

FEI Annual Review of 2016 Rates

Workshop

October 26, 2015



Agenda

Introduction & Overview	<i>Diane Roy</i>	<i>Director, Regulatory Services</i>
Revenue Requirements & Rates	<i>Jeff May</i>	<i>Manager, Finance & Regulatory</i>
Long Term Resource Plan	<i>Jason Wolfe</i>	<i>Director, Energy Solutions</i>
Depreciation Study	<i>James Wong</i>	<i>Director, Finance and Planning</i>
Service Quality Indicators (SQIs)	<i>James Wong</i> <i>Rolf Lyster</i> <i>Dean Stevenson</i>	<i>Director, Finance and Planning</i> <i>Director, Gas Plant Operations /PMO</i> <i>Director, OH&S and Technical Training</i>
Fraser Gate IP CPCN Project	<i>Diane Roy</i>	<i>Director, Regulatory Services</i>
Open Question Period		
Summary and Closing	<i>Diane Roy</i>	<i>Director, Regulatory Services</i>

Approvals Sought

- Delivery rate increase of 2.74 percent (bill impact of 1.90 percent)
- Approval of 2016 Rate Riders:
 - Rate Stabilization Deferral Account (RSDA) Rate Rider
 - Phase-in Rate Rider
 - Revenue Stabilization Adjustment Mechanism (RSAM) Rider
 - Delivery rate increase plus rate rider changes result in bill impacts of +5.77 percent for Mainland and -2.94 percent for Vancouver Island
- Three deferral accounts
 - 2015 System Extension Application
 - BERC Rate Methodology Application
 - 2017 Long-term Resource Plan Application
- Depreciation and net salvage rates for all regions

