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BY ELECTRONIC FILING

British Columbia Utilities Commission
6th floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Erica Hamilton
Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. (FEI)
Fort Nelson Service Area
Application for 2015 and 2016 Revenue Requirements and Rates

We enclose for filing in the above proceedings the electronic version of the Final Submission on behalf of FortisBC Energy Inc.

Ten hard copies will follow by courier.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[original signed by Christopher Bystrom]

Christopher Bystrom

CRB/fxm
Enc

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF THE UTILITIES COMMISSION ACT,

R.S.B.C. 1996, CHAPTER 473 (THE "ACT")

and

RE: FORTISBC ENERGY INC.

FORT NELSON SERVICE AREA

APPLICATION FOR 2015 AND 2016

REVENUE REQUIREMENTS AND RATES

FINAL SUBMISSION OF

FORTISBC ENERGY INC.

APRIL 14, 2015

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PART ONE: INTRODUCTION

1. FortisBC Energy Inc. ("FEI") filed its Application for Approval of its rates for delivery service to customers on the natural gas distribution system in FEI's Fort Nelson service area ("FEFN") for 2015 and 2016 (the "Test Period") on December 3, 2014 (the "Application").[1]

2. As more particularly described in the Application and as updated in BCUC IR 1.1.2, FEI respectfully requests approval of the following:

(a) Effective January 1, 2015, a 25.44 percent increase in delivery rates reflecting a revenue deficiency of approximately $496 thousand.

(b) Effective January 1, 2016, an additional 5.94 percent increase in delivery rates reflecting a revenue deficiency of approximately $121 thousand.

(c) Effective January 1, 2015, the Revenue Stabilization Adjustment Mechanism (RSAM) Rate Rider to be set to $0.039 per GJ.

(d) The amortization of the Fort Nelson Revenue Surplus/Deficit account and approval of a 2015-2016 Revenue Requirement Application deferral account.

3. FEI provided an updated Draft Order in Exhibit B-2, Attachment 1.2.[2] FEI submits that the totality of the evidence provided in this proceeding demonstrates that the approvals sought are just and reasonable and in the public interest.

4. The requested rates are required to recover the costs of service to customers in FEFN. The revenue requirement for 2015 and 2016 is $4,474 thousand and $4,509 thousand, respectively. Based on revenue at existing rates, the total forecast revenue deficiency is $496

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1 Exhibit B-1, Application.

2 Exhibit B-2, BCUC IR 1.1.2, Attachment 1.2.

thousand in 2015 and $121 thousand in 2016.[3] The largest contributors to the revenue deficiency are rate base growth, and depreciation and amortization. In 2015, the increases to these two categories are being driven by costs associated with the Muskwa River Crossing Project being placed into service.[4] In 2016, the revenue deficiency is primarily driven by changes in amortization expense.[5] The major factors resulting in the revenue deficiency are further summarized on pages 8 to 10 of the Application.

5. According to the regulatory timetable approved by the Commission, as amended, two rounds of information requests ("IRs") were ordered for the proceeding.[6] IRs were received from the Commission, as well as interveners in the proceeding, including the Commercial Energy Consumers Association (the "CEC"), British Columbia Old Age Pensioners et al ("BCOAPO") and the Fort Nelson Chamber of Commerce.

6. The remainder of this submission will address the areas of the Application that were the subject of information requests during the proceeding. FEI will address any issues that may be raised by interveners in their submissions in its reply.

PART TWO: DEMAND FORECAST

7. The forecast of energy demand for FEFN in 2015 and 2016 is set out in section 3 of the Application. Overall, FEI is forecasting a slight decrease in demand for FEFN as compared to the energy demand embedded in existing rates.[7] FEI's energy and revenue forecasts for FEFN are reasonable and based on a method which has been approved in the past by the Commission. The main components of the demand forecast are reviewed below.

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3 Exhibit B-2, BCUC IR 1.1.2.

