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By Electronic Filing

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Erica M. Hamilton
Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. (FEI)
Annual Review of 2016 Delivery Rates

In accordance with the Regulatory Timetable set for this proceeding, we enclose for filing the electronic version of the Reply Submission of FortisBC Energy Inc.

Ten hard copies of the enclosed will follow by courier.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[original signed by Christopher R. Bystrom]

Christopher R. Bystrom

CB/ta
Enclosure

* Fasken Martineau DuMoulin LLP is a limited liability partnership and includes law corporations.

Vancouver Calgary Toronto Ottawa Montréal Québec City London Paris Johannesburg

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF THE UTILITIES COMMISSION ACT,
R.S.B.C. 1996, CHAPTER 473

and

FORTISBC ENERGY INC.

MULTI-YEAR PERFORMANCE BASED RATEMAKING PLAN APPROVED

FOR 2014 THROUGH 2019

ANNUAL REVIEW OF 2016 DELIVERY RATES

REPLY SUBMISSION OF
FORTISBC ENERGY INC.

November 18, 2015

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PART ONE: INTRODUCTION AND OVERVIEW

1. FortisBC Energy Inc. ("FEI" or the "Company") filed its Annual Review for 2016 Rates (the "Application") on September 3, 2015 in compliance with British Columbia Utilities Commission (the "Commission") Order G-138-14, which approved a Performance Based Ratemaking Plan (the "PBR Plan") for FEI for the years 2014 to 2019. On October 16, 2015, FEI filed an Evidentiary Update to the Application.[1]

2. Pursuant to the PBR Plan, FEI proposes to distribute $5.7 million in earnings sharing to customers in 2016.[2] FEI has achieved these savings while maintaining a high level of service quality.[3]

3. As set out in the Application as updated, FEI requests Commission approval for the following pursuant to sections 59 to 61 of the *Utilities Commission Act*:[4]

(a) Interim delivery rates for all non-bypass customers effective January 1, 2016, resulting in an increase of 2.74 per cent[5] compared to 2015 common delivery rates, with the increase to be applied to the delivery charge, holding the basic charge at existing levels. Rates will remain interim pending the outcome of FEI's current cost of capital proceeding.

(b) The creation of rate base deferral accounts for the following upcoming regulatory proceedings as described in Section 7.5 of the Application:

- 2015 System Extension Application;
- BERC Rate Methodology Application; and

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[1] Exhibit B-2-1.
[2] Exhibit B-12, slide 5.
[3] Exhibit B-2, p. 4 and Section 13.
[4] Exhibit B-2, section 1.2.
[5] Exhibit B-12, slide 3.

- 2017 Long-term Resource Plan Application.

(c) Rate Stabilization Deferral Account ("RSDA") riders for 2016 in the amounts set out in Table 10-5 in Section 10 of the Application.

(d) Phase-In Rate riders for 2016 in the amounts set out in Table 10-7 for Mainland customers and Table 10-9 for Vancouver Island and Whistler customers in Section 10 of the Application.

(e) Revenue Stabilization Adjustment Mechanism ("RSAM") riders for 2016 in the amounts set out in Table 10-10 in Section 10 of the Application.

(f) Depreciation rates in the amounts set out in Table 12-2 in Section 12 of the Application.

(g) The 2016 revenue requirement impact of the difference between the updated depreciation rates and the existing depreciation rates for Fort Nelson to be captured in the existing Fort Nelson Revenue Surplus/Deficit deferral account.

(h) Net salvage rates in the amounts set out in Table 12-3 in Section 12 of the Application.

(i) The transfer of the December 31, 2015 remaining balance of the FEW Rider B Refund Deferral to the existing Residual Rate Riders deferral account as described in Section 12.4.1 of the Application.

4. Following the filing of FEI's Application, the Commission approved a regulatory timetable for the proceeding, which included a round of information requests and a workshop.[6] On October 9, 2015, FEI responded to information requests ("IRs") from the Commission and interveners, including the British Columbia Old Age Pensioners' and Seniors' Organization et al. ("BCOAPO"), the B.C. Sustainable Energy Association and the Sierra Club of British Columbia

[6] Exhibit A-1.

("BCSEA"), the Commercial Energy Consumers Association of British Columbia ("CEC") and the Canadian Office and Professional Employees Union Local 378 ("COPE"). The workshop was held on October 26, 2015, and FEI's presentation materials and the transcript of the workshop were placed on the record in the proceeding.[7] FEI filed responses to undertakings given at the workshop on November 2, 2015.[8]

5. In support of its approvals sought FEI relies on the evidence filed in its updated Application, IR responses, the workshop and undertaking responses.

6. On November 9, 2015, BCOAPO, BCSEA, CEC and COPE filed final arguments in accordance with the regulatory timetable approved by the Commission. In the remainder of this Reply Submission, FEI will respond to the issues raised by interveners in their final arguments. While FEI has sought to address each topic raised by interveners, silence on FEI's part should not be interpreted as agreement.

PART TWO: REPLY SUBMISSIONS

A. Evaluation of PBR

7. FEI provides its evaluation of PBR to date in section 1.4 of the Application. In summary, FEI has continued its productivity focus in 2015 and initiated additional projects to enhance the customer experience and improve productivity. As a result of this focus and these initiatives, FEI was able to realize savings in O&M expenditures, while FEI's capital expenditures continue to be above the capital formula amount. Overall, the savings achieved result in $5.7 million[9] of earnings sharing that will be returned to customers in 2015, serving to reduce overall delivery rates for FEI's customers. FEI's performance with respect to Service Quality Indicators

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[7] Exhibit B-12. The Workshop Transcript is available on the Commission's website at http://www.bcuc.com/ApplicationView.aspx?ApplicationId=507.

[8] Exhibit B-13.

[9] Exhibit B-12, slide 5.

("SQIs"), as reported in Section 13 of the Application, demonstrates that FEI achieved these savings while maintaining a high level of service quality.[10]

8. In the following subsections, FEI replies to the submissions of interveners on the topic of the evaluation of PBR.

(a) CEC's Arguments regarding FTE Reductions are Speculative and Inconsistent with PBR

9. The CEC argues that the FTE reductions achieved "are not appropriately awarded over the full period of PBR as they are more likely a result of excess headcount in the base than the discovery of creative efficiencies" and "could have been achieved under Cost of Service".[11] FEI submits that the CEC's arguments are incorrect and without any basis in evidence. Moreover, the CEC's position is materially inconsistent with the approved PBR Plan and outside the scope of this proceeding. The CEC's submission should therefore be rejected.

10. First, the CEC provides no basis for its assertion that the reductions in FTEs are "more likely a result of excess headcount in the base".[12] Contrary to CEC's speculation, the evidence is that the savings achieved are the result of FEI's continued focus on productivity,[13] rather than any shortcomings in the base levels set under PBR. There is no evidentiary foundation to the CEC's claim that there was excess headcount in the base. Contrary to the CEC's assertions, FEI's Base O&M and Capital were the subject of a rigorous review and were approved by the Commission. The CEC's assertion that the savings achieved by FEI are due to the Base O&M being too high is not based on any evidence or analysis, and therefore should be rejected.

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[10] Exhibit B-2, p. 4.

[11] CEC Submission, paras. 115 and 117.

[12] CEC Submission, para. 115.

[13] Exhibit B-2, pp. 4-5.

11. Second, as in its submissions filed in FEI's Annual Review for 2015 Rates, the CEC is seeking to compare what would have been achieved under cost of service to what is achieved under PBR. The CEC's position would appear to be that FEI should only retain earnings sharing for savings that are in addition to what would be expected under cost of service and that are a direct result of PBR. In order to determine what efficiencies are due solely to PBR, the CEC's position requires an impossible comparison to a hypothetical cost of service regime in which FEI would not have the incentives provided under the PBR Plan. Such a hypothetical comparison serves no function under the PBR Plan approved by the Commission or PBR generally, and would be a speculative exercise. The CEC's suggestions are unworkable and would undermine the incentives and regulatory efficiency of PBR.

12. Finally, it appears that the CEC is advocating for material changes to the terms of the existing PBR Plan, which are more appropriately the subject of a reconsideration request and are therefore outside the scope of this proceeding. The Commission determined that such topics are outside the scope of annual reviews in its Decision on FEI's Annual Review for 2015 Delivery Rates, where it stated:

> As outlined in Section 1.1 above, the Commission encourages ongoing evaluation of the PBR Plan and the identification of problems with the operation of the plan and recommendations for improvement. Those recommendations which do not require change to the terms of the PBR Plan may be dealt with within this PBR period. Others, which require material change to the PBR Plan's fundamental provisions, will require a reconsideration application or at least the agreement of all parties prior to the Commission considering a change. The Panel considers the concerns raised by FEI regarding the recommendations of CEC to fall in the latter category of requiring a material change to the terms of the existing PBR Plan and thus is not prepared to consider them at this time.[14]

13. The CEC's comments are therefore out of scope and should be rejected.

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[14] In the Matter of FortisBC Energy Inc. Annual Review of 2015 Delivery Rates, Decision, dated May 27, 2015, p. 4.

(b) FEI's Major Initiatives Undertaken Have Achieved Value for Customers

14. With respect to FEI's major initiatives, the CEC submits that "the cost to customers of sharing benefits from utility management efficiency initiatives appear to be in excess of what prudent regulation of the utility should expect customers to pay to the utility shareholders and management for the efficiencies achieved."[15] As explained below, the CEC's submission is based on a number of errors which undervalue the benefit that FEI's customers receive from the savings that FEI has achieved under PBR.

