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October 9, 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)

Multi-Year Performance Based Ratemaking Plan for 2014 through 2019 approved by British Columbia Utilities Commission (Commission) Order G-138-14 (the PBR Plan) – Annual Review for 2016 Rates (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 September 3, 2015, FEI filed the Application referenced above. In accordance with Commission Order G-138-15 setting out the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCOAPO IR No. 1.

Due to a number of corrections and updates to the forecasts in the Application, FEI will be filing an Evidentiary Update prior to the Annual Review Workshop. The Evidentiary Update will include the items listed below, as discussed in the referenced IR responses:

- Correction to include AFUDC return on the earnings sharing amount (see response to CEC IR 1.33.3);
- Corrections to various Biomethane line items (see response to BCUC IR 1.19.1);
- Update to the forecast for the BC One Call project (see response to BCUC IR 1.25.2)
- Update for new information regarding the VIGJV 2016 Contract Demand and termination of service to Burrard Thermal (see response to BCUC IR 1.10.2); and

- Update for new information regarding Rate Schedule 46 LNG volumes (see responses to BCUC IR 1.18.3 and 1.18.4).

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)



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1 **1.0 Reference: Exhibit B-2, Appendix A-2, PDF 152**

2 **Preamble:** In Appendix A-2, FEI provides Figures A2-1, A2-2, A2-3, and A2-4, which FE
3 asserts demonstrates that there is no significant over or under forecast. It
4 appears that the analysis is simply the number of occurrences of over or
5 under forecast, not the magnitude of over or under forecast.

6 1.1 Please confirm that the figures A2-1 – A2-4 represent occurrences of over and
7 under forecast, and are not weighted by the size of the over or under forecast. If
8 not confirmed, please fully explain.
9

10 **Response:**

11 Confirmed. The intent of Figures A2-1 through A2-4 was to demonstrate that the forecast
12 methods are not biased towards under- or over-forecasting. Bias implies a presence of
13 consistent over or under forecast and is independent of the magnitude of variance itself.

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17 1.2 If 1.1 above is confirmed, please provide revised figures A2-1 – A2-4 that
18 contains the amount of over and under forecast, not just the number of
19 occurrences. Please include the source data by year for the figures.
20

21 **Response:**

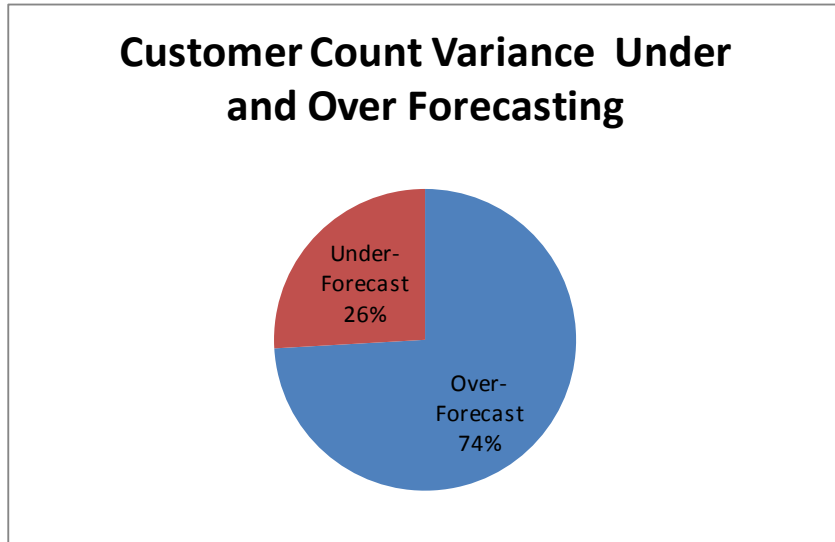
22 As indicated in the response to BCOAPO 1.1.1, bias implies a presence of consistent over or
23 under forecast and is independent of the magnitude of variance itself. FEI has examined both
24 the presence of bias (as per Figures A2-1 through A2-4) and the magnitude of the variances
25 (Sections 3 and 4 of Appendix A2, Exhibit B-2). FEI does not believe that using pie charts in the
26 manner requested in this IR to examine the magnitude of variances provides any additional
27 useful information to determine if the forecasting methodologies used are appropriate.