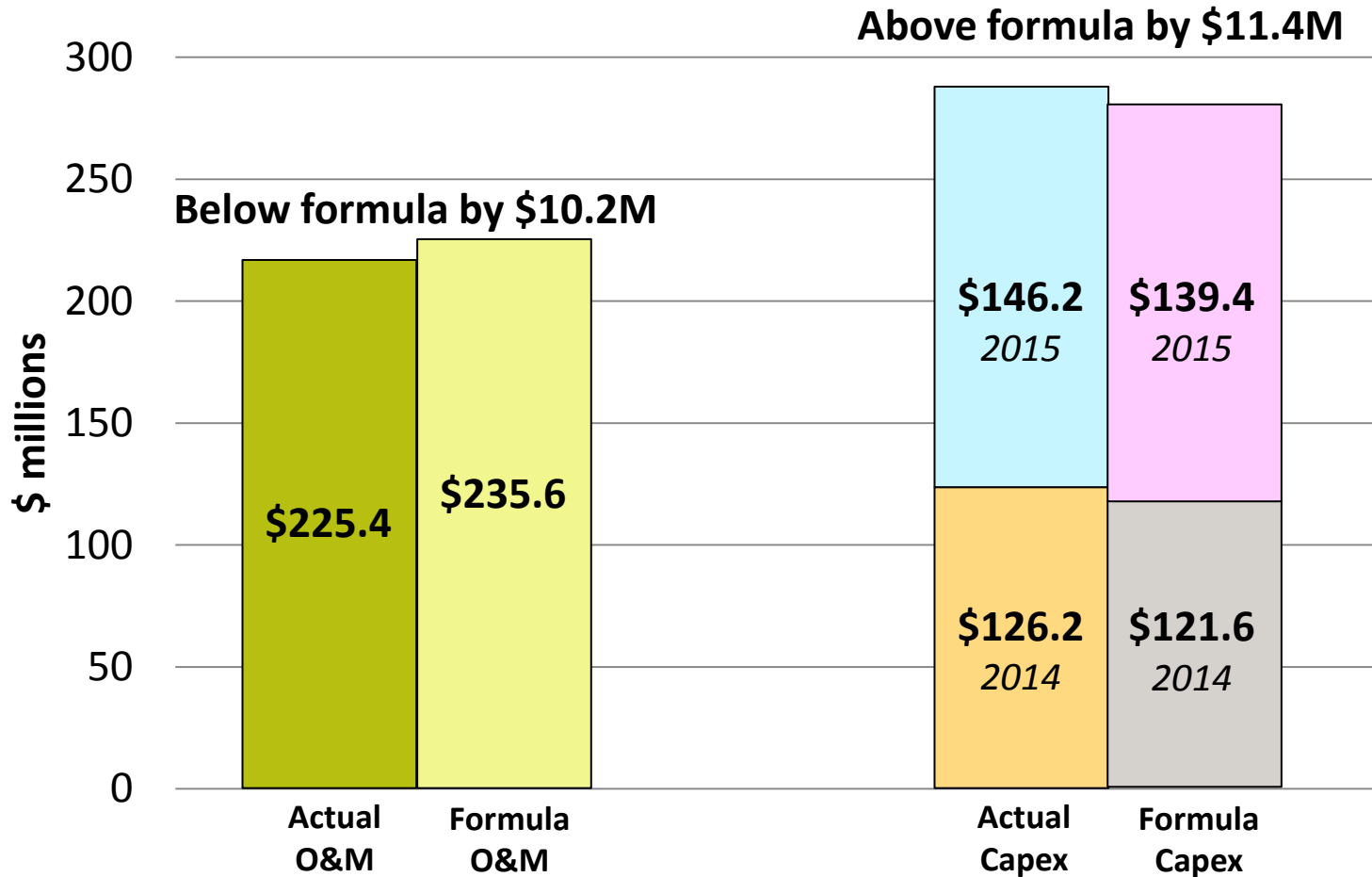
Summary of 2015

- Earnings Sharing Results Projection
 - O&M below formula by \$10.2 million
 - Capital expenditures above formula by \$6.8 million in 2015 (\$11.4 million cumulative)

- Major Initiatives
 - Continuation of Regionalization and Project Blue Pencil
 - New Technical and Infrastructure Support Provider (Compugen)

- Service Quality
 - All Service Quality Indicators are projected to be above threshold in 2015

2015 Earnings Sharing



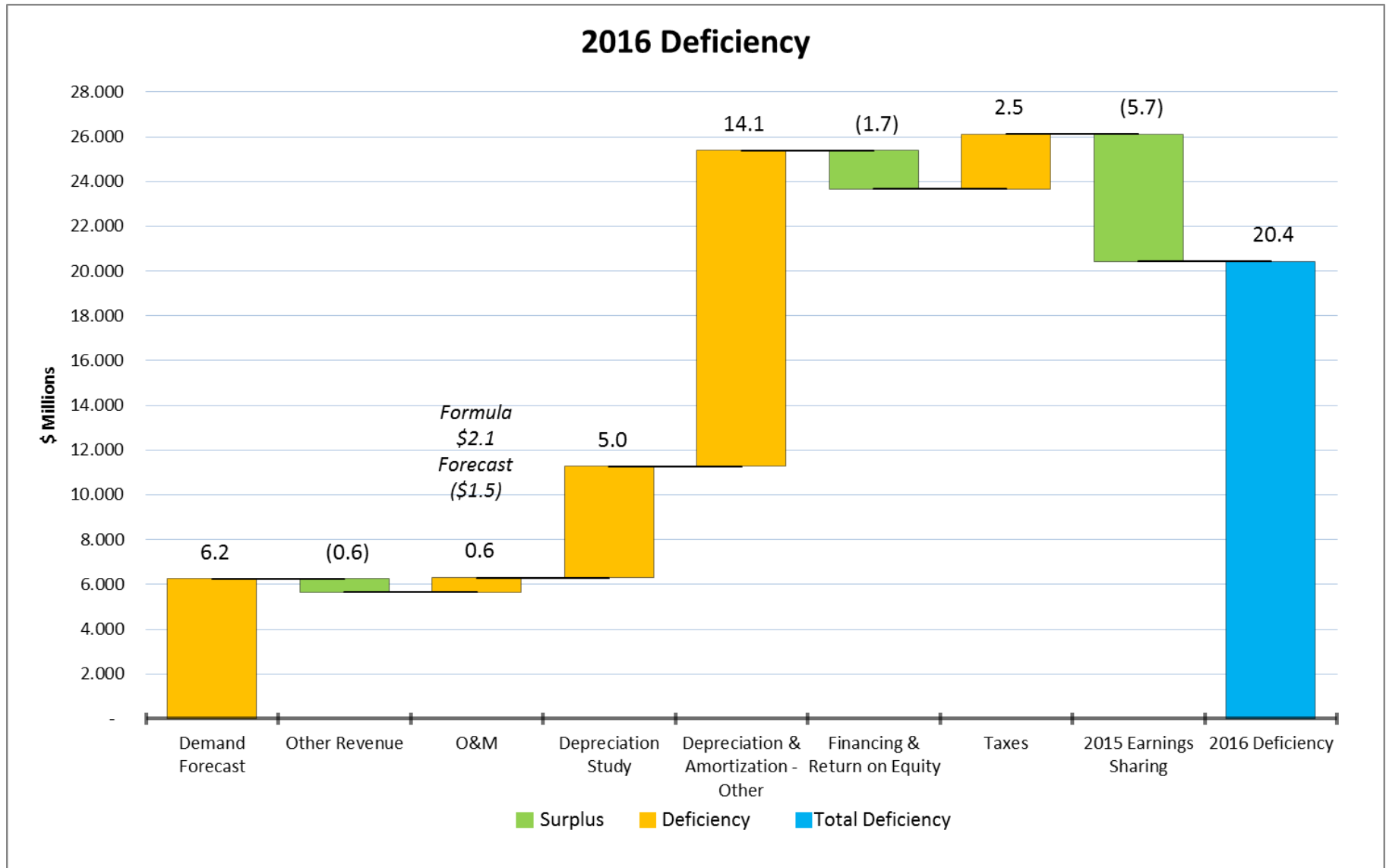
Total Earnings Sharing for 2015 is \$5.7 million