15. The CEC makes a number of errors in its evaluation of major initiatives in paragraphs 119 to 124 of its submission. These errors are as follows:

- The table in paragraph 119 of CEC's submission purports to summarize the data in FEI's major initiatives,[16] but incorrectly adds the capital expenditures to $10.1 million. In fact, the capital expenditures total $3.1 million.

- In paragraph 120 of the CEC's submission, the CEC states that both the shareholder and customers will receive a $10.15 million savings from the major initiatives. However, customers and the shareholder share benefits from net O&M (i.e. $20.3M less $0.9M using CEC's calculations) and not the gross O&M of $20.3M.[17] Therefore, again based on the CEC's table, the shareholder and customers will each receive $9.7 million over the term of the PBR plan.

- The CEC's analysis in paragraph 121 that customers "break even" on the capital investments for FEI's major initiatives in year 5 is incorrect. First, as noted above, the total capital expenditures are not $10.1 million, but $3.1 million. Second, customers do

[15] CEC Submission, para. 125.

[16] Exhibit B-2, Appendix C3, Tables D-1, D-2 and D-3.

[17] CEC Submission, table in para. 119.

not pay the cost of capital all at once as the CEC's calculations assume, but over the life of the assets. In fact, customers "break even" in year 1 and every year thereafter.[18]

- In paragraph 122, the CEC conducts an incorrect analysis regarding the impact on FEI's shareholder of variances from the capital formula. Under CEC's presented (incorrect) scenario of a $10.1 million variance from the capital formula and the approved PBR Plan, customers pay for the depreciation and financing and receive the benefit of reduced taxes over the term of the PBR. Customers and the shareholder share in the variance in the return on equity. Therefore, FEI receives 50 percent of its return only over the PBR term and 100 percent thereafter, and in total receives less than its allowed 100% return over the life of the project. The net O&M benefits are shared equally between the FEI and customers over the term of the PBR, after which time they flow 100% to customers. This refutes the CEC's assertions and demonstrates the value to FEI's customers of the savings achieved.

- Paragraph 123 of the CEC's submission regarding the hypothetical use of deferral accounts for efficiency projects is simply incorrect. Deferral accounts would ensure that customers pay actual costs and the shareholder receives recovery of actual costs, and would thereby remove all PBR incentives.

16. The CEC's evaluation of major initiatives is therefore undermined by the fact that it is based on the above errors. In fact, as shown above, the PBR Plan has provided an incentive for FEI to pursue initiatives that will result in savings that are shared between the shareholder and customers and that will outpace the cost of achieving the savings in year 1. In FEI's

[18] For capital expenditures under FEI's PBR capital formula, customers pay annual financing and return and depreciation expense less income tax savings. Assuming a capital cost of $3.1 million, customers pay $0.214 million ($3.1 million x 6.9% approved return on capital for 2015) in financing and return. The depreciation less income tax savings will vary depending on the asset class but assuming IT hardware as is common with productivity initiatives, a depreciation rate of 20% and a CCA rate of 45% would result in a net annual cost in $0.260 million ($3.1 million x 20% less $3.1 million x 45% x 26%). From CEC's table, 2015 O&M savings for the projects with capital expenditures were $3.8 million of which customers received 50% or $1.9 million through earnings sharing. Customers breakeven in a year by a wide margin as savings are $1.9 million and total costs are less than $0.5 million.

submission, the savings resulting from its major initiatives are beneficial to both the shareholder and customers, and the CEC's submissions to the contrary are without merit.

(c) FEI's Deferral of Capital Expenditures is Appropriate in the Circumstances

17. The CEC questions whether the PBR Plan is resulting in the inappropriate deferral of capital spending.[19] FEI submits that it is acting appropriately under the PBR Plan and prudently deferring or reprioritizing some projects.

18. As detailed in the Application, the first two years of PBR have demonstrated the challenges of meeting the capital formula amounts. The projected 2015 capital expenditures excluding items forecast outside of the PBR formula are $6.816 million higher than the formula amount. FEI explained:

> Growth capital is projected to be above the formula by $9.733 million as the formula for growth capital, which utilizes one-half of prior year service line additions, does not adequately fund the increase in capital required to support customer additions. In addition to growth capital, FEI was challenged in 2015 in sustainment capital in the Vancouver Island region, where FEI was unable to reduce sustainment capital spending to match the significant $6.3 million reduction to the Base Capital amount for Vancouver Island determined by the Commission in June 2015.[20]

19. FEI has sought to mitigate the impact of spending in growth and sustainment capital above the formula amount by deferring some projects from 2015 to 2016 in order to allow additional time to prioritize the required spending in consideration of both 2015 and 2016 together.[21] At this time FEI has not identified any projects that it is planning to defer to outside of the PBR term.[22]

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[19] CEC Submission, para. 128.

[20] Exhibit B-2, p. 7.

[21] Exhibit B-8, CEC IR 1.6.4.

[22] Exhibit B-8, CEC IR 1.6.4.

20. FEI is acting appropriately under the terms of the PBR Plan. One of the purposes of PBR is to provide an incentive for FEI to reduce costs, both O&M and Capital. FEI is investing significant effort in managing capital spending[23] and, in the face of challenges in meeting the capital formula, it is appropriate for FEI to defer or reprioritize spending without impacting safety and reliability in order to seek ways to reduce costs and attempt to meet the capital formula amount. As the PBR Plan is designed to provide incentives for FEI to reduce costs, FEI believes that it is expected to take prudent and reasonable steps to manage its capital costs, which it is doing. FEI will continue to report on its efforts to manage capital expenditures in future annual review proceedings.

(d) Staffing Levels

21. In reference to a table that FEI prepared in response to BCUC IR 1.1.1 showing the difference between Average FTEs and End of Year FTEs, BCOAPO states: "Intuitively, one would expect the increase in 2015 year-end FTEs to result in higher 2016 FTE's and higher costs in 2016." BCOAPO asks "that FEI comment in its Reply on the reasons for such a significant variance between average and year-end FTEs and on the implications of an increase in projected year-end FTEs versus the decrease in projected average FTEs."[24] FEI replies to BCOAPO's request below.

22. First, as explained in response to BCUC IR 1.1.1, average FTEs are what determine the level of labour-related expenses (O&M and capital) for FEI over the course of the year, whereas year end FTEs are a point in time snapshot only. Thus, the variance between average and year-end FTEs does not impact the revenue requirement. It is for this reason that FEI uses average FTEs when reporting to the Commission.[25]

23. Since the 2015 year-end FTEs are only a snapshot in time, they may be impacted by higher FTE requirements at that time or the filling of vacancies by year end. This is apparent

[23] Exhibit B-8, CEC IR 1.6.4.

[24] BCOAPO Submission, para. 34.

[25] Exhibit B-5, BCUC IR 1.1.1.

from the following explanation of the difference between the FTE and headcount calculation provided in response to BCUC IR 1.1.4:

> The FTE calculation depends on such factors as the timing of the hiring and termination dates and, for part-employees, the number of hours worked.
>
> Generally, FTEs reported are lower than the headcount in a calendar year in situations where during the year positions are unfilled for a period of time (i.e. new positions, staff turnover during the year) and then are filled by December 31 of the calendar year. This was the case for FEI for the years 2013 to 2015. Headcount as at December 31 of each year was higher than the FTEs.
>
> Generally, FTEs reported are higher than headcount in a calendar year in situations where staff turnover is experienced in the latter part of a year

24. As indicated above, the timing of factors such as vacancies and turnover can influence the FTE count at any point in time.

25. In addition, FEI's FTE requirements can be seasonal, as is apparent from FEI's evidence of its efforts to use FEI contact centre employees to meet FortisBC Inc. ("FBC") contact centre requirements during peak periods.[26] Ms. Mehrer described how FEI can reduce staff time in response to lower call volumes as follows:

> …we've [had] a very mild winter last winter, so our call volumes ended up being lower than we had anticipated. With fewer high-bill calls, and the bills were lower than we had anticipated due to the weather. So, we reacted to that by shaving down some of the hours of our part-time and temporary staff. And so that resulted in some FTE savings over all.[27]

26. In short, the 2015 year-end FTE count is a snapshot in time and may not necessarily reflect the average FTE requirements of the Company over the coming year. It

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[26] Exhibit B-9, COPE 1.2 series. As indicated in the preamble to this IR series, "plausible cases in billing production... is highly seasonal and fluctuates often…". In addition, "peak volume times" are referenced in response to COPE 1.2.2.1 and apparent from the number of calls taken per month by FEI employees used to help meet those peak times.

[27] Workshop Transcript, p. 79, ll. 10-17 (Ms. Mehrer).

therefore may not be the case, as suggested by BCOAPO, that an increase in year-end FTEs would translate into higher average FTEs in the following year.

B. Demand Forecast

27. FEI's forecast of demand for natural gas is based upon a methodology that is consistent with that used in prior years, and provides a reasonable estimate of natural gas demand for 2016. Based on this methodology, FEI is forecasting an increase in consumption in 2016, with the total normalized demand projected to be approximately 208 PJs in 2016, up approximately 0.4 PJs from the 2015 Approved consumption. Based on the existing common rates for each customer class, FEI's 2016 revenue forecast is $1,224.206 million and 2016 gross margin forecast is $746.492 million.[28]

28. The only intervener to take issue with aspects of FEI's demand forecast was BCOAPO. BCOAPO submits that it is generally satisfied with the evidence provided by FEI regarding the accuracy of FEI's demand forecasts,[29] but raises some topics to which FEI replies below.

