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January 19, 2016

**Via Email**  
**Original via Mail**

British Columbia Utilities Commission  
Sixth Floor  
900 Howe Street  
Vancouver, B.C. V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary and Director

Dear Ms. Hamilton:

**Re: Project No. 3698858**

**FortisBC Energy Inc. (FEI)**

***Utilities Commission Act (UCA) - Section 71 Filing - Biomethane Purchase Agreement Between FEI and the City of Surrey (the Application)***

**Response to the British Columbia Utilities Commission (BCUC or the Commission) CONFIDENTIAL Information Request (IR) No. 1, Questions 6.1 through 10.3 – Filed Non-Confidentially**

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On November 24, 2015, FEI filed the Application referenced above. On December 17, 2015, the Commission issued BCUC Confidential IR No. 1 (Exhibit A-4). FEI confirms that the responses to BCUC Confidential IRs 1.6.1 through 1.10.3 are not confidential, and are being filed publicly for the record. FEI hereby attaches the responses to BCUC Confidential IRs 1.6.1 through 10.3 on a non-confidential basis.

FEI and the City of Surrey have entered into an Amending Agreement to the Biomethane Purchase Agreement (the Amending Agreement), a redacted version of which can be found in Attachment 4.1a, provided in response to BCUC IR 1.4.1. In accordance with Directive 2 of Order G-3-16, FEI has also provided a blacklined redacted version of the original Agreement, showing the changes reflected in the Amending Agreement also as part of Attachment 4.1a. The Amending Agreement has been filed on a confidential basis with the Commission in Confidential Attachment 4.1.

The Amending Agreement contains three changes to the Agreement:

1. The method of calculating the monthly payments for biomethane produced from the Surrey Facility and the annual true up in Schedule D of the Agreement has been amended so that it will produce the correct result if there is more than one BERC rate or if the BERC rate changes during the year. Please refer to the response to BCUC IR 1.4.1.
2. The term over which the City will pay the Facility Fee in clause 6.2 of the Agreement has been amended to reflect the intention of FEI and the City that the City would begin paying the Facility Fee after the in-service date of the facilities. Please refer to the response to BCUC Confidential IR 1.5.1.
3. Clause 7.2 of the Agreement has been amended to clarify that the Designated Customers must acknowledge that the City has retained the environmental attributes of the Re-Purchased Biomethane. Please refer to the response to BCUC Confidential IR 1.1.1.

If further information is required, please contact Scott Gramm, Manager Renewable Gas and Mid-size Commercial Accounts (604) 576-7242.

Sincerely,

**FORTISBC ENERGY INC.**

***Original signed by: Ilva Bevacqua***

**For:** Diane Roy

Attachments

cc (email only): Registered Parties

FortisBC Energy Inc. (FEI or the Company) <i>Utilities Commission Act</i> Section 71 Filing – Biomethane Purchase Agreement Between FEI and City of Surrey (the City or Surrey) (the Application)	Submission Date: January 19, 2016
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1   **6.0   Reference:   FINANCIAL SCHEDULES**

2                   **Exhibit B-1, Section 3.3.1, p. 7;**

3                   **Exhibit B-1-1, Appendix B, Tab - General Inputs;**

4                   **Table 9-10, The Consumer Price Index, major components, selected**  
5                   **sub-groups and special aggregates, provinces, Whitehorse and**  
6                   **Yellowknife, not seasonally adjusted — British Columbia,**  
7                   **<http://www.statcan.gc.ca/pub/62-001-x/2015010/t060-eng.htm>**

8                   **Inflation rates**

9                   On page 7 of its Application, FEI states:

10                   The annual operating and maintenance cost for the Interconnection Facilities is  
11                   approximately \$11 thousand and has been inflated yearly in the forecast cost of  
12                   service as provided in Schedule 2 of Appendix B.

13                   The Tab General Inputs states:

14	<u>Year</u>	<b>2017</b>
15	CPI Rate	2.42%
16	Material Inflation	2.00%
17	Labour Inflation	3.00%

18

19                   6.1   Please provide the sources of the 2017 Consumer Price Index (CPI), Material  
20                   Inflation and Labour Inflation rates.

