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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 Reply Submission on behalf of FortisBC Energy Inc. ("FEI").

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

REPLY SUBMISSION OF

FORTISBC ENERGY INC.

MAY 7, 2015

TABLE OF CONTENTS

PART ONE: INTRODUCTION AND OVERVIEW

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. In accordance with the regulatory timetable approved by the Commission for this proceeding,[2] FEI filed its Final Submission in this proceeding on April 14, 2015. On April 28, 2015, 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"), the Commercial Energy Consumers Association of British Columbia ("CEC"), and the Fort Nelson & District Chamber of Commerce ("FNDCOC") filed final arguments. FEI responds below to the issues raised by interveners in their final arguments.

PART TWO: FORECAST RESIDENTIAL ADDITIONS

3. The CEC discusses the continued use of the Conference Board of Canada ("CBOC") forecast housing starts to forecast residential customer additions and proposes that FEI be directed to use the BC Stats Local Health Area 81 forecasts in its future forecasts of customer additions.[3] FEI addressed the use of the CBOC forecast in Part Two, Section A of its Final Submission. In summary, the CBOC housing starts forecasts provide a reliable proxy from which to forecast Fort Nelson's residential customer additions.[4] From an "actual additions" perspective, the CBOC forecast matches the historic additions in FEFN very reasonably. With the exception of 2011, the largest variance between forecast additions and actual has been 3.[5]

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1 Exhibit B-1.

2 Exhibit A-2, Commission Order G-192-14 establishing Regulatory Timetable.

3 CEC Final Submission, p. 3.

4 Exhibit B-2, BCUC IR 1.5.1.

5 Exhibit B-2, BCUC IR 1.5.3.

As acknowledged by the CEC,[6] the use of the BC Stats forecasts for population growth in Fort Nelson would have an immaterial impact on the forecast (a reduction of one customer to 2015 and no impact to 2016).[7] Given the immaterial impact of using the BC Stats forecasts for population growth, and the reasonable match between actual additions and the CBOC forecast, there is no evidence that using the BC Stats forecasts will improve the forecast. It is also preferable to maintain the current forecast methodology to remain consistent with past practice and to remain consistent with the forecast methodology used for other FEI regions as the same software and models are currently utilized for all regions.[8] It is therefore submitted that the CEC's request should be denied.

PART THREE: OPERATIONS AND MAINTENANCE (O&M) EXPENSES

4. BCOAPO argues that the Commission should disallow a portion of FEI's forecast O&M related to the need for FEI management to travel from Prince George to Fort Nelson on the basis that insufficient justification has been provided.[9] The FNDCOC has taken a similar view, stating that the increase to the forecast employee expenses should not be approved.[10] The CEC submits that the forecast expenses related to travel between Prince George and Fort Nelson be reduced by approximately 50%.[11] None of the interveners substantiate their position with any evidence or reasoning. FEI respectfully disagrees with the BCOAPO, CEC and FNDCOC and submits that ample justification for the increase related to additional travel requirements of Prince George management has been provided.

5. FEI addressed the topic of employee expenses in its Application and IR responses.[12] Notably, FEI explained that the use of Prince George management is necessary as the long-time existing manager position located in Fort Nelson, who also provided oversight to

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6 CEC Final Submission, p. 3.

7 Exhibit B-2, BCUC IR 1.5.1.

8 Exhibit B-2, BCUC IR 1.5.1 and 1.5.3.

9 BCOAPO Final Submission, p. 2.

10 FNDCOC Final Submission, p. 2.

11 CEC Final Submission, p. 9

12 Application, p. 24; Exhibit B-2, BCUC IR 1.12.2.1; Exhibit B-8, BCUC IR 2.1.1.

Chetwynd and Mackenzie, was eliminated in 2012. At that time the Prince George managers became responsible for overseeing Fort Nelson, Chetwynd and Mackenzie operations. This has decreased the overall M&E costs allocated to Fort Nelson by half.[13] FEI summarized its evidence for the increased employee expenses in its Final Submission, as follows:

> 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, safety, service and productivity objectives are achieved.[14] 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.[15]
>
> 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.[16]

6. In summary, it is submitted that the increase of $11 thousand in employee expenses is a modest amount that is required to prudently manage and oversee work in FEFN and is therefore necessary for the safe and reliable operation of the system and should be approved.

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13 Exhibit B-2, BCUC IR 1.12.3.

14 Exhibit B-8, BCUC IR 2.1.1.

15 Exhibit B-8, BCUC IR 2.1.1.

16 Exhibit B-8, BCUC IR 2.1.3.

PART FOUR: RATE BASE AND CAPITAL EXPENDITURES

A. Transmission Plant Additions

7. Both BCOAPO and CEC support using the Fort Nelson Revenue Surplus Deficit/Account to capture variances between forecast and actual transmission plant additions for 2015 and 2016 to mitigate risks of potential variances.[17] The variance between 2014 Forecast and 2014 Preliminary Actual transmission plant addition was due to resource constraints resulting from the completion of the Muskwa River Crossing Project in 2014.[18] As the Muskwa River Crossing Project is now complete, similar resource constraints should not be an issue over the test period.[19] Both BCOAPO and CEC refer to FEI's statement in response to BCUC IR 2.2.4 that it would not be opposed to this option. However, FEI also stated that the option is unnecessary:[20]

> FEI does not believe that the use of the Fort Nelson Revenue Surplus/Deficit Account to capture the impact of variances in transmission plant additions for 2015 and 2016 is necessary. This is because FEI believes that the forecasts are reasonable and that the variance in plant additions must be significant to have a material impact on the revenue requirement. For example, to have an approximate impact of 1 percent to the delivery component of the rate in 2015, approximately $700 thousand in transmission plant additions would be required. This would be a very significant variance as compared to the forecast of 2015 transmission plant additions of $399 thousand.