(a) The Rate Schedule 23 Forecast is Reasonable

29. BCOAPO states that FEI has offered no suggestions for improving its customer additions/losses forecasts for Rate Schedule 23 and requests that this issue be specifically addressed by FEI in its Reply and/or considered as part of the "Commercial Net Customer Additions" component of FEI's Application for 2017 Rates.[30] FEI submits that BCOAPO has not identified any need for improvements to the demand forecast and, in any case, alternatives to forecasting commercial customer additions are already within the scope of FEI's demand forecast review to be provided in the next annual review.

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[28] Exhibit B-2-1, Financial Schedules Section 11 Schedule 16.

[29] BCOAPO Submission, paras. 9 and 15.

[30] BCOAPO Submission, paras. 9 and 15.

30. Consistent with that used in prior years,[31] the demand forecast methodology for Rate Schedule 23 is the total customer count multiplied by the use rate. The total customer count is therefore more relevant than customer additions. While the Rate Schedule 23 customer count variance increased to 6.9 percent in 2014, the 2012 and 2013 variances were significantly lower. The average variance between forecast and actual customer count for the three-year period from 2012-2014 was just 3.6 percent.[32]

31. In addition, the Itron survey does not break down survey results between large and small commercial customers, but reports for the residential, commercial and industrial customer groups generally. Rate Schedule 23 is part of the commercial rate group, for which FEI's aggregate demand variance was lower than the Itron survey average of 4 percent in four of the past five years. In the one year in which it was not, the result was only 0.1 percent above the Itron survey average.

32. FEI therefore submits that its Rate Schedule 23 demand forecast is reasonable and should be approved as filed. In any case, as described in the Application, pursuant to the extension approved by Commission Letter L-30-15, FEI will provide alternatives to existing forecast methodologies with recommendations to improve residential and commercial UPC forecasts and commercial net customer additions forecasts in its Annual Review for 2017 Rates.[33]

(b) The Residential Customer Use Per Customer Forecast is Reasonable and Not Biased

33. BCOAPO submits that the forecast decline for residential customers for 2016 should be in the range of 1.3 GJ/year rather than 1.6 GJ/year.[34] BCOAPO's submission would appear to be based on a misunderstanding. A Use Per Customer ("UPC") decline of 1.3 GJ in

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[31] Exhibit B-2, p. 32.

[32] Exhibit B-2, Application, Appendix 2, p. 9

[33] Exhibit B-2, Application, p. 17.

[34] BCOAPO Submission, para. 12.

2016 is in fact what is forecast by FEI in the Application.[35] FEI is unable to deduce the source of the 1.6 GJ/year figure noted by BCOAPO.

34. BCOAPO's suggestion that there tends to be a bias in FEI's UPC forecasting is incorrect.[36] Bias implies a presence of consistent over or under forecast and is independent of the magnitude of variance itself.[37] FEI has examined both the presence of bias[38] and the magnitude of the variances.[39] An examination of the over-and under-forecasting for customers, use rates and demand shows that FEI's demand forecast has indeed produced a balance between over- and under- forecasts in the past 10 years. It is reasonable to conclude from these results that FEI's forecasting methods are not biased.[40]

35. BCOAPO does not provide an explanation as to how a figure showing total UPC variance for residential, commercial and industrial demand from 2005 to 2014 demonstrates a bias in residential UPC forecasts. FEI submits 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.[41] FEI therefore submits that BCOAPO's concern about bias in FEI's UPC forecasts is without merit.

(c) The Industrial Demand Survey was Conducted Close to the Time of Filing the Application

36. BCOAPO states that FEI conducted the industrial survey six months ahead of filing the application and asks that FEI conduct the survey closer to the date of filing the 2017 rates application.[42] FEI in fact conducted the annual Industrial Survey in May-June of 2015 for

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[35] Exhibit B-2, Application, p. 19; Exhibit B-2, Appendix A3, p. 30.
[36] BCOAPO Submission, para. 11.
[37] Exhibit B-6, BCOAPO IR 1.1.
[38] Exhibit B-2, Appendix A2, Figures A2-1 through A2-4.
[39] Exhibit B-2, Appendix A2, Sections 3 and 4.
[40] Exhibit B-2, Appendix A2, p. 2.
[41] Exhibit B-6, BCOAPO IR 1.2.
[42] BCOAPO Submission, para. 17.

the 2016 test period,[43] meaning that the survey was closed little more than 2 months prior to filing the Application on September 3, 2015. FEI submits that given the time needed to prepare the annual review materials, it would not be possible to conduct the survey any closer to the filing date of the application. FEI will similarly conduct its industrial demand survey close to the time of the Annual Review for 2017 Rates filing.[44]

C. O&M Expense

37. FEI replies below to COPE's submissions regarding FEI's initiative to use its contact centre employees to respond to FBC calls.

(a) COPE Submissions regarding Training and Use of CSRS to answer FBC Calls Are without Merit and Should be Rejected

38. COPE's submissions with respect to FEI's training and use of its customer service representatives ("CSRs") to respond to FBC calls have no merit. FEI's efforts in this regard are an efficient and effective use of resources, reduce costs for both FEI and FBC, and increase service levels for FBC. Further, the costs are fairly and accurately accounted for and allocated between the utilities. FEI's submits that this program is consistent with the incentives of PBR for FEI and FBC to reduce costs and beneficial to both FEI and FBC customers. FEI replies in detail to COPE's submissions below.

FEI Described the Program in the Annual Review for 2015 Delivery Rates

39. COPE asks: "Why did neither of these utilities alert the Commission and Interveners to the existence of this new cross-utility service".[45] In fact, the program to use FEI contact centre employees to answer FBC calls was discussed in FBC's Annual Review for 2015 Delivery Rates. First, in response to CEC IR 1.38.2,[46] FBC stated:

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[43] Exhibit B-2, Appendix A-4, p. 18.

[44] Exhibit B-2, Appendix A-4, p. 18.

[45] COPE Submission, p. 6.

[46] FBC Annual Review for 2015 Delivery Rates: Exhibit B-3.

> In addition, FBC has adjusted its resourcing strategy to handle larger peak volumes in the future if they occur unexpectedly. First, FBC has hired more temporary staff in December 2014. The hours of other part time and temporary staff were reduced so that overall FTE levels remain stable, but there now exists more capacity available to extend hours if more than expected call volumes occur. Second, a group of CSRs in the Prince George contact centre has been trained to answer electric calls, and may do so if required. This will be helpful in large outage situations or if FBC experiences high absence rates in the electric contact center. [Emphasis added.]

40. At FBC's workshop on April 1, 2015, FBC also discussed the plans as follows:

> In addition, we also made additional changes to our staffing model to create some more capacity in the future. An example of this is we trained some representatives in Prince George from our gas operations, to handle electric calls. Although these changes would not have been able to accommodate the doubling of volumes that we saw, it would create more capacity in the future to handle larger spikes than we could I the past.[47]

41. FEI notes that the cost of this program is between $500 and $3,000 per month.[48] FEI does not believe it has a duty to bring forward such small cost efficiencies for review in the context of PBR.

The FEI employees are Trained Appropriately

42. COPE makes various unsupported assertions about the training of the FEI employees, stating, e.g., that "the utilities are making no effort to determine whether this truncated training program is truly sufficient" and that FEI has "thrown the eighteen FEI employees currently in this program in to the deep end of the FBC pool without checking to see if they can swim."[49] COPE's comments are without any foundation in the evidence. As set out below, the evidence is clear that the FEI CSRs are trained appropriately.

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[47] Transcript of Workshop for FEI Annual Review of 2015 Delivery Rates, at p. 119, ll. 2-10. Available on the Commission's website at: http://www.bcuc.com/ApplicationView.aspx?ApplicationId=482.

[48] Workshop Transcript, p. 105.

[49] COPE Submission, p. 3.

43. FEI confirmed that each FEI CSR who is taking electric calls has received approximately 24 hours of training.[50] FEI described the training provided as follows:

> FEI provides its customer service staff the same training that FBC has been using for ten years to onboard new employees in order to prepare them to handle electric customer service calls. This training has been shortened to account for skills and knowledge common between the two operations and therefore already familiar to gas customer service representatives. This training takes four days (or 24 hours) to complete and is usually done with five to ten representatives at a time.[51]

44. Ms. Mehrer also explained that the FEI employees are in a dedicated training environment for several weeks.[52] As explained in response to undertaking #3 from the workshop, being in the dedicated training environment ensures that the FEI employees have easy access to the trainer if they require assistance:

> Of the 18 FEI customer service representatives who take calls for FBC, 11 currently take both gas and electric customer service calls at their regular desk without moving. The remaining 7 are still within a training period and are therefore relocated to a training room during times that they are scheduled to be available to take electric calls, to ensure that they have easy access to the trainer if they require it. Once the training period has passed, these 7 customer service representatives will be able to take both gas and electric service calls at their regular desks without moving.[53]

45. The evidence is therefore clear that the 18 FEI employees, who are already trained FEI CSRs, are provided an appropriately modified version of the training that has been used to train FBC employees for the past ten years and are provided the support of being in a dedicated training environment with access to a trainer.

46. In short, all of the evidence on the record supports the conclusion that FEI's employees taking FBC calls have been appropriately trained. There is no evidence to support

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[50] Exhibit B-9, COPE IR 1.2.5.1.

[51] Exhibit B-9, COPE IR 1.2.4.

[52] Workshop Transcript, p. 104, ll. 10-15 (Ms. Mehrer).

[53] Exhibit B-13, Response to Workshop Undertaking #3.

any of COPE's assertions to the contrary. FEI submits that COPE's submissions in this regard must be rejected.