28 Nonetheless, FEI provides the following examination of the original data in Appendix A2 using
29 the methodology as requested in this IR.

30 The revised Figure A2-1 shows the customer count variance for total residential and commercial
31 customer counts from 2005 to 2014.

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1 **Figure A2-1 (Revised): Customer Count Variance (by number of customers)**



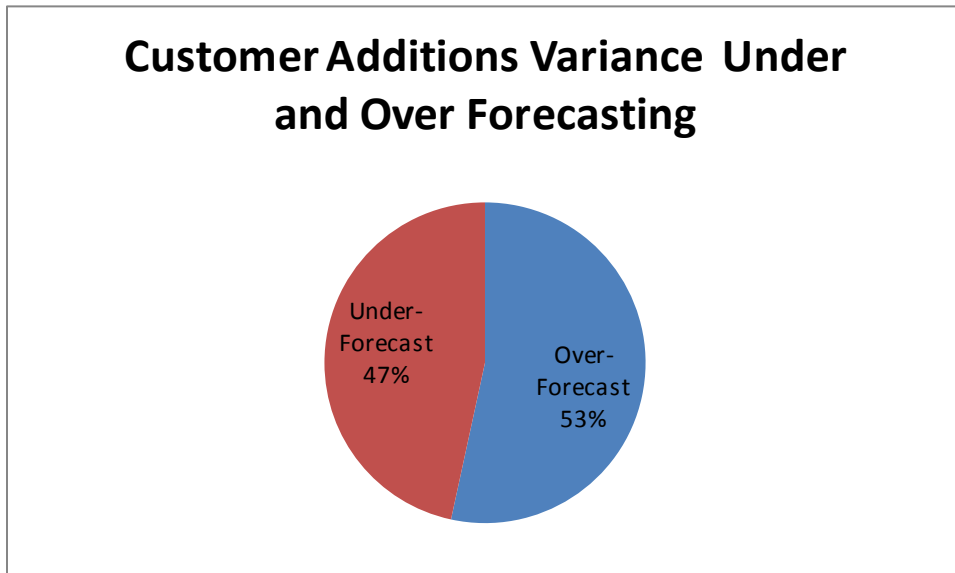
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Customer Count	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Customer Count Variance Under-Forecasting	(3,541)	(410)	(1,046)	(1,006)	(511)	(4,040)	(2,916)	0	0	(8,533)	(22,003)
Customer Count Variance Over-Forecasting	440	4,973	3,051	6,453	2,147	1,395	1,892	21,628	20,837	112	62,928

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7 The revised Figure A2-2 shows the customer additions variance for total residential and
8 commercial customer counts from 2005 to 2014.

9 **Figure A2-2 (Revised): Customer Additions Variance (by number of additions)**



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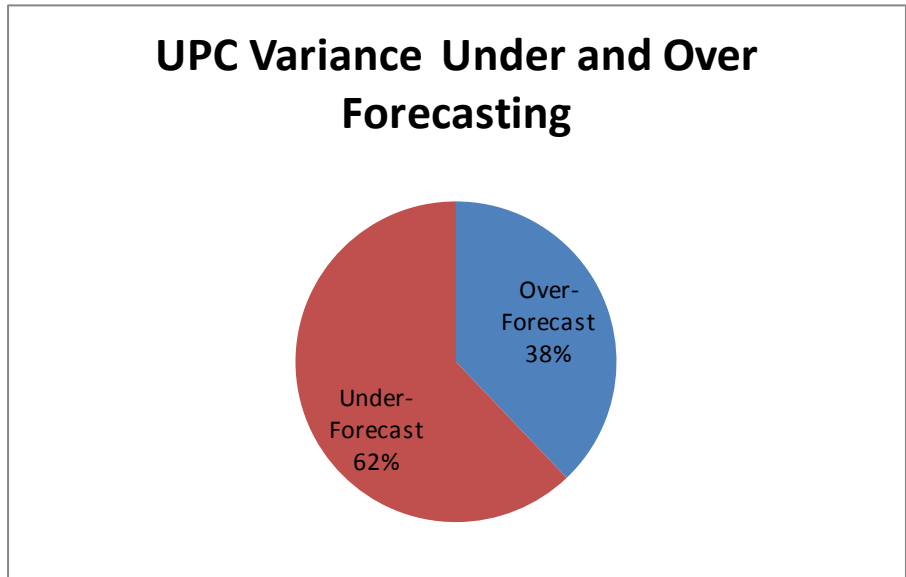
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Customer Additions	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Customer Addition Variance Under-Forecasting	(2,921)	(361)	(823)	(691)	0	(2,223)	(18)	(460)	(1,184)	(4,618)	(13,299)
Customer addition Variance Over-Forecasting	532	3,203	523	3,349	2,332	770	1,309	2,761	394	64	15,237