4 Exhibit B-2, BCUC IR 1.2.1.

5 Exhibit B-1, Application, section 2.2

6 Exhibit A-2, A-5 and A-7.

7 Exhibit B-1, Application, Table 3-7.

A. Residential and Commercial Demand Forecast

8. The energy demand forecast for each residential and commercial rate class is derived by multiplying the total forecast customers by the average use per customer (UPC) forecast for each rate class.[8]

9. The method used to forecast residential customers is consistent with past practice. The residential customer count is calculated by using the customer count from the previous year and forecasting customer additions. To forecast the customer additions FEI: (a) determines the Conference Board of Canada ("CBOC") forecast housing starts; (b) calculates the annual growth rate; (c) applies that growth rate to the most recent year of actual additions; and (d) rounds to the nearest whole number.[9] This calculation is illustrated in the response to BCUC IR 1.5.2.

10. The CBOC housing starts forecast provides a reliable proxy from which to forecast FEFN's residential customer additions. The CBOC forecast correlates well with the overall FEI residential additions, although for FEFN the correlation is less direct. From an actual additions perspective, the CBOC forecast matches the historic additions in FEFN reasonably well; with the exception of 2011, the largest variance between forecast additions and actual additions has been 3.[10]

11. Since the forecast was prepared, a new CBOC forecast was released. Using the new CBOC forecast would result in an additions forecast of 11 customers in 2015 and 2016 instead of the 13 proposed for each year. This would not have a material impact on the demand forecast.[11] FEI also reviewed the BC Stats forecasts for population growth in Fort Nelson. If the BC Stats projections were used in place of the CBOC's, the impact would be a reduction of one customer to 2015 (instead of 13 customer additions, there would be 12) and

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8 Exhibit B-1, Application, pages 15 to 19.

9 Exhibit B-2, BCUC IR 1.5.2.

10 Exhibit B-2, BCUC IR 1.5.3.

11 Exhibit B-2, BCUC IR 1.5.2.

no impact to 2016.[12] Thus, using the BC Stats forecast would also have no material impact on the demand forecast.

12. A comparison of alternative methodologies for forecasting residential additions is provided in the table included in the response to BCUC IR 1.5.4.[13] The evidence demonstrates that it is unlikely that any model would produce consistently accurate results given the small size of the service territory. The econometric model used by FEI provides reasonable results and is consistent with the methodology used by FEI for its other service areas.[14]

13. The Commercial customer count is also calculated using the customer count from the previous year and forecasting the customer additions. The use of a three-year historical average to forecast commercial additions is appropriate as the more recent years' experience is the best information available on which to forecast future additions. Further, as customer additions can be volatile, using a three-year period evens out annual variations. A comparison of alternative methodologies for forecasting commercial additions is provided in the table included in the response to BCUC IR 1.6.2.[15] This comparison demonstrates that alternative models are largely inapplicable. The exception is the econometric approach where a causal factor can be identified with a relationship to commercial additions; however, FEI has been unable to identify a causal factor for FEFN commercial customer additions.

14. Individual UPC projections are developed for each rate class on a weather-normalized basis, which is an accepted industry standard and has been approved by the Commission in prior years.[16] FEI provided a detailed explanation of the calculation of the average UPC for each residential and commercial rate class in response to BCUC IR 1.7.1.

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[12] Exhibit B-2, BCUC IR 1.5.1.

[13] Exhibit B-2, BCUC IR 1.5.4.

[14] Exhibit B-2, BCUC IR 1.5.3.

[15] Exhibit B-2, BCUC IR 1.6.2.

[16] Exhibit B-1, Application, page 15.

Generally, the forecast UPC for each rate class was developed by applying the three-year average UPC growth rate to the previous year's annual UPC rate.[17]

15. In summary, FEI's residential and commercial demand forecast is based on a method consistent with past practice as approved by the Commission and produces reasonable results. It is submitted that FEI's demand forecast should be approved as filed.

B. Industrial Demand Forecast

16. The energy demand forecast for industrial customers is based on the response to the annual industrial survey.[18] There is only one industrial customer who is served under Rate Schedule 25. This customer closed its two facilities in Fort Nelson in 2008, and now only consumes gas to heat the facilities, so that variability in this customer's demand for gas likely arises from variations in weather.[19] The customer has confirmed in its response to the annual industrial survey that its two locations will maintain only heat load over 2015 and 2016, and the industrial demand forecast reflects this minimal load.[20] It is therefore submitted that FEI's industrial forecast is reasonable and should be approved.