The Program is a Success

47. COPE asks how FEI can characterize this program as a success, stating that there "is no concrete evidence that this in the best interest of FBC ratepayers."[54] Contrary to COPE's statements, FEI submits that all of the evidence supports the conclusion that the program is a success and in the best interest of both FEI and FBC ratepayers.

48. As stated in FEI's response to a COPE IR, as of September 23, 2015, there are 18 FEI employees trained to take electric customer calls. These employees are called upon when the electric queues require additional support to reduce wait times for customers and when the gas queues are slow enough to support it. This initiative takes advantage of slower periods of call volume for the gas operations where previously there would have been idle time for FEI staff. That idle time is now being used to support the electric operations, which is then charged for the service, creating efficiencies in both operations.[55]

49. As also indicated by FEI in response to a COPE IR, it is significant that the FEI employees take FBC calls during FBC's peak volume times and therefore have had a positive impact on FBC service levels and have resulted in reduced wait times for FBC customers during those busy periods. Without this support during peak times, FBC would be required to carry a higher headcount of staff, scheduled for a minimum of four hour shifts and would therefore incur costs higher than those identified above. The result is that FEI can make use of idle time between busy periods and charge that service to FBC and FBC can utilize that service on an as needed basis, resulting in savings for both FEI and FBC customers.[56]

50. Ms. Mehrer described the success of the program to date as follows:

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[54] COPE Submission, p. 4.

[55] Exhibit B-9, COPE IR 1.2.2.

[56] Exhibit B-9, COPE IR 1.2.2.1

> The initial project was a pilot. We wanted to insure we could use the response in a way that wouldn't affect the quality or availability of staff for FEI customers, and we wanted to ensure that the skillsets that FEI had were a good match for the FBC calls and monitor our quality and first contact resolution.
>
> We tried it for about three months and it was very successful and was very useful in reacting to changes in customer need during outages or during high peak call volume times on our electric operations. So it's now part of normal operations, and something we intend to continue and grow as we go forward.[57]

51. Ms. Mehrer also explained that service levels are monitored and managed dynamically[58] and that there has been no reduction in service quality.[59]

52. COPE asserts that FEI cannot claim that the program is a success if it is not tracking the individual service quality of the 18 FEI employees.[60] While the particular measures that FEI takes to ensure that individual CSRs provide an appropriate level of customer service quality were not explored in this proceeding, there is no evidence that there have been any issues with individual CSR service quality. To the contrary, the 18 FEI CSRs are fully trained and there is no reason to believe or even suspect that their performance would be any worse than a CSR employed by FBC. In FEI's submission, COPE's submission that there should be concern about the service quality of the FEI CSRs is baseless and should be rejected.

53. In summary, the program is an efficient and effective use of resources that results in lower costs for both FEI and FBC and higher service levels for FBC customers. In FEI's submission, the evidence is clear that the program is a success and in the interest of both FEI and FBC customers.

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[57] Workshop Transcript, pp. 81, l.2 - p. 82, l. 7 (Ms. Mehrer).

[58] Workshop Transcript, p. 84, ll. 14-17 and ll. 20-25 (Ms. Mehrer).

[59] Workshop Transcript, p. 82, ll. 13-15 (Ms. Mehrer).

[60] COPE Submission, pp. 3-4.

The Allocation of Costs by Interaction is Fair and Accurate

54. COPE argues that FEI's allocation of costs for the services provided to FBC results in an overcharge to FBC and cross-subsidization of FEI.[61] As discussed below, COPE's position is in error. Contrary to COPE's view, the evidence clearly demonstrates that FEI has adopted a fair and accurate cost allocation method that does not result in cross-subsidization.

55. To recover the costs of training time and calls answered for FBC, FEI tracks both training hours and call volumes answered, and charges FBC for the costs of these services through the Company's intercompany allocation process.[62]

56. FEI uses a cost per interaction to charge FBC for the FBC calls that its CSRs answer.[63] As explained by Ms. Mehrer, the cost per interaction is calculated using the total costs for the contact centre, divided by the total number of calls that were handled:[64]

> So the cost per interaction is calculated using all of the contact centre costs, the labour costs, the phone costs, everything that goes into the contact centre, and divided it by the total number of calls that were handled. So because we didn't have people working in isolation to track hours to, when they're taking these calls, we decided to use the cost per interaction. And it changes month by month depending on the volumes that we see, depending on how much overtime we might have, and all of those things. So the cost per interaction does fluctuate seasonally, and so we've charged it based on the monthly average. We feel like it's a more accurate representation of their portion of the contact centre costs for that month.

57. FEI submits that there are many acceptable methods to allocate costs, including using timesheets or the well-known Massachusetts method. Generally, the appropriate method depends on the cost driver that is most relevant to the particular cost being allocated. In the case of the contact centre, FEI has identified the number of interactions as the relevant

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[61] COPE Submission, pp. 4-5.

[62] Exhibit B-9, COPE IR 1.2.2.2.

[63] Exhibit B-9, COPE IR 1.2.2.1. FEI provides the monthly volumes (number of calls) and cross charges for the period of January to August 2015

[64] Workshop Transcript, p. 102, l. 19 to p. 103, l. 7 (Ms. Mehrer).

cost driver and has allocated costs accordingly. FEI submits that this is a reasonable and accurate method of allocating costs in this case.

58. COPE states that this is an “unacceptable billing model” and “these cross-service charges to FBC load in many costs that have nothing to do with providing FBC customers with service but rather costs incurred in the service of FEI customers.”[65] Contrary to COPE’s position, FEI would be cross-subsidizing FBC if it did not charge FBC an appropriate allocation of the costs of the contact centre. FBC is not only receiving the benefit of the time of the individual employees, but the benefit of FEI’s contact centre facilities and equipment and all the other costs of the contact centre employees. It is reasonable and appropriate that FBC bear a proportionate share of these costs. The number of interactions is clearly a cost driver of the contact centre costs and therefore an appropriate basis on which to allocate those costs. FEI submits that it is employing a reasonable method which allocates the appropriate share of contact centre costs to FBC.

59. COPE misleadingly states that Ms. Mehrer admitted that time sheet tracking is “more accurate”’.[66] Mr. Mehrer in fact stated that time sheet tracking was more accurate for training costs:

> ...now, with the training, because they’re in a dedicated training environment for several weeks, for that we use time sheets because it’s practical to track it that way and it’s more accurate.[67]

60. Ms. Mehrer clearly indicated her belief that cost per interaction is accurate: “I believe that the way we've tracked it is an accurate representation of the costs and a fair representation for both FEI and FBC customers.”[68]

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[65] COPE Submission, p. 5.

[66] COPE Submission, p. 5.

[67] Workshop Transcript, p. 104, ll. 11-15 (Ms. Mehrer).

[68] Workshop Transcript, p. 106, ll. 4-7 (Ms. Mehrer).

61. COPE also misleadingly states that Ms. Mehrer "attempted to justify the impact of this inaccurate costing by characterizing it as *de minimis*".[69] First, Ms. Mehrer never stated that cross charges were inaccurate, but stated the opposite, namely that they were fair and accurate.[70] Second, Ms. Mehrer was reasonably pointing out that the costs of the program are immaterial such that changing the allocation methodology would not have a significant impact:

> And keeping in mind that for the number of calls for FEI, about 99.7 percent of the calls are for FEI customers and .3 that we're taking are for electric. So, using a different allocation methodology wouldn't have any significant impact on whatever FEI is incurring. With the costs being between, you know, 500 and 3,000 dollars a month.[71]

62. FEI notes in this regard that if tracking by the minute were used, as suggested by COPE, the rate charged for that time would have to reflect the total costs of the contact centre. There is no evidence or compelling reason to believe that changing the allocator to time spent on the phone would be a more accurate allocation of costs or even result in a different allocation than FEI's chosen allocator of interactions. However, as noted by Ms. Mehrer, tracking by the minute would cost significantly more than the actual value of the costs themselves.[72] There can be no reasonable basis to adopt an allocation method that would cost more to employ than the costs being allocated, and that would not provide a more accurate or materially different allocation of costs than the alternative.

63. Contrary to COPE's submission, the evidence shows that the costs of the FEI program to train and use its contact centre employees to assist in responding to FBC calls during peak times are fairly and accurately allocated between the utilities.

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[69] COPE Submission, p. 5.

[70] Workshop Transcript, p. 106, ll. 4-7 and 19-23 (Ms. Mehrer).

[71] Workshop Transcript, p. 105, ll. 18-22 (Ms. Mehrer).

[72] Workshop Transcript, p. 103, ll. 4-10 (Ms. Mehrer).

D. Rate Base

64. In the subsections below, FEI replies to the topics raised by interveners related to FEI's Rate Base, which include the CEC's submission in relation to FEI's proposed deferral accounts and BCOAPO's submission on the treatment of the costs of the Fraser Gate IP project.

(a) Non-CPCN Application Cost Deferral Accounts

65. As described in section 7.5.1 of the Application, FEI is proposing to create three new deferral accounts to address the costs of applications related to the 2015 System Extension review, the BERC Rate Methodology proceeding and the Long Term Resource Plan ("LTRP").

66. With respect to the BERC Rate Methodology deferral account, the CEC submits that FEI has not provided evidence that the PBR Decision specifically contemplated inclusion of non-CPCN application costs to be a flow through item.[73] This is incorrect. Deferral accounts to capture external costs related to regulatory applications, such as legal fees, intervener and participant funding costs, have been consistently granted deferral account treatment both before and during PBR. As these costs have been consistently granted deferral account treatment, they clearly could not have been within the Base O&M for PBR.