Revenue Requirements and Rates

Jeff May, Manager, Finance & Regulatory



Summary of Revenue Deficiency



Evidentiary Update October 16, 2015

Evidentiary Update - 2016 Rates			
Line Item	IR Reference	Revenue Deficiency Impact (\$ millions)	Delivery Rate Impact
September 3, 2015 Filing		\$ 16.674	2.22%
LNG Volumes	BCUC 1.18.3 & 1.18.4	3.655	
Burrard Thermal Demand	BCUC 1.10.2	1.125	
VIGJV Contract Demand	BCUC 1.10.2	(0.352)	
Financing on Earnings Sharing Returned to Customers	CEC 1.33.2	(0.619)	
BC OneCall Deferral & Biomethane Changes	BCUC 1.25.2 & 1.19.1	(0.052)	
October 16, 2015 Evidentiary Update		\$ 20.431	2.74%

Long Term Resource Plan

Jason Wolfe, Director, Energy Solutions



Requirements for the LTRP have changed

Deferral account will capture costs that are:

1. **Incremental** - new activities and analyses required for completion of the 2017 LTRP
2. **Not anticipated** by FEI or BCUC to be covered **within the Base O&M** under the PBR formula
3. **Used for retaining external consultants** to complete LTRP related tasks

Long Term Resource Plan

Anticipated Expenditures for Incremental Activities

	Activity	2016 Expenditure Estimate	Total Expenditure Estimate
1.	Scenario Development	\$ 75,000	\$ 75,000
2.	Comparison of End-use Demand Forecasting Methodologies	\$ 45,000	\$ 45,000
3.	Alternative Residential and Commercial Customer Additions Forecast	\$ 25,000	\$ 25,000
4.	End-Use Demand Forecast	\$ 95,000	\$ 180,000
5.	Alternative Industrial customer Additions and Demand Analysis	\$ 95,000	\$ 145,000
6.	Impact of New End-use Trends on Time-of-Day Use and Linking the Annual and Peak Demand Forecasts	\$ 70,000	\$ 150,000
7.	Incremental Consultation Activities	\$ 30,000	\$ 50,000
8.	DSM Portfolio Scenario Analysis Including Alternative DSM Funding and Savings Scenarios	\$ 60,000	\$ 200,000
9.	Analyze and Report on Peak Demand Infrastructure Avoidance / Deferral Opportunities	\$ 10,000	\$ 80,000
10.	Infrastructure Contingency Plans	\$ 0	\$ 70,000
11.	Analysis of Impact on GHG Targets	\$ 0	\$ 30,000
	Total	\$ 505,000	\$ 1,050,000

Reference: Exhibit B-2, Appendix C2, Table 1, Page 10

Depreciation and Net Salvage Rates

James Wong, Director, Finance and Planning



Summary of Approach

- Gannett Fleming, a leading depreciation specialist, completed the study
- Depreciation studies regularly completed (every 3 to 5 years) to incorporate most recent data
 - Review of retirement data for assets
 - Operational interviews with FEI staff
 - Comparison to industry peers
- For estimating net salvage, consideration of trends in net salvage
 - Three year and five year rolling average bases

Drivers of Depreciation and Net Salvage Rate Changes

- Composite depreciation rate decreases from 3.19% to 3.06%:
 - Longer estimated service lives of assets
 - True-up process between actual compared to calculated depreciation reserve
- Composite net salvage rate increases from 0.44% to 0.64%:
 - Level and trend of historical retirement costs

Table 12-1: Impact of Implementing Depreciation Study Recommendations (\$ millions)