PART THREE: OPERATING AND MAINTENANCE EXPENSES

17. FEI forecast O&M costs for FEFN are described in section 5 of the Application and further details are provided in response to information requests. 2014 preliminary actual information and an update to the forecast O&M expense is provided in response to BCUC IR 1.15.1.[21] At a high level, the total gross O&M per customer for FEFN is $396 in 2014 and is forecast to increase in 2015 to $410 and further to $414 in 2016. After accounting for inflation,

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[17] Exhibit B-2, BCUC IR 1.7.1.

[18] Exhibit B-1, Application, pages 16-17.

[19] Exhibit B-2, BCUC IR 1.8.1; Exhibit B-9, CEC IR 2.9.1.

[20] Exhibit B-1, Application, pages 18 -19.

[21] Exhibit B-2.

this equates to a modest increase in 2015 to $405 gross O&M per customer in 2014 dollars, followed by a minor decrease in 2016 to $404 gross O&M per customers in 2014 dollars.[22]

18. FEI's O&M requirements for FEFN are described in the following sections. In summary, FEI's costs are required to continue to operate the FEFN natural gas distribution system and meet the needs of customers.[23] FEI submits that they are just and reasonable and should be approved.

A. Gross to Net O&M: Capitalized Overhead

19. As described on pages 22 to 23 of the Application, FEFN's gross O&M costs consist of direct costs plus allocated costs from FEI business units that provide functional support to FEFN. From these costs, the overhead capitalized is subtracted to reach the net O&M. The overhead capitalized rate of 12 percent was approved as part of the FEI 2014-2019 Performance Based Ratemaking ("PBR") Decision. As a result of this reduction (from 14 percent), the net O&M increased for 2015 and 2016, as compared to what was approved for 2014, adding to the revenue deficiencies.[24] Specifically, this decrease in overhead capitalized rate results in an approximate increase in the revenue deficiency of $18 thousand (0.92 percent) for 2015 and $17 thousand (0.86 percent) for 2016.[25]

B. Changes in Gross O&M

20. FEI has described the major changes in gross O&M on pages 24 to 25 of the Application, with further details in response to IRs. These include Total Labour Costs, Employee Expenses, Facilities and Fees and Administration Costs. These changes are discussed below.

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[22] Exhibit B-2, BCUC IR 1.15.4.

[23] Exhibit B-1, Application, page 23.

[24] Exhibit B-1, Application, page 23.

[25] Exhibit B-2, BCUC IR 1.11.1.

(a) Total Labour Costs

21. As described in the Application, operations staffing at FEFN includes two full-time IBEW employees supported periodically by specialized pressure control technicians, management and clerical staff in Prince George. Operations costs are primarily IBEW field costs incurred in routine operations and maintenance activities.[26] FEFN's gross O&M for 2015 and 2016 includes an increase in the labour cost, primarily due to increased pension and benefits costs, as well as a 2 percent increase in employee wages arising from the recently signed IBEW contract. Fully loaded, this represents a 3.1 percent and 3 percent increase for 2015 and 2016, respectively, for IBEW costs.[27]

22. As explained in the Application and IR responses, two Prince George managers support the Fort Nelson operation, spending an estimated 20 percent of their time in that role. Of that time, approximately 75 percent is related to capital work and 25 percent to O&M. Accordingly, 5 percent of their fully loaded salaries are added to FEFN O&M.[28] The use of Prince George management is efficient. In 2012, the existing manager position located in Fort Nelson (also providing oversight to Chetwynd and Mackenzie) was eliminated, and all three of these locations were rolled into the Prince George managers' responsibilities. This change has decreased the overall M&E costs allocated to Fort Nelson by half.[29]

23. FEI therefore submits that its labour costs represent an efficient and cost-effective means of serving FEFN and should be approved as filed.

(b) Employee Expenses

24. Commencing in 2015 managers of FEFN resources will be required to conduct more direct field assessments and work observations than in past years to ensure quality,

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[26] Exhibit B-1, Application, p. 24.

[27] Exhibit B-1, Application, page 24; Exhibit B-2, BCUC IR 1.12.1.

[28] Exhibit B-1, Application, page 24, Table 5-1; Exhibit B-2, BCUC IR 1.12.2.1.