67. FEI explained as follows in response to a CEC IR regarding the deferral account for the 2015 System Extension review:

> The deferral account for the MX Test will appropriately recover the costs outside the PBR formulaic O&M which is consistent with past Commission approvals including approval of the PBR plan. The costs of regulatory applications have always been recovered in deferral accounts and this practice has continued under PBR. For example, in the PBR Decision, the Commission approved the 2014-2018 PBR Application Costs Deferral Account, stating: "The Panel considers this treatment to be consistent with past deferral accounts approved for application-related costs." In addition, Commission Order G-178-14 established the 2015-2019 Annual Reviews deferral account and Commission Order G-86-15

[73] CEC Submission, para. 66.

> approved the 2016 Cost of Capital Application and the 2017 Rate Design Application deferral accounts.
>
> As discussed in Section 7.5.1.1 of the Application, the 2015 System Extension Application deferral account is requested to recover external costs related to the filing and regulatory review of the System Extension Application. As the costs for regulatory applications have been consistently granted deferral account treatment, these costs are clearly outside the PBR Base O&M. Given that these costs were not included in the PBR Formulaic O&M base, FEI will not be reducing the O&M formula for these costs.[74]

68. FEI further elaborated in relation to the BERC Rate Methodology Deferral Account in response to CEC IR 1.29.1, as follows:

> It is clear that regulatory application costs are outside of formulaic O&M.
>
> Regulatory application costs are not included in FEI's formulaic O&M as FEI does not record application costs in O&M expense; rather it is common practice for FEI to establish deferral accounts to record the costs of various regulatory applications and to recover these costs through the delivery rates of customers. This is because application costs are subject to considerations outside of the control of FEI such as the regulatory process that the Commission puts in place, whether or not the Commission levy will cover the costs of the Commission's participation, whether the Commission or interveners will engage consultants or experts and the overall level of PACA funding provided.
>
> The practice of establishing a deferral account to record regulatory application costs has continued under PBR. See the response to CEC IR 1.28.2 for a discussion of regulatory costs recently approved for recovery through a deferral account under FEI's PBR. Specific to the BERC rate methodology deferral account, the establishment of a deferral account for BERC Methodology Application costs and the recovery of these costs from all non-bypass customers is consistent with the Commission's Order G-15-15 approving the recovery of the 2013 Biomethane Application Costs.[75]

69. Contrary to the CEC's submission, it is clear that the established practice of the Commission is to grant deferral account treatment for external costs related to regulatory applications. This practice was specifically acknowledged in the Commission's Decision

[74] Exhibit B-8, CEC IR 1.28.2.

[75] Exhibit B-8, CEC IR 1.29.1.

approving the PBR Plan and has continued to be applied since then. FEI submits that there is no basis for the CEC's position, which should be rejected.

(b) 2017 Long Term Resource Plan Deferral Account

70. The CEC recommends approval of the deferral account for the 2017 LTRP, but notes that "it would be difficult to determine if there are potentially any activities in completing the 2017 LTRP that would normally be included in the O&M base".[76] The CEC's position is incorrect. The costs that FEI is seeking approval to be captured in the deferral account for the 2017 LTRP are not included in the Base O&M. As FEI has repeatedly made clear, the incremental activities that FEI is conducting for the 2017 LTRP are activities that FEI was directed by the Commission to conduct in the its decisions approving FEI's 2010 and 2014 LTRPs. FEI did not previously conduct these activities and the incremental funding approved to conduct the 2014 LTRP were explicitly removed from FEI's Base O&M.[77] Consequently, there is $0 in the Base O&M related to the incremental activities for which the external costs will be captured in the 2017 LTRP deferral account. None of the activities required to complete the identified incremental activities for the 2017 LTRP would normally be included in the O&M Base.[78]

(c) Treatment of Fraser Gate IP Costs

71. BCOAPO submits that the Fraser Gate Intermediate Pressure ("IP") Project is a separate project and that the Capital Exclusion Criteria Decision should be applied in this proceeding.[79] FEI maintains that the Fraser Gate IP Project is rationally grouped as part of the Lower Mainland Intermediate Pressure System Upgrade ("LMIPSU") Project and therefore outside of the formulaic capital under the PBR Plan. If the Commission concludes that the Fraser Gate IP Project should be considered as a separate project below the capital exclusion

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[76] CEC Submission, para. 73.

[77] Exhibit B-2, Appendix C2.

[78] Exhibit B-2, Appendix C2.

[79] BCOAPO Submission, pp. 6 to 8.

threshold, then FEI submits that FEI's Base Formulaic Capital must be adjusted as the base was set using a $5 million capital exclusion threshold and never adjusted to take into account projects between $5 and $15 million. Given the complications associated with attempting to adjust FEI's Base Capital, FEI submits that the more reasonable option at this time is to exclude the Fraser Gate IP Project costs from the formulaic capital of the PBR Plan.

72. In the following sections, FEI provides an overview of the regulatory history, which in FEI's submission, must inform the Commission's determination on the treatment of the Fraser Gate IP Project. FEI then provides its submission on whether the Fraser Gate IP Project is rationally grouped as part of the LMIPSU Project and how the costs of the Fraser Gate IP Project should be treated in the PBR Plan.

FEI's Base Capital Was Set Based on a $5 Million Capital Exclusion Threshold

73. In FEI's submission, a key fact is that FEI's Base Capital was set based on a $5 million capital exclusion threshold. At the time of filing FEI's Multi-Year Performance Based Ratemaking Plan Application (the "PBR Application") the CPCN threshold for FEI was set at $5 million. In the PBR Application, FEI proposed that CPCN capital expenditures would be excluded from the PBR formula.[80] On page 59 of the PBR Application, FEI stated:

> The formula–based capital portion of the PBR Plan pertains to the categories of capital expenditures over which the Company and its employees have some control. The other components of rate base such as working capital and deferred charge balances are largely beyond management control. The PBR formulas recognize this distinction and are thus applied to controllable capital expenditures and leave non-controllable rate base components for the annual forecasting process.
>
> Capital expenditures include both regular capital expenditures and projects approved as CPCNs. FEI proposes the same treatment in the 2014 PBR Plan for regular capital expenditures and CPCN expenditures as was approved in the 2004 PBR Plan. Regular capital expenditures will be determined by formula and CPCN expenditures will be excluded from the formula and will continue to be subject to the minimum $5 million cost threshold. CPCN expenditures will only be

[80] Exhibit B-11, LMIPSU Evidence, p. 2.

included in rate base after receiving CPCN approval from the Commission and being placed into service.[81]

74. Section 6.2.5.1 of the PBR Application proposed 2013 Base Capital to include the three categories of Growth, Sustaining and Other Capital. As the CPCN threshold for FEI was set at $5 million, the 2013 Base Capital did not include any expenditures for projects greater than $5 million.[82]

75. Notably, the capital expenditures on the Huntingdon Station Bypass Project are not included in the 2013 Base Capital or formula capital expenditures under PBR. The Huntingdon Station Bypass Project is similar to the Fraser Gate IP Project in that it is a project between $5 million and $15 million that has been granted a CPCN during the term of the PBR. The Huntingdon Station Bypass Project was granted a CPCN on April 4, 2014 in Commission Order C-6-14, based on a total project cost estimate of $8.624 million in as-spent dollars. Capital expenditures on the Huntingdon Station Bypass Project began in 2013 and the project is expected to be in-service in 2016. The expenditures on this project exhibit a similarly "lumpy" nature as the Fraser Gate IP Project, with the majority of capital expenditures occurring in 2015.[83]

76. As described further below, FEI's Base Capital was not adjusted in the Capital Exclusion Criteria Decision to account for projects between $5 and $15 million.

The LMIPSU CPCN Application

77. On December 19, 2014, FEI filed an application for a Certificate of Public Convenience and Necessity ("CPCN") for the LMIPSU Project which sought approval to construct and operate two IP pipeline segments in the Lower Mainland to replace two existing segments (the "CPCN Application"). While the details of the two projects are not relevant in this proceeding, the two projects were referred to as the Coquitlam Gate IP Project and the

[81] Exhibit B-11, LMIPSU Evidence, p. 2.

[82] Exhibit B-11, LMIPSU Evidence, p. 2.

[83] Exhibit B-11, LMIPSU Evidence, pp. 3-4.

Fraser Gate IP Project.[84] The Coquitlam Gate IP Project has an estimated cost of approximately $200 million. The Fraser Gate IP Project was originally estimated to cost $18.107 million, but was adjusted during the course of the CPCN proceeding to a cost of $8.990 million.[85]

78. The timing of the CPCN Application is significant. At the time of filing on December 19, 2014, the PBR Plan had been approved by Order G-138-14 and Reasons for Decision (the "PBR Decision"), but the Commission had not yet issued PBR Capital Exclusion Criteria Order G-120-15 and Reasons for Decision (the "Capital Exclusion Criteria Decision"). The Exclusion Criteria Decision was not issued until July 22, 2015.

79. In the PBR Decision, the Commission approved FEI's $5 million CPCN threshold as the capital exclusion threshold until such time as any further determination by the Commission was made concerning capital exclusion. The CPCN/capital exclusion threshold of $5 million was therefore in place when the CPCN Application was filed.

The Capital Exclusion Criteria Decision

80. The Capital Exclusion Criteria Decision increased the CPCN and capital exclusion threshold to $15 million and did not make any adjustment to FEI's Base Capital. As set out below, no adjustment was made to FEI's Base Capital because the evidentiary record upon which the Commission made its decision indicated that there were no anticipated projects between $5 and $15 million for FEI.