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The revised Figure A2-3 shows the total UPC variance for residential, commercial and industrial demand from 2005 to 2014. Note that adding up the UPC variances does not provide any further evidence of bias due to the combining of a varied mix of customer profiles and consumption patterns within each rate schedule group

Figure A2-3 (Revised): Use Rate Variance (Gj/customer)



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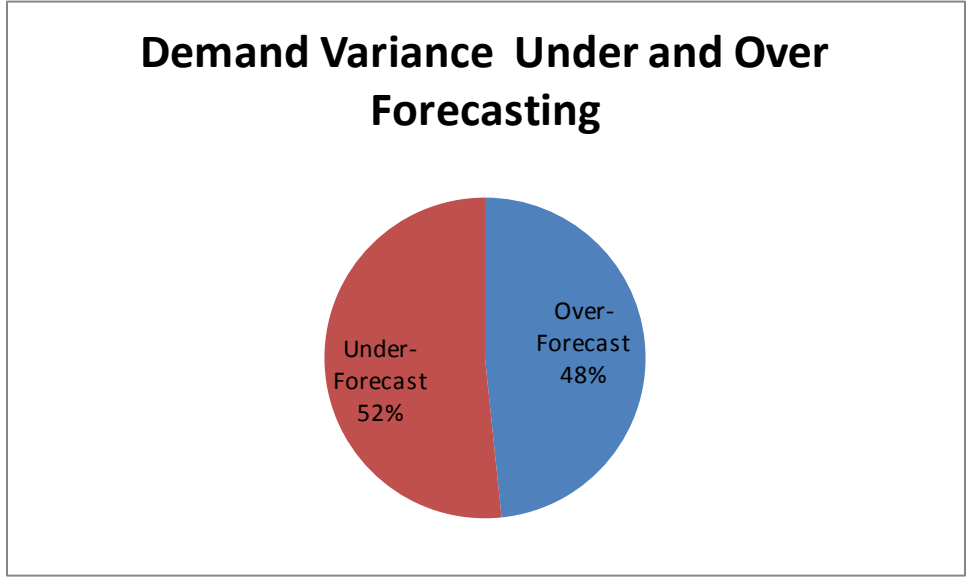
Use Per Customer	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Demand Variance Under-Forecasting	0.0	-8.2	-41.4	0.0	-828.5	-171	-559	-598.5	-414	0.0	-2,620
Demand Variance Over-Forecasting	413	352	22	197	0.0	15	3	0.0	1	596.2	1,598

The revised Figure A2-4 shows the total demand variance for residential, commercial and industrial demand from 2005 to 2014.

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Figure A2-4 (Revised): Demand Variance (by consumption (Pjs))



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Demand Pjs	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Demand Variance Under-Forecasting	(0.1)	(1.0)	(1.2)	(2.2)	(5.0)	(2.4)	(8.8)	(10.0)	(8.4)	0.0	(39.1)
Demand Variance Over-Forecasting	5.6	7.1	3.5	4.4	0.5	1.2	1.0	0.2	2.2	10.9	36.6

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1 **2.0 Reference: Exhibit B-2, Appendix A-2, Table A1-3, PDF 149, Figure 3-6:**
2 **Residential 1 Net Customer Additions, PDF 32**

3 2.1 Please provide the date of the Conference Board of Canada forecasts provided
4 in Table A1-3

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6 **Response:**

7 The Conference Board of Canada (CBOC) forecast that was used to produce the BC 2016
8 housing starts forecast was the CBOC Report: Provincial Medium Term Nov 24th, 2014, Table
9 156 and 157.

10

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12 2.2 Please provide an analysis that reconciles the forecast housing starts in Table
13 A1-3 to the forecast customer additions in Figure 3-6.