[29] Exhibit B-2, BCUC IR 1.12.3.

safety, service and productivity objectives are achieved.[30] As a result, employee expenses for 2015 and 2016 are forecast to be higher than preceding years due to the need for additional trips by the Prince George management team to Fort Nelson. These trips are necessary to assess and manage and coach the quality of O&M and capital work to ensure it is completed efficiently and in accordance with Company objectives to focus on and improve safety and the customer experience, as well as being able to identify productivity improvements.[31]

25. As noted above, FEI's M&E costs allocated to Fort Nelson are efficient, having reduced 2012 costs by half (from $30 to $15 thousand) by utilizing the management team in Price George. The increased cost of travel for the management team is necessary for Prince George management resources to serve customers in FEFN. Even accounting for the increase in employee expenses of $11 thousand, FEI is providing management of FEFN resources slightly below the cost in 2012. In response to BCUC IR 1.2.3, FEI made it clear that it would not consider reducing or deferring the work observation and field assessments giving rise to the increase in travel expense as there is a need in the remote areas to ensure quality, safety, service and productivity objectives are met.[32]

26. FEI therefore submits that the employee expense costs are necessary for the safe and reliable operation of the system and should be approved.

(c) Facilities

27. Facilities costs are costs to operate and maintain the local office including janitorial and telephone services as well as line heater fuel for the distribution station.[33] Further details on the facilities costs by account are provided in response to BCUC IR 1.14.2.[34] The communication costs and line heater fuel costs were previously centralized in FEI and were

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[30] Exhibit B-8, BCUC IR 2.1.1.

[31] Exhibit B-8, BCUC IR 2.1.1.

[32] Exhibit B-8, BCUC IR 2.1.3.

[33] Exhibit B-1, Application, pp. 24-25; Exhibit B-2, BCUC IR 1.14.1.

[34] Exhibit B-2.

not allocated to FEFN due to an oversight. FEI has since identified these amounts as direct FEFN costs and accordingly included these in the FEFN O&M forecast.[35] FEI submits that facilities costs are direct costs of FEFN and therefore properly recovered in the rates of FEFN customers and should therefore be approved.

(d) Fees and Administration Costs

28. The vast majority of the fees and administration costs is the shared services fee.[36] Consistent with past practice and Commission Order G-27-8, the costs allocated to FEFN from FEI's shared business units are calculated on the basis of customers served. The inclusion of the customers of FEVI and FEW in the total customers for FEI due to amalgamation in 2015 results in a larger pool of customers and corresponding lower allocation factor, which is offset by a larger pool of O&M costs.[37] The 2015 forecast of fees and administration costs includes $544 thousand in the shared services fee, which is an increase of $53 thousand from the 2014 Preliminary Actual amount,[38] whereas the 2016 forecast results in a $7 thousand increase.[39]

29. As the 2015 and 2016 O&M for FEI has not yet been approved by the Commission, FEFN proposes that any variation in the allocated O&M to FEFN that results from the approval of the FEI O&M be accounted for in the existing Fort Nelson Revenue Surplus/Deficit Account and refunded or collected from customers in future years. However, due to the small allocation factor, it is not anticipated that changes to the forecast FEI O&M will have a significant impact on the forecast FEFN O&M.[40] The creation of a new deferral account to capture the potential O&M allocation variances for FEFN is not necessary, as the variance is not expected to be material, and having a separate account would not add any transparency.[41]

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[35] Exhibit B-1, Application, pp. 24-25; Exhibit B-2, BCUC IR 1.14.1.

[36] Exhibit B-2, BCUC IR 1.15.1, Revised Table 5-1.

[37] Exhibit B-1, pp. 22-23; Exhibit B-2, BCUC IR 1.10.1 and 1.15.1.

[38] Exhibit B-1, Application, p. 25, as updated in Exhibit B-2, BCUC IR 1.15.1.

[39] Exhibit B-1, Application, p. 25, as updated in Exhibit B-2, BCUC IR 1.15.1.

[40] Exhibit B-1, Application, pp. 22-23.

[41] Exhibit B-2, BCUC IR 1.10.2.

30. In summary, the shared services fee remains consistent with past allocations as approved by the Commission and continues to be reasonable. It is submitted that subject to the approval of FEI's O&M for 2015 and 2016, FEFN's shared services costs should be approved.