81. In FEI's compliance filing regarding the appropriate capital exclusion criteria under PBR, FEI proposed to increase the capital exclusion threshold for FEI to $15 million, with the same threshold to be applied to CPCN projects. In that filing, FEI's understanding was that the Fraser Gate IP Project was included as part of the LMIPSU Project, with a total project cost

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[84] LMIPSU Project CPCN Order C-11-15 and Reasons for Decision, p. (i).

[85] LMIPSU Project CPCN Order C-11-15 and Reasons for Decision, p. 62.

of over $200 million, and therefore clearly above the capital exclusion threshold. For this reason, FEI's view was that there were no anticipated projects between $5 and $15 million.[86]

82. In reviewing the submission of FortisBC (FEI and FBC together), the Commission noted as follows at page 4 of Appendix A to the Capital Exclusion Decision:

> FortisBC submits that increasing FEI's materiality threshold from $5 million to the proposed $15 million "would require an adjustment to its formula spending envelope (by way of a Base Capital adjustment), if the proposed higher CPCN threshold resulted in a need to incorporate additional capital work under the formula spending for capital projects between the current $5 million and the proposed $15 million thresholds." However, it "does not anticipate any capital projects within this range of expenditure during the PBR Period and therefore submits that no adjustment to its Base Capital is required to accommodate the proposed CPCN threshold."

83. This consideration formed a part of the Commission's determination as it held as follows at page 12 of the Capital Exclusion Criteria Decision:

> The Panel considers FEI's existing $5 million threshold to be low enough that it may be vulnerable to the possibility of combining projects. Raising it to $15 million will require no rebasing, will not be subject to the effects of distortion caused by large, lumpy projects and is supported by both CEC and BCOAPO. Further, the Panel is satisfied that because the Commission retains the authority to require a CPCN, the public interest is adequately protected if the CPCN financial threshold is raised to $15 million. Accordingly, for FEI, the Panel approves $15 million as the threshold for both capital exclusion for the PBR formula and CPCN exemption. [Emphasis added.]

84. It is therefore clear that the Capital Exclusion Decision was premised in part on the fact that there were no anticipated FEI capital projects that would fall within the old and new thresholds, as otherwise rebasing would have been required.

85. FEI also notes that the Capital Exclusion Criteria Decision stated that raising the capital exclusion threshold to $15 million "will not be subject to the effects of distortion caused by large, lumpy projects". However, the forecast capital expenditures on the Fraser Gate IP

[86] Exhibit B-11, LMIPSU Evidence, p. 3.

Project are “lumpy” in nature with the $7.155 million forecast in 2018 dwarfing the next-highest forecast annual cost for this project of $0.718 million in the prior year.[87]

86. The above demonstrates that FEI’s Base Capital was never adjusted to account for Projects above $5 million and that the Capital Exclusion Criteria Decision assumed that no rebasing would be required because there were no anticipated projects between $5 and $15 million and that there would be no effects of distortion due to large lumpy projects.

87. As summarized in the Commission’s Decision granting a CPCN for the LMIPSU Project dated October 16, 2015, the relevant key directives from the Capital Exclusion Criteria Decision were:

- FEI’s PBR capital materiality threshold was set at $15 million. This is $10 million greater than the $5 million set in the FEI PBR Decision. Under FEI’s PBR, capital expenditures in excess of the materiality threshold are excluded from the PBR base capital while amounts less than this are to be charged against the allotted PBR base capital; and

- For any capital project application that exceeds the PBR materiality threshold of $15 million, FEI is required to demonstrate to the Commission that the project is not a result of combining smaller projects and that actual costs fall above the PBR threshold.[88]

88. Given the above regulatory history, the question now before the Commission is how to treat the costs of the Fraser Gate IP Project. In the sections below, FEI sets out its reasons for its view that the Fraser Gate IP Project should be excluded from the formulaic capital expenditures.

The Fraser Gate IP Project is Rationally Grouped with the Coquitlam Gate IP Project

89. The first question before the Commission is whether the Coquitlam Gate IP and Fraser Gate IP Projects should be grouped together for the purpose of the capital exclusion

[87] Exhibit B-11 LMIPSU Evidence, p. 3.

[88] At p. 62 (footnotes excluded).

threshold. If the two projects should be grouped together for this purpose, then it follows that the cost of the Fraser Gate IP Project should be excluded from the formulaic capital under the PBR Plan.

90. FEI submits that it is first important to understand the purpose of the inquiry as to whether two projects are properly grouped together or not. FEI's submits that the purpose is to ensure that FEI is not seeking to exclude projects that should properly be within the Base Capital. In the PBR Decision, the Commission approved the exclusion of capital, stating:

> Excluding significant amounts of capital reduces the ability of the utility to achieve operational efficiencies. However, it also provides opportunities for a utility to game the system, such as by combining smaller projects into larger projects that will be excluded from the formula.[89] [Emphasis added.]

91. Thus, the harm that is meant to be avoided is the grouping of smaller capital projects together to exclude them from the Base Capital.

92. FEI submits that the evidence and factual history detailed above make it clear that FEI is not gaming the system. As set out above, FEI's Base Capital does not include any projects above $5 million, such as costs for the Huntingdon Bypass Project that was ongoing at the time of the PBR proceeding or the costs of the Fraser Gate IP Project. The Base Capital was approved on the basis of a $5 million capital exclusion threshold and was not adjusted when the capital exclusion threshold was raised to $15 million. Moreover, FEI's understanding throughout the past regulatory history was that the Fraser Gate IP Project would in fact be excluded from the Base Capital amount. Therefore, grouping the Fraser Gate IP project with the Coquitlam IP Project would not exclude any capital projects that should have been included in the base.

93. FEI has been clear that it does not dispute that the Coquitlam Gate IP and Fraser Gate IP Projects can be justified on their own merits and constructed independently of each

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[89] PBR Decision, p. 176.

other. In this sense, the projects are separate. However, FEI's rationale for grouping the projects together is compelling, based on savings in the range of $2.7 to $3.2 million. As has been explained by FEI in the LMIPSU proceeding:[90]

- The proposed Coquitlam Gate IP and Fraser Gate IP Projects both involve the construction and installation of NPS 30 pipe to replace existing pipe along sections of the two primary pipelines supplying gas to the Metro IP system. Both projects share common attributes in terms of design, routing process, materials procurement and specialized construction and installation techniques due to their urban location. Both projects are also premised on safety and will improve system reliability. With the replacement NPS 30 Coquitlam Gate IP pipeline in service, it will be possible to isolate the Fraser Gate IP pipeline and replace the seismically vulnerable segment of pipe with the proposed upgraded pipe without the use of a bypass.[91]

- By using the same contractor for both Projects and by executing the projects in parallel, FEI believes there to be potential cost benefits resulting from overall project efficiencies and economies of scale.[92] FEI anticipates that execution costs will be minimized over the projects' lifecycle compared to executing each project on a standalone basis. In addition, there could also be reduced costs including mobilization costs, costs associated with personnel training and familiarization with FEI standards, procedures, and local regulations and requirements, and reduced costs associated with establishing relationships with local municipalities.[93]

- With respect to leveraging economies of scale in materials procurement, for example, if the NPS 30 pipeline required for the Fraser Gate IP and Coquitlam

[90] Exhibit B-8, CEC IR 1.26.1 and 1.26.2.

[91] LMIPSU Proceeding: Exhibit B-6, CEC IR 1.3.2.

[92] LMIPSU Proceeding: Exhibit B-6, CEC IR 1.64.1.

[93] LMIPSU Proceeding: Exhibit B-6, CEC IR 1.64.1.

Gate IP Projects necessitates the manufacture (a pipe mill run) of new pipe, then placing a unified order will realize manufacturing efficiencies and therefore potential overall procurement savings. The same potential benefit would also apply to the procurement of induction bends for each Project.[94] Joint approval of the projects provides an opportunity for cost savings and improved constructability.[95]

94. It is therefore logical that the projects should be undertaken at the same time in terms of planning, permitting, stakeholder consultation and ultimately construction and commissioning, and FEI has identified cost savings benefits that can be achieved by coordinating the construction of the projects.[96]

95. BCOAPO dismisses FEI's position stating that the savings identified do not turn two separate projects into one project. In reply, FEI submits that the savings achieved by constructing the projects together are significant, in the range of $2.7 to $3.2 million. In FEI's view, this level of savings means that the only reasonable course of action is to construct the projects together. Indeed, it would not be prudent to separate them. In FEI's view, this is a reasonable and compelling rationale for treating the Fraser Gate IP Project as as part of the LMIPSU Project. Further, as discussed above, there is no harm that flows from grouping the projects together as FEI's Base Capital does not include any projects above $5 million.

The $15 Million Capital Exclusion Threshold Does Not Apply to the Fraser Gate IP Project

96. FEI also submits that the $15 million capital exclusion threshold does not apply to the Fraser Gate IP Project for two reasons.

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[94] LMIPSU Proceeding: Exhibit B-6, CEC IR 1.65.1.

[95] LMIPSU Proceeding: Exhibit B-4, BCUC IR 1.3.6; Exhibit B-6, CEC IR 1.65.1.3.

[96] LMIPSU Proceeding: Exhibit B-6, CEC IR 1.6.2.

