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February 5, 2015

Via Email
Original via Mail

Fort Nelson & District Chamber of Commerce
5500 Alaska Highway
P.O. Box 196
Fort Nelson, BC
V0C 1R0

Attention: Ms. Bev Vandersteen, Executive Director

Dear Ms. Vandersteen:

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 Fort Nelson & District Chamber of Commerce (FNDCOC) 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 FNDCOC 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

1.1 Please provide information and a comparison of the delivery rate percentage increase that was estimated in the Application for the Muskwa River Crossing and the delivery rate increase requested in this application.

Response:

The approximate annual bill impact to a residential customer consuming 140 GJs per year was estimated at approximately $91 per year in the CPCN Application, which translates to a percentage increase to the delivery component of the rate of approximately 21%. This compares to an approximate annual bill impact of $79 per year based on actual project costs, which translate to a percentage increase to the delivery component of the rate of approximately 19%.

Please refer to the response to BCOAPO IR 1.2.1 for a comparison of the total project costs as filed in the CPCN and the final project costs included in this Application.

1.2 Please discuss any contributing factors in the differences between the rates if applicable.

Response:

The significant contributing factor for the difference, between the total project costs as forecast in the CPCN and the actual project costs, was a reduction of $1,840 thousand in the capital costs. This reduction was a cumulative effect of the Contractor successfully managing sub-surface conditions and related construction activities which led to reduced project management, engineering and inspection costs. As a result, nearly the entire allocated contingency for risk management that was included in the CPCN forecast was not required.

2.0 Reference: 2.3 Rates

pg10

2.1 FEI is proposing to increase FEFN's delivery rate by a cumulative increase (2015-2016) of 31.84 percent.

What is the percentage of that directly related to the Muskwa River Crossing?

Response:

As stated in Section 1.1 on page 3 of the Application, the Muskwa River Crossing Project contributed approximately $365 thousand to the total deficiency of $626 thousand for 2015 and 2016. As such, approximately 18.57 percent out of the total 31.84 percent increase is attributable to the Muskwa River Crossing Project.[1]

2.2 FEFN is serviced by a lateral line directly from the Spectra Energy plant. Please provide a comparative 2013 - 2016 breakdown of actual delivery cost resulting in the 31.84 percent increase.

Response:

The following table provides a comparison of the 2013 approved delivery cost and the 2016 forecast delivery cost. Please note that the 2016 forecast delivery cost has been updated to reflect the revised financial schedules included in the response to BCUC IR 1.1.2, which identifies a total rate change of 31.38 percent.

[1] $365 thousand / $1,966 thousand (2016 delivery margin at existing rates, Schedule 3, Column 6, Line 13) = 18.57%.

$ Thousand

Line	**Particular**	**2013**	**2016**
1	Operation and Maintenance	769	905
2	Property Tax	178	139
3	Depreciation and Amortization	332	639
4	RevenueSurplus/Deficit	(86)	-
5	Other Operating Revenue	(24)	(20)
6	Income Tax Expense	30	109
7	Earned Return	737	811
8	Total Delivery Cost	$ 1,936	$ 2,583
9			
10	Cumulative Change		$ 647
11	Cumulative Change- %		33%

As shown in the table above, the cumulative delivery cost change from 2013 through 2016 is approximately $647 thousand (or approximately 33 percent) and of this total approximately $365 thousand is attributable to the Muskwa River Crossing Project. Please note that since the change in costs has resulted in a cumulative percent that is greater than the rate change of approximately 31%, load growth has had a cumulative net decrease on rates of approximately 2% over this period.[2]

[2] As shown in the response to BCUC IR 1.4.1, 2013 forecast total demand was 642 TJs as compared to the 653 TJs forecast for 2016.

3.0 Reference: 7.4.1 New Deferral Accounts
2015-2016 Revenue Requirement Application pg 33

3.1 What has FortisBC done to mitigate costs incurred due to Commission proceedings? We note that FEI estimates $50,000 – how significant is this increase over past proceeding costs?

Response:

FEI has taken a number of approaches to mitigate the costs incurred due to Commission proceedings.

When forecast revenue deficiencies or surpluses have been insignificant, as in 2010 and 2014, FEI has filed streamlined applications for deferral treatment for FEFN rather than full revenue requirements applications. Under this approach, existing rates were maintained and the deficiency or surplus captured in a deferral account and returned to or collected from customers in the following year. This approach resulted in minimal costs (i.e. less than $5 thousand) that were included in the actual revenue deficiency or surplus for each year.

A different approach was taken for 2012-2013, when FEI combined its FEFN revenue requirement application with the revenue requirements of FEI, FEVI and FEW (the "FortisBC Energy Utilities"). As a joint Application, this approach resulted in an allocation to Fort Nelson of proceeding costs rather a direct charge. The allocated costs of the joint application were approximately 50 percent of the application costs for the stand alone application filed for Fort Nelson for 2011 revenue requirements.