PART FOUR: RATE BASE AND CAPITAL EXPENDITURES

31. The forecast rate base and capital expenditures for FEFN are described in section 7 of the Application and further in response to information requests, including an update for 2014 preliminary actual plant additions in response to BCUC IR 1.16.1.[42] The evidence demonstrates that the forecast rate base and capital expenditures for 2015 and 2016 incorporate required expenditures to meet the growth in customers in FEFN and make improvements related to system integrity and reliability. The growth in rate base for the forecast period is largely attributable to the Muskwa River Crossing Project, which was completed at a lower capital cost than approved in the CPCN proceeding.[43] It is therefore submitted that the forecast rate base and capital additions are required to continue to provide safe and reliable service to FEFN and should be approved.

32. The topics related to rate base and capital expenditures that were the focus of information requests in the proceeding are addressed below.

A. 2015 Transmission Plant

33. The change in gross plant in service for 2015 Transmission Plant[44] is primarily due to:[45]

- An updated right-of-way agreement with the Fort Nelson First Nation (FNFN) for the facilities located within their lands;

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[42] Exhibit B-2.

[43] Exhibit B-1, Application, Section 1.

[44] As explained in Exhibit B-8, response to BCUC IR 2.2.1, the 2014 Projected transmission plant capital expenditures included in the Application incorrectly included $410 thousand for Transmission Land Rights, and this was corrected in the 2014 Preliminary Actual amounts filed in Exhibit B-2, response to BCUC IR 1.16.1.

[45] Exhibit B-1, page 30.

- The replacement of a complex valve assembly;
- The replacement of a pipeline across a road to ensure code compliance and maintain existing operating pressure; and
- The installation of protection over a pipeline within a creek.

34. These items are discussed below.

(a) Updated Right-of-Way Agreement

35. The updated right-of-way agreement with the FNFN is necessary as the existing arrangements date back to 1968 and, due to various asset acquisitions, transfers and abandonments over that time, it is necessary to clarify the current land status and consolidate tenure. FEI must have right-of-way agreements in place to maintain its right to operate its transmission pipeline on the Fort Nelson Indian Reserve. The fees for the new permit have been calculated based on assessments by an independent real estate appraisal firm in November 2014, and also address past periods when assets were operated under expired or missing permits.[46]

36. In short, FEI must acquire the necessary rights to operate and maintain its transmission pipeline on the Fort Nelson Indian Reserve and the only reasonable and equitable approach is to compensate the FNFN for the use of their land.

37. FEI has responded to a number of Commission IRs related to the updated right-of-way agreement on a confidential basis.[47] In response to BCUC IR 2.3.2, FEI indicated that it would be open to the approval of a deferral account to cover these costs:

> Due to FEI's inability to provide all requested information without compromising negotiations with the FNFN, FEI would be supportive of an alternative approach whereby a deferral account is approved to capture the actual costs associated with the agreement with the FNFN. The balance in the account would be

[46] Exhibit B-2, BCUC IR 1.18.1; Exhibit B-8, BCUC IR 2.3.1 and 2.3.1.1.

[47] Confidential Exhibit B-8-1.

> reviewed in FEFN's next revenue requirement, at which time the balance would be transferred to plant in service subject to Commission approval. If the Commission were to approve this approach, FEI would adjust its financial schedules in its compliance filing.[48]

Accordingly, if the Commission is not satisfied that it has sufficient information to rule on this matter, then FEI submits that the deferral account described above is a reasonable alternative approach.

(b) Valve Assembly, Road Crossing and Protection at Creek Crossing

38. The remaining key drivers of the additions to transmission plant in 2015 were described in detail in response to BCUC IR 1.18.2 and are necessary and should not be deferred. The replacement of the valve assembly, replacement of the road crossing, and protection at the creek crossing were each identified through FEI's Integrity Management Program as necessary. This work is all aimed at prevention of failure of the pipeline system that is the sole supply to Fort Nelson. Although the severity and probability of a failure of pipeline is difficult to predict, the risk increases over time. Therefore, deferring this work would increase the risk of failure of the pipeline, which would interrupt supply to FEFN and its customers, and pose a risk to public and employee safety.[49] In addition, the evidence is that failure to complete this work could lead to a determination of non-compliance with provincial regulation, which in turn could lead to FEFN having to discontinue operation of the pipeline which would interrupt supply to FEFN.[50]

39. In the second round of information requests, the BCUC IR 2.4 series focussed on the need for the valve assembly replacement project, which consists of a replacement of a short single transmission line and the valve assembly. In summary, the evidence of FEI demonstrates the following:

- The valve assembly to be replaced in 2015 controls the flow of gas out of two transmission lines into a short single transmission pipeline that supplies the Fort

[48] Exhibit B-8, BCUC IR 2.3.2.