97. First, FEI submits that the Fraser Gate IP Project is or should be "grandfathered" from the $15 million capital exclusion threshold. As set out above, FEI's Base Capital was approved based on a capital exclusion threshold of $5 million and the CPCN Application was filed prior to the Capital Exclusion Criteria Decision which increased the threshold to $15 million. It is apparent from the regulatory history that FEI's consistent belief was that the Fraser Gate IP Project would be excluded from the formula and FEI's position before the Commission has been consistently based on this premise. For these reasons, the $5 million capital exclusion threshold should continue to apply to the Fraser Gate IP Project. This is effectively the same treatment as provided to the Huntingdon Station Bypass Project which also had a cost of between $5 and $15 million.[97] This treatment is appropriate because if the capital exclusion threshold of $15 million was canvassed and approved in the PBR Decision, then FEI would have had an opportunity to propose an adjustment to its Base Capital accordingly. It is therefore fair and reasonable to grandfather the Fraser Gate IP Project from the $15 million capital exclusion threshold.

98. Second, as discussed above, a review of the Capital Exclusion Decision makes it clear that the Fraser Gate IP Project was intended to be excluded capital under PBR as there was no associated adjustment to Base Capital for projects between the then-current $5 million and the approved $15 million thresholds. In short, if the Fraser Gate IP Project were to be considered as separate from the LMIPSU Project, then there would in fact be an anticipated project between $5 and $15 million during the term of the PBR. This possibility, however, was not reflected in the evidentiary record before the Commission when it made its decision to increase the capital exclusion threshold to $15 million. Accordingly, the LMIPSU Project, including the Fraser Gate IP Project, should be treated as excluded capital under PBR.

Two Options for Recovery

99. As the Fraser Gate IP Project has been granted a CPCN, the Commission has determined that it is in the public interest and FEI must be provided a reasonable opportunity

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[97] Exhibit B-11, LMIPSU Evidence, pp. 3-4.

to recover its costs. Thus, if the Fraser Gate IP project is to be treated as separate from the LMIPSU Project and the Capital Exclusion Threshold is to be applied, then FEI's Base Capital must be adjusted to take this into account. This follows from the facts set out in detail above that FEI's approved Base Capital did not include projects above $5 million and was never adjusted to account for such projects. As set out below, FEI submits that the most reasonable and practical method of recovery is to allow the Fraser Gate IP Project costs to be recovered outside the formula capital.

100. FEI described two options for recovery of the costs of the Fraser Gate IP project at the workshop:

- Option 1: CPCN treatment. According to this option, the capital costs of the Fraser Gate IP Project are excluded from FEI's Base Capital subject to the formula. The Fraser Gate IP Project costs plus AFUDC are simply added to rate base in 2019 following completion of the project.
- Option 2: increase Base Capital under the PBR formula. The first step required to implement this option would be to determine how much to increase Base Capital. FEI's proposal would be to add $2.143 million to Base Capital starting in 2016. This figure was determined by taking the $8.571 million cost estimate for the Fraser Gate IP Project before the AFUDC, then dividing by the four years left in the PBR term, 2016 to 2019.[98] Because formula capital is added to rate base under the PBR in the following year, over four years, the cost of $8.571 million would be added into rate base, during each year of the PBR term. The AFUDC would then be added in 2020 at the end of the PBR term.

101. Regardless of which of the two options is used, the costs of the Fraser Gate IP Project will be in rate base in 2020; however Option 1 is more straightforward. Option 1 is also consistent with the fact that FEI's Base Capital does not include projects above $5 million and

[98] Exhibit B-12; Transcript, p. 54, ll. 10-18 (Ms. Roy).

that FEI applied for a CPCN for the LMIPSU Project prior to the Capital Exclusion Threshold being raised to $15 million.[99]

102. In contrast, Option 2 introduces complications, and may have some unintended consequences in that there is AFUDC being applied to the Fraser Gate IP Project itself, so that the Company receives earned return through that method. Further, depending on how the spending of the Fraser Gate IP Project falls in each of the years of the PBR, the spending may affect the earning sharing calculation, which may erode the AFUDC, or may actually make the AFUDC greater. If FEI is over the formula in a given year, FEI would be adding earning sharing on top of AFUDC, and if FEI is under the formula, FEI would be reducing the AFUDC by earning sharing.[100]

103. Given all of the above factors, FEI submits that the most reasonable option is to maintain the CPCN treatment approved for the Fraser Gate IP project and exclude the costs of the project from the formula capital under FEI's PBR Plan. This option avoids the complications of having to adjust the Base Capital and avoids potential unintended consequences of including the project costs in Base Capital. This treatment also reflects the fact that no allowance was made in the Base Capital for projects above $5 million and that the capital exclusion threshold amount applicable at the time the Fraser Gate IP project was filed for approval was $5 million.

E. Taxes

104. The CEC's submissions with respect to clarifying the impact of taxes on the revenue deficiency as shown in the Summary of Revenue Deficiency slide of the Workshop Presentation with Schedule 1 of Section 11 of the Application[101] are addressed below.

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[99] Exhibit B-12, slide 26; Workshop Transcript, p. 54.

[100] Exhibit B-12, slide 26; Workshop Transcript, pp. 55-56.

[101] CEC Submission, paras. 79-85.

F. Accounting Matters

105. In the sections below, FEI replies to the CEC's submissions with respect to reconciling the impact of the revenue deficiency due to the depreciation study, depreciation and amortization expense[102] and taxes[103] as shown in the Summary of Revenue Deficiency slide of the Workshop Presentation with Schedule 1 of Section 11 of the Application, and BCOAPO's submissions with respect to net salvage rates.

(a) Reconciliation of Summary of Revenue Deficiency to Schedule 1

106. The CEC indicates that it could not reconcile the impact of the revenue deficiency due to the depreciation study, depreciation and amortization expense[104] and taxes[105] as shown in the Summary of Revenue Deficiency slide of the Workshop Presentation with Schedule 1 of Section 11 of the Evidentiary Update.[106] The CEC recommends that the Commission require FEI in the future "to provide clear statements as to where each of the contributors in the revenue deficiency can be identified in the application and schedules for ease of reference by the Commission and interveners."[107] FEI provides a reconciliation below and will also provide a reconciliation in future annual reviews.

107. As shown in the table below, the numbers can be reconciled. The source of the CEC's confusion would appear to be that in order to show the earnings sharing separately on the Summary of Revenue Deficiency slide, the amortization and the tax related to the earnings sharing were taken out of the applicable lines on Schedule 1. The following table provides a reconciliation between Schedule 1 and the Summary of Revenue Deficiency slide:

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[102] CEC Submission, paras. 28-38.
[103] CEC Submission, paras. 79-85.
[104] CEC Submission, paras. 28-38.
[105] CEC Submission, paras. 79-85.
[106] Exhibit B-2-1.
[107] CEC Submission, para. 38

Table 1:
Reconciliation Between Schedule 1 and Summary of Revenue Deficiency Slide

Depreciation Study Reconciliation	**($ millions)**
Amount per Summary of Revenue Deficiency (Exhibit B-12, FEI Workshop Presentation)	**$ 5.0**
Schedule 1, Line 10 and Table 12-1: Depreciation Rate Change (Depr Study)	$ (6.9)
Schedule 1, Line 14 and Table 12-1: CIAC Rate Change (Depr Study)	1.8
Schedule 1, Line 16 and Table 12-1: Negative Salvage Rate Change (Depr Study)	10.1
Total per Schedule 1 of Evidentiary Update Financial Schedules	**$ 5.0**

Depreciation and Amortization - Other Reconciliation	**($ millions)**
Amount per Summary of Revenue Deficiency (Exhibit B-12, FEI Workshop Presentation)	**$ 14.1**
Schedule 1, Line 11: Depreciation from Net Additions	$ 6.8
Schedule 1, Line 15: CIAC Amortization from Net Additions	(0.4)
Schedule 1, Line 17: Deferral Amortization	3.5
Amortization of Earnings Sharing Account (embedded in Schedule 1, Line 17) [1]	4.2
Total per Schedule 1 of Evidentiary Update Financial Schedules	**$ 14.1**

Taxes Reconciliation	**($ millions)**
Amount per Summary of Revenue Deficiency (Exhibit B-12, FEI Workshop Presentation)	**$ 2.5**
Schedule 1, Line 25: Property and Other Taxes	$ 2.0
Schedule 1, Line 26: Other Income Tax Changes	(1.0)
Tax Expense Impact of Amortization of Earnings Sharing Account (embedded in Schedule 1, Line 26) [2]	1.5
Total per Schedule 1 of Evidentiary Update Financial Schedules	**$ 2.5**

2015 Earnings Sharing Reconciliation	**($ millions)**
Amount per Summary of Revenue Deficiency (Exhibit B-12, FEI Workshop Presentation)	**$ (5.7)**
Amortization of Earnings Sharing Account (from Depreciation and Amortization - Other Reconciliation) [1]	$ (4.2)
Tax Expense Impact of Amortization of Earnings Sharing Account (from Taxes Reconciliation) [2]	(1.5)
Total per Schedule 1 of Evidentiary Update Financial Schedules	**$ (5.7)**

Notes:

[1] - $4.2 million amortization of Earnings Sharing Account shown on Schedule 12, Line 11, Column 6

[2] - $4.2 million amortization / (1 - 26%) x 26% = $1.5 million

108. As requested by the CEC, in its future annual review applications, FEI will provide a reconciliation between the contributors to the revenue deficiency and the financial schedules for ease of reference by the Commission and interveners.

(b) Net Salvage Rates

109. BCOAPO submits that the increases in net salvage requested by FEI should be denied.[108] FEI disagrees with the BCOAPO's assertion that the proposed increases in net salvage rates are insufficiently justified. FEI's Application included a detailed depreciation study[109] from a leading depreciation specialist.[110] As set out in more detail below, FEI submits that its proposed net salvage rates have been sufficiently justified and should be approved as filed.

