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October 2, 2015

Via Email
Original via Mail

British Columbia Public Interest Advocacy Centre
Suite 208 – 1090 West Pender Street
Vancouver, B.C. V6E 2N7

Attention: Ms. Tannis Braithwaite, Executive Director

Dear Ms. Braithwaite:

Re: FortisBC Energy Inc. (FEI)
2015 System Extension Application (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 June 30, 2015, FEI filed the Application referenced above. In accordance with Commission Order G-143-15 setting out the Amended 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 Brent Graham at 604-592-7857.

Sincerely,

FORTISBC ENERGY INC.

Original signed by: Ilva Bevacqua

For: Diane Roy

Attachments

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



FortisBC Energy Inc. (FEI or the Company) 2015 System Extension Application (the Application)	Submission Date: October 2, 2015
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1 1.3 As a statistical matter, does FEI agree that the greater the forecast period, (i.e.,
2 the further out in the future that one forecasts) the larger the forecast error
3 envelope, other things equal?
4

5 **Response:**

6 The 40 year DCF term is not based on a forecast period, but rather on the physical life of the
7 assets. That is, once the forecast net cash inflows have been determined for the five year
8 forecast period (or ten year in certain situations as proposed by FEI), the annual cash inflow is
9 held constant and there is no further forecasting required.

10 Therefore, although longer forecast periods may in general be subject to greater forecast error
11 over the short term, it is not a relevant consideration for the 40 year DCF period as proposed to
12 be used for the MX Test.

13 Please refer to the response to BCUC IR 1.13.4.4 for a discussion of using a 10 year forecast
14 period as opposed to the five year forecast period.

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18 1.4 Can FEI confirm that the main reason for increasing the DCF term is to reduce
19 the CIAC received?
20

21 **Response:**

22 Not confirmed. The main reason for increasing the DCF term is to more accurately capture the
23 full impact of the benefit of the distribution main installed and to account for the life the asset as
24 opposed to an unrelated 20 year term based on the current horizon for the Long Term Resource
25 Plan. This is further explained in Section 3.3.1.2 of the Application. The practical result of the
26 increased DCF term is an increase in the forecast revenue in the MX Test, which
27 correspondingly lowers the CIAC for prospective customers, all else being equal.

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31 1.5 Can FEI confirm that FEI does not get a return (RoE) on CIAC monies received
32 but, rather, CIAC contributions are treated as an offset to the revenue
33 requirement?
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1 **Response:**

2 Confirmed. A CIAC reduces rate base and as a result earned return (equity and interest costs)
3 within the revenue requirement is lower than if there had been no CIAC.

4

5

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7 1.6 Can FEI confirm that, other things equal, a decrease in CIAC is offset by an
8 increase in rate base?

9

10 **Response:**

11 Confirmed.

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1 **2.0 Reference: Exhibit B-1, pages 64-66, System Extension Fund Recommendations**

2 FEI proposes to establish a fund of \$1.0M, 2/3 the amount approved for BC Hydro

3 2.1 Please provide a comparison of FEI and BC Hydro in terms of (i) total customers,
4 (ii) annual customer additions, and (iii) rate base.

5
6 **Response:**

7 The requested comparison is provided in the table below, showing FEI's distribution only rate
8 base to be compared to BC Hydro's figure.

	Total (Average) Customers	Distribution Rate Base	Annual (Net) Customer Additions
FortisBC Energy Inc.	970,407 ¹	\$1.98 Billion ²	10,712 ³
BC Hydro	1,935,294 ⁴	\$4.37 Billion ⁵	20,506 ⁴

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12 2.2 Given that the proposal is to cap the customer contribution at \$10K, does FEI
13 expect this fund to materially benefit low-income customers?

14
15 **Response:**

16 The SEF is intended to apply to all eligible customers; however, given the new customers in a
17 lower density area will likely have a higher CIAC than those in urban areas, the SEF will have
18 an effect of creating greater equity between new customers in lower density areas of FEI's
19 service area with those new customers in more urban areas. The \$10 thousand is a cap on the
20 amount paid by the SEF per customer and is not a requirement for eligibility for the SEF.
21 Eligibility for the SEF is largely dependent on two main factors: 1) available funds in the SEF,
22 and 2) a minimum PI result of 0.2, as determined by the MX test.

¹ FEI 2015 Annual Review Compliance Filing, June 30, 2015, Schedule 8.

² Per FEI's compliance filing in its Annual Review for 2015 Delivery Rates, this is equal to the mid-year value of distribution, biogas and NGT plant (cost less accumulated depreciation less net contributions less negative salvage provision).

³ FEI 2015 Annual Review Application, Figure 3-5, year 2015.

⁴ BC Hydro's 2014/15 annual report, Page 104. Customer additions calculated as the difference between 1,935,294 customers in F2015 and 1,914,788 customers in F2014.

⁵ BC Hydro F15-16 Revenue Requirement Application Appendix C, Schedule 10.0, Row 14 Distribution, Column F2015:

http://www.bcuc.com/Documents/Proceedings/2014/DOC_40964_03-07-2014_BCH-F2015-16RevenueRequirementsApplication.pdf



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1 Any applicant regardless of income level that meets the eligibility requirements as set out in the
2 Application could potentially receive the SEF. However, based on anecdotal feedback from
3 stakeholders in the Company's consultation process, FEI expects the SEF to benefit applicants
4 who live in lower density areas as well as low income applicants. As FEI understands from the
5 consultation, some low income customers had to choose between "heating or eating" due to the
6 high cost of heating with competing energy forms. With access to the SEF, the CIAC
7 contribution (if required) is reduced, and with access to natural gas service, the customer may
8 see the potential for a lower utility bill as more generally discussed in Section 3.2.4.1 of the
9 Application.

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1 **3.0 Reference: Exhibit B-1, Benefits of the Proposal**

2 3.1 Does FEI agree that approval of its proposals will increase the shareholder return
3 by increasing rate base, other things equal?
4

5 **Response:**

6 All else being equal, shareholder return increases as rate base increases. Therefore, if the
7 approval of the Company's proposal leads to an increase in rate base, then shareholder return
8 would also increase. As an example, in any particular year, if the system extension fund is fully
9 utilized at \$1 million and foregone CIAC from a reduction in SLCA totaled \$550 thousand, then
10 shareholder earnings would increase by approximately \$50 thousand.

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14 3.2 Assuming the application is approved as proposed, can FEI provide an estimate
15 of its cost savings by eliminating what FEI considers to be onerous and
16 unnecessary utility costs?
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18 **Response:**

19 As indicated in the responses to BCUC IRs 1.32.2 and 1.32.4, the estimated annual cost for the
20 current and proposed MX Reporting is \$100,000 and \$10,000 respectively. The estimated
21 annual reporting savings of \$90,000 will not result in a direct reduction in O&M as it will be in the
22 form of reduced unpaid overtime, and an ability to re-allocate resources to other value added
23 projects.

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