[49] Exhibit B-2, BCUC IR 1.18.2, Exhibit B-8, BCUC IR 2.4.3.

[50] Exhibit B-2, BCUC IR 1.18.2.

Nelson Gate Station. The replacement of the valve assembly and the short single transmission line should be completed together given the efficiencies of undertaking the work at the same time.[51]

- The short segment of gas transmission line that requires replacement is of unknown specifications and must be assumed to have specific maximum properties pursuant to Clause 5.6.4 of CSA Z662-11. These maximum properties would not permit the pipeline to operate at the pressure required to supply Fort Nelson Gate Station. The only alternative to replacement in these circumstances is to excavate and remove of samples along the entire pipeline length, while operating a temporary supply line.[52] In addition, the pipeline is likely bent, does not meet the 0.6m depth requirements, and continued or additional cathodic protection would not be sufficient to mitigate observed corrosion growth.53 Given these circumstances, the cost of rehabilitating this pipeline would be far greater than replacing the existing pipeline.[54]

- The valves are leaking and are not operable and must be repaired or replaced to stop the leakage and so that FEI can prevent loss of supply to the Fort Nelson Gate Station. It is not known if the valves could in fact be successfully repaired and, even if possible, the costs would be significantly greater than replacement. Therefore, replacement of the valve assembly is the most prudent course of action.[55]

40. In summary, FEI is required to complete the identified work as planned due to the risks identified. In addition, deferring these projects could result in higher costs due to inflation and the cost of emergency response if risks materialize.[56] It is therefore submitted that the identified capital expenditures are prudent, required for service to customers and should be approved.

B. 2016 Transmission Plan

41. The forecast transmission plant capital additions for 2016 are primarily driven by the replacement of a valve assembly within which the valves are either not operable, or are very difficult to operate, and with some leaking. This poses a safety risk to employees and

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[51] Exhibit B-2, BCUC IR 1.18.2, Exhibit B-8, BCUC IR 2.4.1 and 2.4.4.

[52] Exhibit B-8, BCUC IR 2.4.5.

[53] Exhibit B-8, BCUC IR 2.4.5.

[54] Exhibit B-8, BCUC IR 2.4.6.

[55] Exhibit B-8, BCUC IR 2.4.8 to 2.4.10.

[56] Exhibit B-2, BCUC IR 1.18.2.

reduces options for emergency response.[57] As such, this work forecast work is prudent, necessary for service to customers and should be recovered in rates as forecast.

C. 2015 Distribution Plant

42. The increase in distribution plant in 2015 arises primarily from (a) the need to install telemetry at the Fort Nelson Gate Station to better monitor operating conditions; (b) alterations to the distribution system to increase supply to the airport to meet demand; and (c) a distribution capacity service improvement to increase tail end pressure to ensure adequate supply to customers.[58] FEI provided further details on these forecast capital expenditures in response to BCUC IR 1.20.1 and 1.20.2.[59] In summary:

- **The installation of telemetry at the Fort Nelson Gate Station.** The installation of a standard telemetry package at the Fort Nelson Gate Station for a forecast cost of $70 thousand will be used to increase the monitoring of safety systems from occasionally during the daytime to 24-hour continuous monitoring by Gas Control in Surrey. The installation of telemetry improves response time and facilitates the correct response to an identified issue at a station, and is standard for FEI's systems. Considering the remoteness of Fort Nelson to the rest of the Company's operations, the installation of the telemetry now is warranted.[60]

- **Increase in Operating Pressure.** This work consists of increasing the operating pressure in a gas line to the Fort Nelson Airport to increase capacity to serve proposed additional development and gas usage at the airport for a forecast cost of $85 thousand. As a result of the installation of modifications to the Fort Nelson Gate Station and some uncertainty about whether there will be an increase in gas usage at the airport, it may be reasonable to defer this expenditure. However, if the customers do expand their businesses significantly it will not be possible for FEI to provide service without this work. FEI will continue to discuss with its existing and potential customers and will need to complete additional analysis before a final decision is made regarding the continuation of this work.[61]

- **Distribution Capacity System Improvement**. This work consists of installing 300m of 114mm diameter main along the Alaska Highway, in parallel with an existing 60mm

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[57] Exhibit B-2, BCUC IR 1.18.3.