110. BCOAPO bases its recommendation on a selective reading of FEI's evidence. For example, BCOAPO states "…FEI indicated that the increase in net salvage was based on discussions with company staff confirming that the historical pattern of costs was a good indicator of future net salvage"[111] and "Gannett Fleming indicates that the estimates of net salvage were based primarily on professional judgement."[112] In fact, FEI set out the six step process to estimate net salvage percentages in BCOAPO 1.6.1, and only one step in that process mentioned either discussions with company staff or the professional judgement of Gannett Fleming. The six steps are as follows:[113]

> The estimation of the net salvage percentages developed using the traditional approach, includes the following steps:
>
> 1. The annual retirement, gross salvage and cost of removal transactions for the period of analysis are extracted from the plant accounting systems.

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[108] BCOAPO Submission, paras. 18 and 25.

[109] Exhibit B-2, Appendix D1.

[110] Workshop Transcript, p. 19, ll. 2-10 (Mr. Wong).

[111] BCOAPO Submission para. 20.

[112] BCOAPO Submission para. 24.

[113] Exhibit B-1, Appendix B to Appendix D1.

2. A net salvage amount (gross salvage proceeds less cost of retirement) is calculated for each historic year. Additionally, a net salvage amount is also calculated for each historic three-year rolling band and the most recent five-year rolling band.

3. The net salvage amount determined above is compared to the original booked costs retired for each period in the manner described, which results in a net salvage percentage of original costs retired for each year, in addition to three-year rolling bands and the most recent five-year rolling band.

4. The annual, the three-year rolling average, and the most recent five-year rolling average net salvage percentages are analyzed to determine a reasonable estimated net salvage percentage. At this point the net salvage percentage is based purely upon statistical analysis.

5. Each account is then compared to the net salvage percentage currently approved, compared to peer companies, and discussed with company engineering staff. Based on the statistical analysis, the review of current and peer company net salvage percentages, and with the professional judgment of Gannett Fleming, a net salvage percentage is determined for each account.

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

111. In its IRs, BCOAPO requested that FEI provide "a full and complete explanation of the research and analysis conducted by Gannett Fleming in support of the recommended salvage costs."[114] FEI had already provided a complete depreciation study in Appendix D1 (the 2014 Depreciation Study). The 2014 Depreciation Study included the following information on net salvage:

Part I: A summary of the approach to net salvage at page I-3

Part II: A discussion of the asset classes with the major changes in net salvage on pages II-4 to II-11

Part IV: A summary of the results of net salvage by asset class, showing the net salvage percentages (column 4) and the translation of that percentage into a rate (column 8) at pages IV-6 and IV-7

[114] Exhibit B-6, BCOAPO IR 6.1.

> Part VI: A table for each asset account showing the retirements and the cost of removal $ and % for each year since 2000, as well as averages for three years and five years.
>
> Appendix B: A summary of how the net salvage amounts are calculated.

112. Even though this information had been provided in the 2014 Depreciation Study, FEI summarized the information in the response to BCOAPO 1.6.1 rather than simply refer to the study. FEI is not aware of any other information it could have provided by way of "research".

113. BCOAPO seeks clarification of how the historical net salvage percentages from Part VI of the 2014 Depreciation Study were converted to the net salvage percentage recommendations shown in Part IV.[115] FEI agrees that in many cases, the recommendation for net salvage percentage will not match exactly the historical net salvage percentages. Costs of removal have increased substantially in recent years; whereas FEI and Gannett Fleming have recommended net salvage rates for all of the major asset classes discussed on page 118 of the Application at percentages at or below what the historical average would indicate. This is where Step 5 (discussions with company staff and professional judgement) comes into play. Gannett Fleming stated in its report that for many of the asset classes, the recommendations were "moderate and conservative." For asset class 473, Gannett Fleming stated:

> This account has witnessed a significant amount of net salvage (i.e. cost of removal) activity since 2002, ranging from 0% to over negative 200 percent with a full depth band (i.e. cumulative from 2002 to 2014) value of negative 102 percent. A three year moving average indicates a range from negative 11 percent to over negative 200 percent with the most recent five year average being negative 179 percent. All the bands indicate a higher level of negative net salvage in the more recent years compared to the earlier years. In the last depreciation study, Gannett Fleming recommended negative 50 percent to represent the net salvage expectation. The discussions held with the company operations and engineering staff indicated that the historical indications would be reasonable future expectations for the equipment in this account. To reflect the increased historical indications, Gannett Fleming views that a moderate and

[115] BCOAPO Submission para. 25.

> conservative increase to the recommended net value is appropriate. Considering the historical results and the comments from the operations and engineering staff, Gannett Fleming recommends that a moderate and conservative negative 60 percent would best represent the future net salvage expectations for the equipment in this account. The negative 60 percent net salvage recommendation is within the range of the peer comparison analysis. However, it is noted that if the recent trend continues, increased amounts of net negative salvage will be required in future reviews.[116]

114. FEI and Gannett Fleming took a conservative approach to transition to higher net salvage rates over time. FEI therefore recommended lower rates than the historical analysis alone supported. If the recommended higher net salvage rates are not approved at this time, FEI expects the result will be larger increases the next time the net salvage rates are reviewed.

115. Finally, BCOAPO quotes information on removal cost history and recommended net salvage rates for select asset classes.[117] BCOAPO has compared the historical percentage cost of removal to the recommended net salvage component of the depreciation rate, but has missed what could be considered "step 7" in the process of calculating net salvage rates, and that is the conversion of salvage as a percentage of retirement costs to a rate to be applied to gross plant in service. For example, for asset class 465, BCOAPO states "The three year average percentage is 23% and the five year average is 32%. The recommended salvage rate is 0.37%." In fact, the recommended salvage as a percentage of annual retirement costs (which is comparable to the 23% and 32% amounts quoted) is 20% for this asset class. The 0.37%[118] is the same 20%, but as a percentage of the total gross plant in service for this asset class. The 0.37% is therefore the component of the depreciation rate that is represented by net salvage and is applied to the gross plant in service balance each year.

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[116] Appendix D1, page II-7.

[117] BCOAPO Submission, para. 23.

[118] There is a three step calculation to convert the net salvage percentage to the annual accrual rate:

Step 1: Future Accruals = (Original Cost X Net Salvage Percentage) – Book Depreciation Reserve

Step 2: Annual Accrual Amount = Future Accruals / Composite Remaining Life

Step 3: Annual Accrual Rate = Annual Accrual Amount / Original Cost

116. In summary, FEI believes the proposed net salvage rates and the calculated net salvage percentages as provided by Gannett Fleming are appropriate and reasonable. FEI's proposed net salvage rates have been comprehensively explained in this proceeding, and the Gannett Fleming study is uncontroverted evidence. FEI submits that there is no evidentiary basis upon which the net salvage rates sought by FEI should not be allowed.

G. Service Quality Indicators

117. FEI's September 2015 year-to-date SQI results indicate that the Company's overall performance is representative of a high level of service quality. For those SQIs with benchmarks, seven are performing better than the approved benchmarks with the remaining two performing better than the threshold and within the performance range. For the four SQIs that are informational only, performance generally remained at a consistent level with prior years.[119]

118. The only intervener to raise any issue with respect to FEI's SQI performance was BCSEA. FEI replies to BCSEA below.

(a) Reduction of GHG Emissions

119. BCSEA submits that FEI should include in its 2016 annual report a description of the steps it is taking to reduce its GHG emissions, along with the 2015, 2014 and 2013 annual GHG emissions results and provide an explanation for any increase if one occurs in 2015, including information that cost-effectiveness measures are not resulting in increased GHG emissions.[120] It would be not appropriate to introduce this new requirement into the PBR Plan, nor is there any compelling reason to do so. First, in FEI's view, any GHG targets or requirements to reduce GHG emissions are a matter of public policy and will be imposed by legislation. FEI's costs to meet such requirements would come before the Commission for review in the course of annual reviews or revenue requirement proceedings. Second, the PBR

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[119] Exhibit B-12, Slide 16.

[120] BCSEA Submission, p. 3.

Plan did not include any requirement that FEI meet any SQIs related to GHG emissions. Imposing a requirement now for FEI to take steps to reduce GHG emissions would therefore be a new burden on FEI, which could potentially entail significant costs. It would therefore be inappropriate to introduce these new cost drivers on FEI's business which were not contemplated at the time the PBR Plan was approved. (In this regard, FEI notes that BCSEA submits that it is too early in the PBR term to make changes in the SQIs.[121]) Third, in the absence of any target or standard for GHG emissions, it is unclear by how much FEI should be expected to reduce GHG emissions in future years and therefore no guidance as to what steps or the level of spending that would be appropriate to invest in reducing GHG emissions. FEI therefore respectfully submits that BCSEA's recommendation should be rejected.

120. BCSEA also asks the Commission to endorse presentation of the test year and historical SQI results in a single table. FEI agrees that providing the requested information in the format suggested allows for a more convenient way to compare the historical performance of the indicator and will provide the SQI performance data in such a format in future PBR annual reviews.[122]

PART THREE: CONCLUSION

121. FEI submits that based on the evidence in this proceeding, the approvals sought by FEI are just and reasonable and should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: November 18, 2015 ***[original signed by Christopher Bystrom]***

Christopher Bystrom
Counsel for FortisBC Energy Inc.

[121] BCSEA Submission, p. 4.

[122] Exhibit B-7, BCSEA IR 3.2 and 8.2.