		<u>Existing</u>	<u>Recommended</u>	<u>Change</u>
Depreciation	\$	172.5	\$ 165.6	\$ (6.9)
Net Salvage	\$	22.0	\$ 32.1	\$ 10.1
CIAC	\$	(11.0)	\$ (9.2)	\$ 1.8
Total	\$	183.6	\$ 188.5	\$ 5.0

Service Quality Indicators

James Wong, Director, Finance and Planning

Rolf Lyster, Director, Gas Plant Operations & PMO

Dean Stevenson, Director, OH&S and Technical Training



2015 September Year-to-Date SQI Performance

Service Quality Indicator	Status (Relative to Benchmark and Threshold)
<i>Safety SQIs</i>	
Emergency Response Time	Between
Telephone Service Factor (Emergency)	Better
All Injury Frequency Rate (AIFR)	Between
Public Contacts with Pipelines	Better
<i>Responsiveness to Customer Needs SQIs</i>	
First Contact Resolution	Better
Billing Index	Better
Meter Reading Accuracy	Better
Telephone Service Factor (Non-Emergency)	Better
Meter Exchange Appointment	Better
Customer Satisfaction Index - informational	n/a
Telephone Abandon Rate - informational	n/a
<i>Reliability SQIs</i>	
Transmission Reportable Incidents - informational	n/a
Leaks per KM of Distribution System Mains - informational	n/a

Responsiveness to Customer Needs

Service Quality Indicator	2015 Sep YTD Results	Status (Relative to Benchmark and Threshold)	Benchmark	Threshold
<i>Responsiveness to Customer Needs SQIs</i>				
First Contact Resolution	82%	Better	78%	74%
Billing Index	1.11	Better	5.0	<=5.0
Meter Reading Accuracy	98%	Better	95%	92%
Telephone Service Factor (Non-Emergency)	71%	Better	70%	68%
Meter Exchange Appointment	97.0%	Better	95%	93.8%

Informational Indicators	2015 Sep YTD Results		2013 Actuals	2014 Actuals
Customer Satisfaction Index	8.5	n/a	8.3	8.5
Telephone Abandon Rate	2.0%	n/a	2.1%	1.8%