[58] Exhibit B-1, Application, page 31.

[59] Exhibit B-2.

[60] Exhibit B-2, BCUC IR 1.20.1.

[61] Exhibit B-2, BCUC IR 1.19.2. and 1.20.1

> diameter main at a forecast cost of $60 thousand. The purpose is to decrease the pressure drop in the existing main due to forecasted higher flows that will result in a low system tail end pressure. Through FEI's standard modelling, the low system tail end pressure is predicated to place service to 80 customers at risk of an outage if temperatures were to approach a design degree day. In accordance with FEI's standard methodology for analysing distribution system capacities, the Company undertakes capacity improvements to its system when continued service to customers is projected to be at risk. Although it may be possible to defer this work, it is work that is required in the near term and the deferral may lead to higher costs in the future.[62]

43. Overall, it is submitted that it is more beneficial to customers not to defer this work for reasons of reliability of service and cost, and therefore the forecast should be approved.

D. 2016 Distribution Plant

44. The 2016 distribution plant capital additions consist of upgrades to the Fort Nelson Gate Station. As described in response to BCUC IR 1.20.2,[63] the issues that have been identified include:

- The existing pressure regulators should be replaced as they are obsolete due to parts and service no longer being available.
- The station filter lacks its own bypass such that performing regular maintenance requires the bypass of the filter and station heater together. This results in high pressure piping being vented to the atmosphere and the gas flowing to the pressure regulators not flowing through the station heater. The impact is unwarranted greenhouse gas emissions and a possible risk of the regulators freezing up and not operating properly.

45. The work is proposed so that in a timely, planned and effective manner the corrections can be made before any incident occurs as a result of the current equipment and

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[62] Exhibit B-2, BCUC IR 1.20.1.

[63] Exhibit B-2.

piping configuration, and to reduce greenhouse gas emissions.[64] For these reasons, this work should not be deferred.

E. General Plant

46. The addition in 2015 to General Plant is related to the replacement of the septic system at FEI's Fort Nelson office. The current system has failed and is being managed by a temporary portable toilet. This does not meet BC Building Code and WorkSafe BC Regulation, and must be addressed with a permanent solution.[65]

47. FEI has determined that the preferred permanent solution to meet this issue is a connection to the City of Fort Nelson's sewer system, instead of the replacement of the septic system. This provides the distinct advantage of requiring essentially no ongoing maintenance and therefore an expected overall lower cost of ownership.[66]

48. FEI therefore submits that the forecast General Plant additions are necessary and prudent and should be approved.

F. Accumulated Depreciation

49. FEFN's depreciation rates have been equal to those of FEI in the past and, starting in 2015, FEFN's depreciation rates will continue to be those of FEI post amalgamation. As the nature and useful life of FEFN's assets are similar to those of the FEI post amalgamation, this is appropriate. Using the FEI amalgamated entity depreciation rates results in a slight decrease in FEFN's forecast depreciation expense.[67] Using the amalgamated depreciation rates also saves FEFN customers the costs of undertaking separate depreciation studies and having

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[64] Exhibit B-2, BCUC IR 1.20.2.

[65] Exhibit B-1, Application, page 31.

[66] Exhibit B-2, BCUC IR 1.21.1 and 1.21.2.

[67] Exhibit B-2, BCUC IR 1.22.1.

those studies reviewed in Commission proceedings.[68] For these reasons, it is submitted that the proposed depreciation rates are just and reasonable and should be approved.

G. Deferral Accounts

50. Each of the deferral accounts used for FEFN is described in section 7.4 of the Application. FEI is requesting approval of the creation of one new deferral account to address the costs of the Application and is also requesting a change to the Fort Nelson Revenue Surplus/Deficit Account. These requests, as well as the continuation of the RSAM and discontinuance of the Gains and Losses on Asset Disposition deferral account are discussed below.