14
15 **Response:**

16 Section 3 of Appendix A3 in the Application provides a complete explanation of the methodology
17 used to derive the residential customer additions forecast. Specifically, Section 3.3 and 3.4
18 explain how the 2016 residential customer additions for the Lower Mainland region are
19 calculated from the housing starts as shown in Table A1-3 of the Application. This process is
20 repeated for each of the other regions to total the residential customer additions of 9,461 as
21 shown in Table A3-17 of Appendix A3 (and Figure 3-6 referenced above).

22

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1 **4.0 Reference: Exhibit B-2, Appendix A3, Demand Forecast Methodology, Seed**
 2 **Year Explanation, (PDF 190)**

3 4.1 Please fully explain the date the seed year forecast was prepared.
 4

5 **Response:**

6 The seed year forecast was prepared in May/June 2015, in conjunction with the forecast for the
 7 test year (2016). As described in Appendix A3 of the Application, actual data from 2012-2014
 8 was used to develop the seed year forecast (2015) and the forecast for the test year (2016). No
 9 actual 2015 data was used for residential and commercial customers. The seed year forecast
 10 can be developed as soon as the prior year actuals are finalized.

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 14 4.2 Please fully explain how actual experience within the seed year (2015) was
 15 factored into the seed year forecast.
 16

17 **Response:**

18 The seed year is based on the most recent full year of actual data. The actual experience within
 19 the seed year itself is not utilized in creating the seed year forecast. Please refer to the
 20 response to BCUC IR 1.11.1.1 for an explanation of why partial annual data within the seed
 21 year is not utilized in creating the seed year.

22
 23

24
 25 4.3 If actual data for 2015 was included in the seed year forecast, please explain
 26 which months of actual data was used in the seed year forecast.
 27

28 **Response:**

29 Please refer to the response to BCOAPO IR 1.4.2.

30



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1 **5.0 Reference: Exhibit B-2, Appendix A3, Demand Forecast Methodology, Weather**
2 **Normalization, (PDF 191)**

3 5.1 Please provide a working Excel model that contains the FEI normalization
4 weather methodology.

5
6 **Response:**

7 For the reasons explained below, FEI cannot provide the requested Excel model. However, FEI
8 notes that the weather normalization model is explained in detail in Section 2.4 of Appendix A3
9 in the Application.

10 The weather normalization function is not an Excel based model, but rather is encapsulated in
11 the FIS forecast system which is built using Microsoft SQL Server technology. The source code
12 that implements the weather normalization method cannot be exported or saved as a working
13 Excel model. Developing a working model to mimic the work done by FIS would require
14 software development and testing activities, which would be an unwarranted level of effort and
15 cost to respond to this question and could not be completed within the time allowed for
16 responding.

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19
20 5.2 Please provide a full explanation of how FEI defines normal weather, and the
21 calculation of normal weather.

22
23 **Response:**

24 Normal weather is defined as the 10 year rolling average temperature, by month, and is
25 calculated separately for each of the six weather stations in the FEI service territories. The
26 normal weather in each month represents a typical weather condition for that month.

27 Normal weather is the simple average of the most recent 10 years' average monthly
28 temperatures. The average monthly temperature is the simple average of all the daily average
29 temperatures in the month. The daily average temperature is the average of the high and low
30 temperatures for a single day.

31

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1 **6.0 Reference: Exhibit B-2, Table 12-3, (PDF 126), Appendix D, Depreciation Study**
2 **(PDF 334)**

3 **Preamble:** FEI is recommending increased Net Salvage costs, primarily related to
4 Transmission Pipeline (465-00), Services (473-00), Meters and
5 Regulators Installations (474-00), Distribution Mains (475-00) and Meters
6 (478-10).

7 In the depreciation study, Ganett Fleming discusses the reasons for
8 increased net salvage for Transmission Pipeline (465-00) (PDF 335),
9 Services (473-00) (PDF 336), Meters and Regulators Installations (474-
10 00) (PDF 338), Distribution Mains (475-00) and Meters (478-10)

11 The explanation of the increase Net Salvage is similar in each case.

12 6.1 For each of the accounts that have a material increase in Net Salvage costs,
13 please provide a full and complete explanation of the research and analysis
14 conducted by Gannett Fleming in support of the recommended salvage costs.
15

16 **Response:**

17 In addressing this request to provide a full and complete explanation of the research and
18 analysis conducted in support of the recommended salvage costs, Gannett Fleming provides
19 the following information and discussion:

- 20 • Overview of the net salvage methodology
- 21 • Account specific explanation for the accounts with the material increases
- 22 • Detailed net salvage analysis for accounts where there is an increase

23 **Net Salvage Overview Process**

24 Gannett Fleming uses a “Traditional Approach” in its net salvage estimation. This “Traditional
25 Approach” uses actual recorded retirements, actual recorded gross salvage, and actual
26 recorded cost of retirement for each fixed asset account and for each accounting period year
27 (definitions and more detail are provided below). This information is specific to each fixed asset
28 account and provides the recorded history of what has transpired in relation to net salvage
29 activity. This historical data provides the basis for Gannett Fleming’s initial net salvage
30 estimation and is provided to company engineering staff, along with a peer analysis of similar
31 companies’ net salvage selections, for their review and discussion. An overview of the
32 estimation of net salvage is provided in Appendix B of the 2014 Depreciation Study. For ease of
33 reference, the overview in Appendix B has been reproduced as follows:



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1 Estimation of Net Salvage

2 The estimates of net salvage were based primarily on the professional judgment of Gannett
3 Fleming, in part on historical data, and in part through a comparison to peer companies. Gross
4 salvage and cost of removal as recorded to the depreciation reserve account and related to
5 experienced retirements are used. Percentages of the cost of plant retired are calculated for
6 each component of net salvage on both annual and three-year moving average bases.

7 The net salvage percentages estimated is usually determined using the "Traditional Approach"
8 for net salvage estimation. When a utility retires plant, the plant may be: (1) sold to a third party;
9 (2) reused by the utility for additional service; (3) abandoned in place; or (4) physically removed.
10 In the circumstances where the plant is sold or re-used, a salvage proceed (or positive salvage
11 amount) is normally recognized. In circumstances where the plant is abandoned in place or
12 physically removed, a cost of removal expenditure (or negative salvage) is incurred. The net of
13 these estimated gross salvage proceeds and the estimated costs of removal are expressed as a
14 percentage of the account's original cost to determine a net salvage percentage. In the
15 circumstances where the salvage proceeds exceed the costs of retirement, a net positive
16 salvage percentage exists. In the circumstances where the costs of removal exceed the salvage
17 proceeds, a net negative salvage percentage results.

18 The estimation of the net salvage percentages developed using the traditional approach,
19 includes the following steps:

- 20 1. The annual retirement, gross salvage and cost of removal transactions for the period of
21 analysis are extracted from the plant accounting systems.
- 22 2. A net salvage amount (gross salvage proceeds less cost of retirement) is calculated for
23 each historic year. Additionally, a net salvage amount is also calculated for each historic
24 three-year rolling band and the most recent five-year rolling band.
- 25 3. The net salvage amount determined above is compared to the original booked costs
26 retired for each period in the manner described, which results in a net salvage
27 percentage of original costs retired for each year, in addition to three-year rolling bands
28 and the most recent five-year rolling band.
- 29 4. The annual, the three-year rolling average, and the most recent five-year rolling average
30 net salvage percentages are analyzed to determine a reasonable estimated net salvage
31 percentage. At this point the net salvage percentage is based purely upon statistical
32 analysis.
- 33 5. Each account is then compared to the net salvage percentage currently approved,
34 compared to peer companies, and discussed with company engineering staff. Based on



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1 the statistical analysis, the review of current and peer company net salvage
2 percentages, and with the professional judgment of Gannett Fleming, a net salvage
3 percentage is determined for each account.

4 6. The net salvage percentage is then used in the depreciation rate calculations in the
5 technical update.

6 **Account Specific Explanations**

7 The detail results of the above historical analysis for the applicable fixed asset accounts are
8 provided as Section VI in the 2014 Depreciation Study. This has been provided as an Excel
9 Spreadsheet for all fixed asset accounts that Gannett Fleming is recommending an increase in
10 net salvage. Please refer to Attachment 6.1 – Net Salvage Statistics.

11 Based upon the above fixed asset account historical analysis, Gannett Fleming's net salvage
12 recommendations are provided in Section II of the 2014 Depreciation Study for each applicable
13 fixed asset account with a material increase in net salvage costs. Gannett Fleming's
14 recommendations build upon each fixed asset account's historical analysis, discussions with
15 company operations and engineering staff, and consideration of the peer comparison analysis.