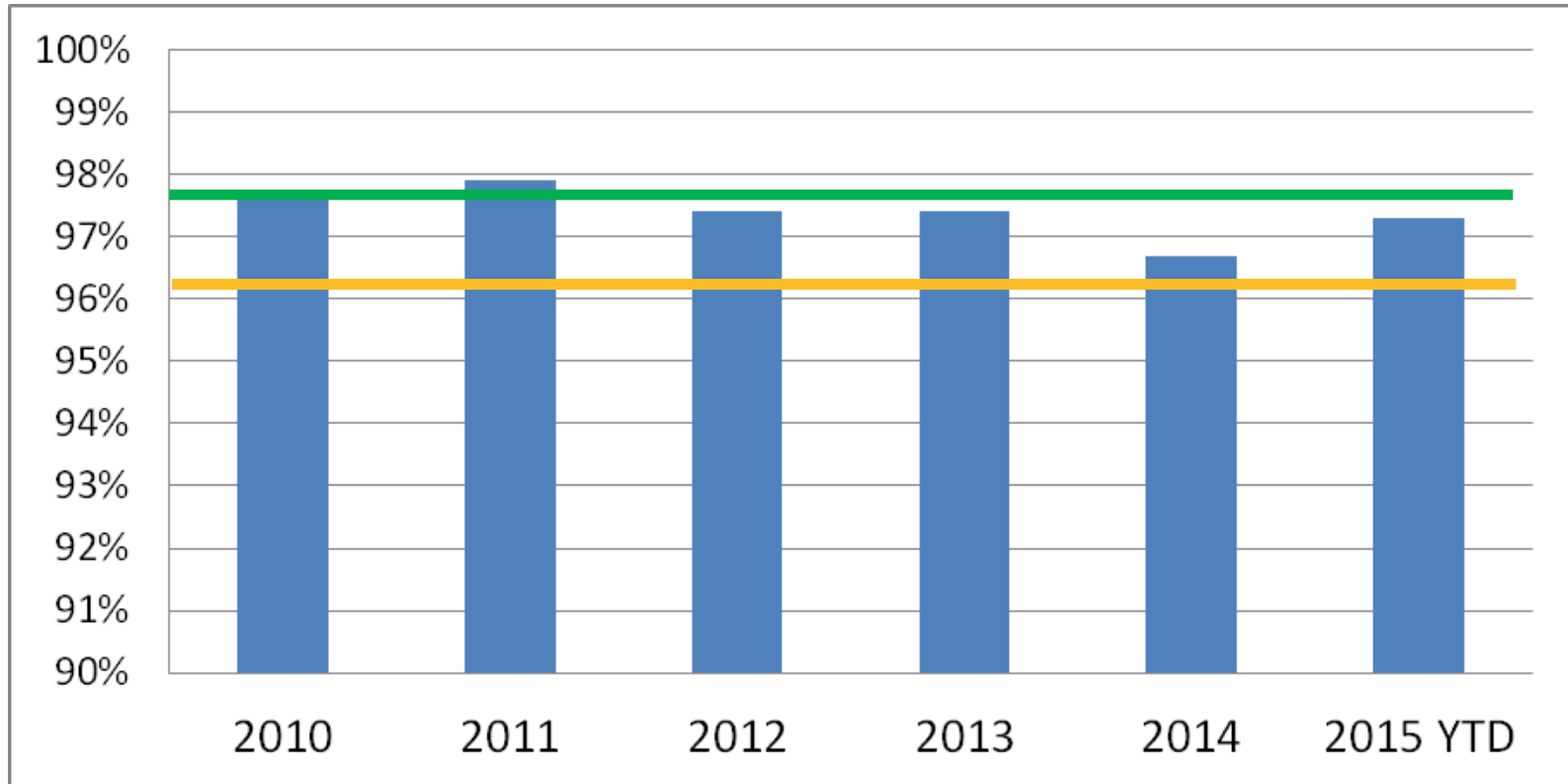
Safety and Reliability

Service Quality Indicator	2015 Sep YTD Results	Status (Relative to Benchmark and Threshold)	Benchmark	Threshold
<i>Safety SQIs</i>				
Emergency Response Time	97.3%	Between	97.7%	96.2%
Telephone Service Factor (Emergency)	97.8%	Better	95%	92.8%
All Injury Frequency Rate	2.54	Between	2.08	2.95
Public Contacts with Pipelines	10	Better	16	16

Informational Indicators	2015 Sep YTD Results		2013 Actuals	2014 Actuals
<i>Reliability SQIs</i>				
Transmission Reportable Incidents	2	n/a	0	2
Leaks per KM of Distribution System Mains	0.0036	n/a	0.0075	0.0059

Emergency Response Time

Emergency Response Time (within 1 hour)



➤ Improvement from 96.7% in 2014 to 97.3% Sept YTD

➤ Technician shift changes – Jan 2015

Safety

All Injury Frequency Rate (AIFR)

The 2015 AIFR through September 30, 2015 is 2.87, resulting in a three year rolling average AIFR of 2.54

- Safety is a core value; improvement is our priority
- Two major components to an effective safety program
 - Safety Management System (SMS)
 - Human factors
- A mature SMS that continues to meet COR certification standards
- Increased resources better address human factors

Target Zero

What is it?

- FortisBC's new safety awareness program

Why Target Zero?

- Offers a launching point to increase engagement and involvement of employees
- Provides an understanding of how our employees perceive safety

What new program elements does Target Zero bring?

- Annual employee safety perception survey
- Safety performance analysis and safety action plans for all business units
- Employee based safety program

Fraser Gate IP Project CPCN

Diane Roy, Director, Regulatory Services



Fraser Gate IP Project CPCN

- Approved 2013 Base Capital excluded projects above \$5 million
- CPCN Application for Fraser Gate IP Project filed before capital exclusion criteria decision
- Capital exclusion criteria proceeding assumed the Fraser Gate IP Project was part of the LMIPSU Project
- Commission has granted a CPCN and approved the accounting treatment, including the recording of an AFUDC return, for the Fraser Gate IP Project

Fraser Gate IP Project CPCN Treatment

➤ Spending Profile:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Cost	\$ 7	\$ 438	\$ 552	\$ 632	\$ 6,874	\$ 69	\$ 8,571
AFUDC	0	8	44	86	281	-	419
Total	\$ 7	\$ 446	\$ 596	\$ 718	\$ 7,155	\$ 69	\$ 8,990

➤ Option 1: CPCN Treatment:

- Exclude from base capital subject to the formula
- Add project costs plus AFUDC to rate base in 2019

➤ Option 2: Increase Base Capital under the PBR Formula:

- Add \$2.143 million to formula base capital starting in 2016
- The variances between actual spend and amount included in the formula each year will be subject to earnings sharing
- Add formula capital (including additional \$2.143 million) to rate base each year of the PBR term
- Add AFUDC to rate base in 2020

Question Period