51. Consistent with past practice, FEI is proposing a new deferral account to capture the costs of the present proceeding and amortize the costs over two years (2015 and 2016). Any variances between the forecast account balances and the actual incurred costs will be amortized in rates in 2017.[69] Additional information with respect to the forecast costs to be captured in the deferral account is set out in the BCUC IR 1.24 series.[70] FEI notes that only those costs actually incurred will be recorded in the deferral account.[71]

52. The Fort Nelson Revenue Surplus/Deficit Account was approved to capture the impact of the 2013 GCOC Stage 1 Decision for changes in the equity thickness and ROE when compared to then-existing approved 2013 rates. Pursuant to Commission Order G-17-14, this account will also capture the actual realized revenue surplus or deficiency in 2014. As discussed above, FEI is proposing that any variation in the allocated O&M to FEFN that results from the approval of the FEI O&M be accounted for in the Fort Nelson Revenue Surplus/Deficit Account.[72] FEI is seeking approval to amortize the 2014 Fort Nelson Revenue Surplus/Deficit

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[68] Exhibit B-2, BCUC IR 1.22.2.

[69] Exhibit B-1, Application, pages 33 to 34.

[70] Exhibit B-2.

[71] Exhibit B-2, BCUC IR 1.24.1.

[72] Exhibit B-1, Application, pp. 22-23.

Account credit balance through delivery rates over one year beginning in 2015, which will mitigate some of the other rate impacts to FEFN customers in 2015.[73]

53. FEI has continued to utilize the RSAM, which the Commission has approved for FEFN to capture variations in the delivery margin resulting from use rate variances for residential, commercial and industrial rate classes.[74] BCUC IR 1.9.1 asked whether it would be appropriate to have a separate RSAM for the one industrial customer in FEFN. While FEI is not opposed to such an approach, it is submitted that it is preferable not to have a separate RSAM for the industrial customer. As the sole industrial customer in FEFN uses natural gas for seasonal space heating only, the industrial demand is similar to other residential and commercial customers and it is appropriate for there to remain a single RSAM for all rate classes. Further, as the customer will be permanently closing its operations, the creation of a separate RSAM could result in a stranded balance. A single RSAM is also consistent with the approved RSAM for FEI and less complex to administer.[75] FEI also notes that the Reasons for Decision accompanying Order G-17-04 which approved the RSAM for FEFN indicates that the issue of a class-specific RSAM was considered and rejected by the Commission when it approved the RSAM. The Reasons for Decision state:

> Fort Nelson argues that its proposed RSAM is consistent with the RSAM applied to Terasen's other service areas, with the one difference being the inclusion in the Fort Nelson RSAM of variances in industrial delivery margins. Fort Nelson is not opposed to a class-specific RSAM and rate rider for Rate 25 customers, but argues that a single RSAM is consistent with past Commission determinations that rate increases arising from decreased demand from specific classes should not be "streamed back" to those classes (Final Argument, p. 4; Response to BCUC Staff IR No. 1, question 7.4).
>
> **The Commission approves the implementation of the RSAM account as applied for by Fort Nelson.**

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[73] Exhibit B-1, Application, section 7.4.2.

[74] Exhibit B-1, Application, section 2.4.

[75] Exhibit B-2, BCUC IR 1.9.1.

For these reasons, it is submitted that a single RSAM for FEFN should continue for the Test Period.

54. Finally, the use of the Gains and Losses on Asset Disposition deferral account for FEFN has been discontinued to be consistent with the Commission's directions to FEI in the PBR Decision. Discontinuation of this account will not have any impact on the revenue requirement, and is consistent with the practice of using the same accounting policies and depreciation rates for FEFN as the rest of FEI to avoid the costs to design and administer a separate accounting system for FEFN.[76] However, as noted in response to BCUC IR 1.25.1, FEI has continued to use a 20 year amortization period for FEFN to amortize the balance in the Gains and Losses on Asset Disposition deferral account, rather than the 10 year amortization period directed in the PBR Decision, due to the other rate challenges faced in FEFN. FEI has stated that it would not be opposed to reducing this amortization period to 10 years effective January 1, 2015 to align with the currently approved amortization period for the rest of FEI, but this would increase the revenue deficiency.[77]

[76] Exhibit B-2, BCUC IR 1.25.1.

[77] Exhibit B-2, BCUC IR 1.25.1.

PART FIVE: CONCLUSION

55. Based on the evidence in this proceeding, the rates sought for FEFN for 2015 and 2016 are supported by sound forecasting methods and are required to recover the costs of serving FEFN customers. It is therefore submitted that the approvals sought are just and reasonable and should be approved.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: April 14, 2015

[original signed by Christopher Bystrom]

Christopher Bystrom
Counsel for FortisBC Energy Inc.