16 These recommendations are as follows.

17 Account 465.00 – Transmission Pipeline, represents approximately 22 percent of the
18 depreciable plant studied. The last depreciation study included actual net salvage data from
19 2002 to 2009. As detailed in the Attachment 6.1 – Net Salvage Statistics, actual net salvage
20 (i.e. cost of removal) activity ranged from 0 percent to over negative 100 percent with a full
21 depth band (i.e. cumulative from 2002 to 2009) value of negative 14 percent. The more current
22 2008 and 2009 values were negative 70 percent and negative 107 percent respectively. The
23 three-year moving average indicated a range from 0 percent to negative 89 percent with the
24 most recent five-year average being negative 38 percent. Based on this, Gannett Fleming
25 recommended a negative 10 percent net salvage.

26 Since the last depreciation study, 5 additional years (i.e. 2010-2014) have been added to the
27 actual history. This account has witnessed a significant amount of net salvage (i.e. cost of
28 removal) activity since 2002, ranging from 0 percent to over negative 100 percent with a full
29 depth band (i.e. cumulative from 2002 to 2014) value of negative 24 percent. A three-year
30 moving average indicates a range from negative 0 percent to negative 94 percent with the most
31 recent five year average being negative 32 percent. All the bands indicate a higher level of
32 negative net salvage in the more recent years compared to the earlier years.

33 The discussions held with the company operations and engineering staff indicated that the
34 historical indications would be reasonable future expectations for the equipment in this account.



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1 Based upon the historical results and the comments from the operations and engineering staff,
2 Gannett Fleming recommends that a moderate and conservative change to negative 20 percent
3 would best represent the future net salvage expectations for the equipment in this account, and
4 is within the range of the peer comparison analysis.

5 Account 473.00 – Distribution Services, represents 20 percent of FortisBC's depreciable plant.
6 The last depreciation study included actual net salvage data from 2002 to 2009. As detailed in
7 Attachment 6.1 – Net Salvage Statistics, actual net salvage (i.e. cost of removal) activity ranged
8 from 0 percent to negative 153 percent with a full depth band (i.e. cumulative from 2002 to
9 2009) value of negative 50 percent. The three-year moving average indicated a range from
10 negative 11 percent to over negative 145 percent with the most recent five-year average being
11 negative 49 percent. Based on this, Gannett Fleming recommended a negative 50 percent net
12 salvage.

13 Since the last depreciation study, 5 additional years (i.e. 2010-2014) have been added to the
14 actual history. This account has witnessed a significant amount of net salvage (i.e. cost of
15 removal) activity since 2002, ranging from 0 percent to over negative 200 percent with a full
16 depth band (i.e. cumulative from 2002 to 2014) value of negative 102 percent. A three-year
17 moving average indicates a range from negative 11 percent to over negative 200 percent with
18 the most recent five year average being negative 179 percent. All the bands indicate a higher
19 level of negative net salvage in the more recent years compared to the earlier years.

20 The discussions held with the company operations and engineering staff indicated that the
21 historical indications would be reasonable future expectations for the equipment in this account.
22 To reflect the increased historical indications, Gannett Fleming views that a moderate and
23 conservative increase to the recommended net value is appropriate. Considering the historical
24 results and the comments from the operations and engineering staff, Gannett Fleming
25 recommends that a moderate and conservative negative 60 percent would best represent the
26 future net salvage expectations for the equipment in this account. The negative 60 percent net
27 salvage recommendation is within the range of the peer comparison analysis. However, it is
28 noted that if the recent trend continues, increased amounts of net negative salvage will be
29 required in future reviews.

30 Account 474.00 – Distribution Meters/Regulator Installations, represents 4 percent of
31 depreciable plant. The last depreciation study included actual net salvage data from 2002 to
32 2009. As detailed in Attachment 6.1 – Net Salvage Statistics, actual net salvage (i.e. cost of
33 removal) activity ranged with an upward trend from 0 percent to negative 18 percent with a full
34 depth band (i.e. cumulative from 2002 to 2009) value of negative 6 percent. The three-year
35 moving average indicated a range with an upward trend from negative 1 percent to negative 11
36 percent with the most recent five-year average being negative 7 percent. Based on this,
37 Gannett Fleming recommended a negative 10 percent net salvage.