The mitigation strategies taken for 2010 through 2014, however, are not options that could be taken for 2015-2016. For 2015-2016, the revenue deficiencies are not insignificant and FEI is under PBR.

For 2015-2016, FEI's primary strategy to mitigate Commission proceeding costs has been to seek approval of rates for two years, which decreases proceeding costs compared to what would have been required if two separate revenue requirement applications were filed for each of 2015 and 2016.

While FEI does seek to mitigate Commission proceeding costs for FEFN when possible, regulatory proceeding costs are largely not within the control of the Company due to a number of factors, including the number of parties registering to participate, for which participant funding will ultimately be sought.

The following table provides a comparison of the various Application Costs included in deferral accounts over the last several years. Please note that Generic Cost of Capital and the 2012-

2013 Revenue Requirement Application costs represent a portion of the total costs as these applications were shared amongst the FortisBC Energy Utilities.

Application Costs
($ Thousands)

	Allocated	**Direct**
2011 RRA[1]	-	10.392
2012-2013 FEU RRA	5.407	-
2013 Generic Cost of Capital	6.770	-
Muskwa River Crossing CPCN	-	35.647

Note:

[1] *Please also refer to the responses to BCUC IR 1.24 series for a comparison of the forecast costs of this proceeding with the 2011 RRA.*

4.0 Reference: 5.2 Determination of O&M
pg 22-25

4.1 In discussing shared costs FEI notes that the allocation factor dropped from 0.3% to 0.257% due to the amalgamation of FEVI and FEW customers however the fees and administration cost forecast for 2015 increases $34,000 over the 2014 projection and is forecasted to increase a further $11,000 in 2016.

Please provide the fees and administration increase in a percentage value and provide further explanation on increased cost to FEFN

Response:

The following is a table that provides a breakdown of the fees and administration costs as per Table 5-1, page 24 of the Application.

Particulars (in $000s)	Type of Cost	2014 Projected	2015 Forecast	Increase (2015 over 2014)	% Increase	2016 Forecast	Increase (2016 over 2015)	% Increase
Fees and Adm. Costs	Direct Cost	3	3	0	1%	3	0	2%
Fees and Adm. Costs - Shared Services Fee	Shared Services Cost	503	537	34	7%	548	11	2%
Total Fees and Administration Costs		**$ 506**	**$ 540**	**$ 34**	**7%**	**$ 551**	**$ 11**	**2%**

The following is an updated table with a revised total fees and administration costs for 2015 and 2016 Forecast as a result of an increase of $7 thousand and $4 thousand for 2015 and 2016, respectively, for the shared services fee as discussed in the response to BCUC IR 1.15.1. The table has also been updated to compare to the 2014 Preliminary Actuals.

Particulars (in $000s)	Type of Cost	2014 Prelim Actual	2015 Forecast	Increase (2015 over 2014)	% Increase	2016 Forecast	(2016 over 2015)	% Increase
Fees and Adm. Costs	Direct Cost	4	3	(1)	-25%	3	0	2%
Fees and Adm. Costs - Shared Services Fee	Shared Services Cost	491	544	53	11%	552	8	2%
Total Fees and Administration Costs		**$ 495**	**$ 547**	**$ 52**	**10%**	**$ 555**	**$ 8**	**2%**

Due to the amalgamation of the FEVI and FEW customers with FEI, the ratio of FEFN customers to the overall number of customers within FEI has reduced. Consequently, the allocation factor for FEFN shared services dropped from 0.3 percent to 0.253 percent. Although the allocation factor dropped, the shared services fee increased by about $53 thousand or 10.8 percent in 2015 due to an overall higher pool of shared services cost to be allocated.

4.2 Increases in employee expenses are forecasted to increase from the projected $18,000 in 2014 to $29,000 in both 2015 and 2016 due the anticipating additional management team trips to FEFN to provide oversight of capital activities. Please provide an explanation of the anticipated projects that will require this increase and why it is approximately 62% higher than 2014 which had the Muskwa River Crossing capital project.

Response:

Please refer to the responses to the BCUC IR 1.13 series for a discussion of the increases in employee expenses in 2015 and 2016. As discussed in those responses, the travel expenses referenced on page 24 of the Application are associated with providing management oversight on O&M and recurring routine capital activities (small dollar jobs such as new services) that are in O&M and that will be at similar levels in both 2015 and 2016. Work associated with the Muskwa River Crossing capital project is not included the 2014 O&M. The costs associated with the Muskwa River Crossing capital project have been capitalized and included in the total project cost of $4.210 million.

5.0 Please provide the Fort Nelson & District Chamber of Commerce (FNDCOC) with the responses to the Commissions Information Request No. 1 and all intervener information requests. If confidentiality is required in the responses FNDCOC will provide an Undertaking of Confidentiality Agreement.

Response:

In accordance with the Commission's Document Filing Protocols, FEI will provide all registered parties with all IR responses filed. Should any responses require confidentiality, FEI will provide FNDCOC with an Undertaking of Confidentiality in order to facilitate FNDCOC's access to all IR responses.