8. Further, should the Commission direct FEI to hold the costs related to the updated right of way agreement with the Fort Nelson First Nation in a separate deferral account rather than including it in plant in service,[21] any concerns with respect to a variance in this cost category will be mitigated.

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[17] BCOAPO Final Submission, p. 4; CEC Final Submission, p. 13.

[18] Exhibit B-8, BCUC IR 2.2.1.

[19] Also note that the variance between 2014 Projected and Preliminary Actual 2014 transmission plant additions is attributable to an oversight (Exhibit B-8, BCUC IR 2.2.4).

[20] Exhibit B-8, BCUC IR 2.2.4.

[21] Exhibit B-8, BCUC IR 2.3.2

9. It is therefore submitted that the use of the deferral account to capture variances between forecast and actual transmission plant additions is unlikely to have any material impact and is not necessary.

B. General Plant Additions

10. The CEC requests a 10% reduction to FEI's forecast General Plant additions for 2016, asserting only that they are "higher than necessary".[22] The CEC does not provide any evidentiary support for its position or reasoning as to why the 2016 Forecast General Plant additions are too high. The 2016 Forecast General Plant additions are $76 thousand, which is consistent with 2013 Actual amount of $75 thousand, marginally higher than the 2014 Approved amount of $61 thousand, and significantly lower than the 2015 Forecast of $204 thousand. In response to BCUC IR 1.16.2, FEI explained that the forecast General Plant additions were for the purchase and sustainment of System Computer Software and Computer Hardware, as well as Structures and Improvements and Transportation Equipment.[23] It is submitted that there is simply no grounds for reducing the 2016 Forecast General Plant additions as asserted by the CEC.

PART FIVE: INTEREST EXPENSE

11. The CEC has requested that FEI be directed to adjust its interest expense to reflect the decrease in the Bank of Canada target overnight rate to 0.75 percent.[24] As explained in the Application and response to CEC IR 1.14.4, FEFN has an Interest Rate Variance deferral account that captures the impact of interest rate variance on interest expenses.[25] While an update is not necessary, FEI is not opposed to updating its Interest expense in its compliance filing to reflect the an updated forecast of the short term debt rate as well as the embedded cost of long term debt and allocation to Fort Nelson approved for FEI in 2015.

[22] CEC Final Submission, pp. 14.
[23] Exhibit B-2, BCUC IR 1.16.2.
[24] CEC Final Submission, p. 15.
[25] Exhibit B-4 CEC IR 1.14.4; Application, p. 38.

PART SIX: RATE SHOCK AND RATE SMOOTHING

12. FNDCOC has stated that it is concerned that "this FortisBC Application proposes rate increases of 31.84% of which only 18.57% is attributable to the Muskwa River Crossing and believe the remaining 13.27% constitutes rate shock."[26] FEI has considered the overall burner tip rate impacts due to the rates proposed and the level of increase over the test period is not uncommon in FEFN due to the relatively small customer base in Fort Nelson. The cumulative increase of 31.38 percent over the existing delivery rates noted by FNDCC results in a cumulative increase of 13.68% on an average burner-tip basis.[27] As noted in the Application, in the last five years, the burner tip rates in FEFN have fluctuated between decreases of 12 percent and increases of 33 percent.[28] These large variances in burner tip rates are primarily attributable to the small customer base in FEFN.[29] Accordingly, there are limited options to address the root of the FNDCOC's concern in this proceeding.[30]

13. The BCOAPO has proposed two potential approaches to mitigate the rate increase included in the Application. The BCOAPO proposes that either: (1) a deferral account be established to smooth the 2015 and 2016 deficiency equally over each year; or (2) should that approach not be practical, to smooth the increases associated with Depreciation and Amortization and Rate Base growth over the two year period.[31] FEI is not opposed to a rate smoothing mechanism and submits that it would be possible to smooth the rate impact over the two year test period by capturing a portion of the 2015 revenue deficiency in a deferral account which would then be collected from customers in 2016.[32] However, given that the proposed burner tip impact of the rate increase is not uncommon in FEFN, FEI does not believe any rate smoothing mechanism is necessary. In addition, it is important to take into account that such a mechanism would necessarily entail higher overall costs to customers due to the

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[26] FNDCOC Final Submission, p. 3.

[27] Exhibit B-2, BCUC IR 1.1.2, Attachment 1.2, Schedule 3, Column 6, Lines 15 and 17

[28] Exhibit B-1, p. 4. Exhibit B-4, CEC IR 1.1.1; Exhibit B-9, CEC IR 2.1.1.

[29] Exhibit B-9, CEC IR 2.2.1.

[30] Exhibit B-4, CEC IR 1.1.4.

[31] BCOAPO Final Submission, p. 3.

[32] Exhibit B-4, CEC IR 1.1.4.

financing of the balance of the deferral account. If such an option were to be approved by the Commission, FEI would need to recalculate the 2015 and 2016 rate increases set out in the Application and update the financial schedules in its subsequent compliance filing.

14. In summary, it is submitted that a rate smoothing mechanism is not necessary because the burner tip rate impact of the proposed rate increase is not uncommon in FEFN due its small customer base, and that the benefit of smoothing the rate increase must be weighed against the higher overall costs resulting from the use of a rate smoothing mechanism.

PART SEVEN: CONCLUSION

15. It is submitted that the evidence in this proceeding demonstrates that the rates sought for FEFN for 2015-2016 are just and reasonable and should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: May 7, 2015

[original signed by Christopher Bystrom]
Christopher Bystrom
Counsel for FortisBC Energy Inc.