 2015 mid-year rate base of $100K;

Response:

Please refer to the response to BCOAPO IR 1.1.1(a).

f) An increase in 2016 beginning rate base of $100K;

Response:

Please refer to the response to BCOAPO IR 1.1.1(a).

g) An increase in 2016 capital expenditure of $100K; and

Response:

Please refer to the response to BCOAPO IR 1.1.1(a).

h) An increase in 2016 mid-year rate base of $100K.

Response:

Please refer to the response to BCOAPO IR 1.1.1(a).

2.0 Reference: MUSKWA RIVER CROSSING CAPITAL COSTS

Exhibit B-1, pp 2-3

Preamble: The referenced pages state:

The largest driver of the increase in the revenue requirements over the Test Period is the Muskwa River Crossing Project. This project was completed in 2014 and will be added to rate base at the beginning of 2015 at a capital cost of $4,210 thousand, or approximately $1,840 thousand under budget.

2.1 Can FEI confirm that the total capital costs associated with the referenced project is $4,210 thousand? If not, please provide an itemized list of other capital (or capitalized) costs associated with the project but are not included in the $4,210 thousand total and indicate when each of these additional costs were or will be included in rate base.

Response:

The actual final capital costs for the Muskwa River Crossing Project cannot be confirmed until the end of the first quarter of 2015 once all invoices are expected to be in. However, the final capital costs are expected to be close to $4,210 thousand.

In accordance with Order C-2-14, development costs of $1,011 thousand (including AFUDC), application costs of $36 thousand, and the associated tax offset of $232 thousand for these costs, were all captured in the Muskwa River Crossing Project Costs Deferral Account for a closing December 31, 2014 balance of $815 thousand. This deferral account was approved to enter rate base January 1, 2015 and to be amortized into the delivery rates over a three period commencing January 1, 2015.

Thus, including both capital and net of tax deferred costs, the total project costs recovered in delivery rates are expected to be close to $5,025 thousand.

Note that Table 6-1 of the Muskwa River Pipeline Crossing CPCN Application estimated total project costs at $7,040 thousand (including AFUDC). This table did not include the forecast tax offset to the deferral account of $221 thousand as shown in Table 6-5 of the CPCN. As such, the comparable forecast to the project cost total of $5,025 thousand shown above is $6,819 thousand ($7,040 thousand less $221 thousand).

3.0 Reference: Earned Return and Financing Costs

Exhibit B-1, p. 10

Impacts of Changes in Rate Base on the Revenue Deficiency and Revenue Requirement

Preamble: The referenced page states that:

Changes in the amount of rate base affect the amount of return on the rate base. The increase in return on rate base is largely due to capital related to the Muskwa River Crossing project. The rate base has increased from $5,698 thousand in 2014 to $11,744 thousand in 2015 (Section 9, Schedule 41, Line 24) and to 12,170 thousand in 2016 (Section 9, Schedule 42, Line 24). This contributes $129 thousand to the revenue deficiency in 2015 and an additional $14 thousand in 2016 (cumulative $143 thousand over the Test Period).

3.1 Please provide the corresponding increases in 2015 and 2016 <u>revenue requirements</u> associated with the increases in rate base in 2015 and in 2016.

<u>Response:</u>

The contribution to the revenue deficiency is equal to the increase in the revenue requirements. As such, the revenue requirements increases associated with changes in rate base in 2015 and in 2016 are approximately $129 thousand in 2015 and an additional $14 thousand in 2016 as stated on page 10 of the Application.

3.2 The referenced evidence indicates that an increase in rate base of $6,040K in 2015 (11,744K – 5,698K) is associated with an increase in the 2015 revenue deficiency of $129K, while the increase in rate base of $426K in 2016 (12,170K – 11,744K) is associated with an increase in the 2016 revenue deficiency of $14K.

In 2015, the change in revenue deficiency is <u>2.1%</u> of the change in rate base (129/6,046) while in 2016, the change in revenue deficiency is <u>3.3%</u> of the change in rate base (14/426).

Please provide a high-level explanation as to why the sensitivity of change in revenue deficiency to change in rate base is about 50% higher in 2016 (3.3%) than in 2015 (2.1%).

Response:

Although the correct rate base amounts were used in the calculations to determine the impact on the revenue deficiency, FEI has determined that the incorrect rate base amounts were referenced on page 10 of the Application. With regards to the 2014 rate base amount, the projected rate base rather than the approved rate base was referenced. With regards to the 2015 and 2016 forecasts, the paragraph referenced figures from Column 3 rather than Column 5 of Schedules 41 and 42, respectively. Thus the paragraph should have stated the following:

> *The rate base has increased from $7,936 thousand in 2014 to $11,756 thousand in 2015 (Section 9, Schedule 41, Line 24) and to 12,178 thousand in 2016 (Section 9, Schedule 42, Line 24). This contributes $129 thousand to the revenue deficiency in 2015 and an additional $14 thousand in 2016 (cumulative $143 thousand over the Test Period).*

Using the amounts as set out in the restated paragraph above, the sensitivity of the change in rate base to the revenue deficiency is 3.4 percent for 2015 and 3.3 percent for 2016 and is demonstrated below:

$ Thousands

Line	Particulars	Reference	2015	2016
1	Impact on Revenue Deficiency	Schedule 1, Line 25, Columns 2 & 4	129	14
2	Rate Base			
3	Forecast		11,756	12,178
4	Previous Year (Approved)		7,936	11,756
5	Change in Rate Base	Line 3 - Line 4	3,820	422
6				
7	% Revenue Deficiency of Rate Base Change	Line 5 / Line 1	3.4%	3.3%

4.0 Reference: DEMAND FORECAST

Exhibit B-1, Section 3.4, pp 16-19

Historical Accuracy of Demand Forecasts

4.1 Please provide any available historical information with respect to FEFN's (i) forecasted demand, (ii) actual demand and (iii) normalized actual demand in prior years. Please provide the information separately by rate class (Residential, Commercial, and Industrial) and in the aggregate (i.e., FEFN's total demand forecast, actual demand, and normalized demand in the previous years for which data is available.)

<u>Response:</u>

Please refer to the response to BCUC IR 1.4.1 for the requested information.

5.0 Reference: REVENUE REQUIREMENT AND RATES

Exhibit A-3, BCUC IR 1.3.1

Sensitivities of Revenue Requirement and Revenue Deficiency

5.1 Please provide the impact on the 2015 Revenue Requirement and on the 2015 Revenue Deficiency of (i) a 1% increase in residential customer additions, (ii) a 1% increase in commercial additions, (iii) a 1% increase in residential use per customer, and (iv) a 1% increase in commercial use per customer.

<u>Response:</u>

The impact on the 2015 revenue requirement and revenue deficiency is as follows for each scenario:

(i) The residential account additions forecast for 2015 is 13 customers. A one percent increase in residential customer additions is equal to 0.13 customers. Since the customer additions forecast is rounded to the nearest whole number, a one percent change in customer additions does not affect the 2015 revenue requirement forecast.

(ii) The commercial account additions forecast for 2015 is 12 customers. A one percent increase in commercial additions is 0.12 customers. Since the customer additions forecast is rounded to the nearest whole number, a one percent change in commercial customer additions does not affect the 2015 revenue requirement forecast.

(iii) A one percent increase in residential use per customer would decrease the 2015 revenue requirement and deficiency by approximately $6.6 thousand.

(iv) A one percent increase in commercial use per customer would decrease the 2015 revenue requirement and deficiency by approximately $8.9 thousand (approximately $5.8 thousand from Rate Schedule 2.1 and approximately $3.1 thousand from Rate Schedule 2.2).