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1 Since the last depreciation study, 5 additional years (i.e. 2010-2014) have been added to the
2 actual history. This account has witnessed a significant amount of net salvage (i.e. cost of
3 removal) activity since 2002, with a significant upward trend ranging from 0 percent to over
4 negative 200 percent with a full depth band (i.e. cumulative from 2002 to 2014) value of
5 negative 25 percent. A three-year moving average also indicates an upward trend ranging from
6 negative 1 percent to over negative 400 percent with the most recent five year average being
7 negative 75 percent. All the bands indicate a higher level of negative net salvage in the more
8 recent years compared to the earlier years. In the last depreciation study, Gannett Fleming
9 recommended negative 10 percent to represent the net salvage expectation.

10 The discussions held with the company operations and engineering staff indicated that the
11 historical indications would be reasonable future expectations for the equipment in this account.
12 Based upon the historical results and the comments from the operations and engineering staff,
13 Gannett Fleming recommends that negative 20 percent would best represent the future net
14 salvage expectations for the equipment in this account. The negative 20 percent net salvage
15 recommendation is within the range of the peer comparison analysis. However, it is noted that if
16 the recent trend continues, increased amounts of net negative salvage will be required.

17 Account 475.00 – Distribution Systems Mains, is the largest account studied and represents 25
18 percent of depreciable plant. The last depreciation study included actual net salvage data from
19 2002 to 2009. As detailed in Attachment 6.1 – Net Salvage Statistics, actual net salvage (i.e.
20 cost of removal) activity ranged from 0 percent to negative 86 percent with a full depth band (i.e.
21 cumulative from 2002 to 2009) value of negative 12 percent. The more current 2008 and 2009
22 values were negative 20 percent and negative 18 percent respectively. The three-year moving
23 average indicated a range from negative 1 percent to over negative 70 percent with the most
24 recent five-year average being negative 15 percent. Based on this, Gannett Fleming
25 recommended a negative 20 percent net salvage.

26 Since the last depreciation study, 5 additional years (i.e. 2010-2014) have been added to the
27 actual history. This account has witnessed a significant amount of net salvage (i.e. cost of
28 removal) activity since 2002, ranging from 0 percent to over negative 86 percent with a full
29 depth band (i.e. cumulative from 2002 to 2014) value of negative 24 percent. A three-year
30 moving average indicates a range from negative 1 percent to over negative 69 percent with the
31 most recent five-year average being negative 46 percent.

32 The discussions held with the company operations and engineering staff indicated that the
33 historical indications would be reasonable future expectations for the equipment in this account.
34 Considering the historical results and the comments from the operations and engineering staff,
35 Gannett Fleming recommends that a small modification to negative 25 percent would best
36 represent the future net salvage expectations for the equipment in this account. It is noted that



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1 the change to negative 25 percent is considered by Gannett Fleming to be moderate and
2 conservative, but within the range of the peer comparison analysis.

3 **Detailed Net Salvage Analysis**

4 Refer to Attachment 6.1 for the requested detailed analysis in support of the accounts where
5 Gannett Fleming is recommending an increase in net salvage rates. Accounts which did not
6 have an initial net salvage rate and may be showing an increase (i.e. Mt. Hayes facility) are not
7 included in the analysis provided.

8 Please also refer to the response to BCUC IR 1.28.1 for explanations of higher retirement costs
9 observed.

10
11

12

13 6.2 For each of the accounts that Ganet Flemming is recommending an increase in
14 Net Savage, please provide a copy of the detailed analysis that supports the
15 recommendation. Please provide the analysis in Excel format.

16

17 **Response:**

18 Please refer to the response to BCOAPO IR 1.6.1.

19



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1 **7.0 Reference: Exhibit B-2, Section 12.3 ACCOUNTING MATTERS (PDF 119)**

2 7.1 Other than the items identified in Section 12.3 of the Application, please confirm
3 that there have been no changes to FEI accounting policies, including
4 Capitalization Policy and capitalization of indirect costs, since 2014, or forecast
5 for 2015 and 2016. If not confirmed, please fully explain each change and
6 provide a copy of the revised policy, with changes clearly marked.

7
8 **Response:**

9 Confirmed.

10

Attachment 6.1

REFER TO LIVE SPREADSHEET MODEL

Provided in electronic format only

(accessible by opening the Attachments Tab in Adobe)