21

22   **Response:**

23   This response is being filed non-confidentially on the public record.

24   For O&M escalation, FEI has used a high level forecast of Material and Labour Inflation of 2%  
25   and 3%, respectively, and not the CPI rate or a specific index. The rates were based on a  
26   review of the forecasts included in the BC Government's Budget and Fiscal Plan 2015/2016 –  
27   2017/2018<sup>1</sup>. Due to the forecast level of O&M, the length of the Agreement and the immaterial  
28   impact that the annual inflation of O&M has on the Facilities Fee (annual O&M is approximately  
29   10-12% of the total cost of service), FEI believes that this is a reasonable approach.

30   FEI only utilized the CPI rate in escalating the “General, School and Other” component of  
31   property tax. The amount of this component of property taxes ranges from \$277 in 2018 to  
32   \$468 in 2041. Although FEI notes that the incorrect CPI rate was inadvertently used (the CPI

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<sup>1</sup> [http://bcbudget.gov.bc.ca/2015/bfp/2015\\_budget\\_and\\_fiscal\\_plan.pdf](http://bcbudget.gov.bc.ca/2015/bfp/2015_budget_and_fiscal_plan.pdf)



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1 rate should have been 2.10%), changing the rate to 2.1% does not affect the Facilities Fee due  
 2 to the very small dollars involved. The BC CPI rate of 2.10% reflects the average of forecasts  
 3 from various financial institutions for material and supplies, and labour as provided below.

### Canada Medium-Range Economic Forecast

Econ Forecast  
 As at July 21, 2015

	Annual Forecast	2015	2016	2017	Date of Obtained Info
<b>Inflation (% change)</b>					
<b>BC CPI</b>					
TD		0.60%	2.10%	2.00%	Jun-15
RBC		0.90%	2.30%	2.00%	Jun-15
BNS		n/a	n/a	n/a	
BMO		1.0%	2.1%	2.1%	Jun-15
CIBC		0.7%	2.2%	2.2%	Jun-15
Conference Board		1.9%	2.1%	2.1%	As at March 2, 2015
BC MOF		1.6%	1.9%	2.0%	2015 BC Budget & Fiscal Plan
<b>AVERAGE</b>		<b>1.1%</b>	<b>2.1%</b>	<b>2.1%</b>	

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6.2 Please confirm, or otherwise explain that the Material Inflation and Labour Inflation rates are not used in Schedule 2 of Appendix B.

**Response:**

This response is being filed non-confidentially on the public record.

Not confirmed. The material and labour inflation rates provided in the General Inputs tab are used to calculate the forecast annual inflation of material and supplies and labour costs, respectively, in the determination of total forecast O&M each year reflected on Schedule 2 of Appendix B. Please refer to rows 36 and 39 of the tab titled "Department Inputs- O&M".



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1           6.3     Should the most recent British Columbia CPI (October 2014 to October 2015)  
2                     rate of 1.3 percent be used as the CPI rate in the cost of service model? Please  
3                     explain why, or why not.

4  
5     **Response:**

6     This response is being filed non-confidentially on the public record.

7     Please refer to the response to BCUC Confidential IR 1.6.1.

8     Generally, FEI believes that for a prospective long term analysis a forecast of inflation rates is  
9     more appropriate than a single historical actual inflation rate. This is because the actual  
10    inflation rate for a single year may not be the best indicator of future rates due to the many and  
11    specific factors that affect actual inflation rates in any given year. If historical rates were to be  
12    used, FEI believes that an average actual rate over a longer period of time would be more  
13    appropriate. In this situation, the inflation rate is not a key input to the model. For example,  
14    changing the material inflation rate to 1.5% (instead of 2%) and the labour inflation rate to 2%  
15    (instead of 3%) decreases the annual Facilities Fee by approximately \$1,300.

16

1 **7.0 Reference: FINANCIAL SCHEDULES**

2 **Exhibit B-1-1, Appendix B, Tab – Capital Inputs & Calculations;**  
 3 **FEI Annual Review of 2016 Rates, section 12.3.2, pp. 112–117 (2014**  
 4 **Depreciation Study)**  
 5 **Depreciation rates**

6 7.1 Please provide the composite depreciation rate for FEI’s interconnect facility on  
 7 Surrey’s land.

8  
 9 **Response:**

10 This response is being filed non-confidentially on the public record.

11 The financial schedules provided to the Commission with the Application used depreciation and  
 12 salvage rates as recommended in the 2014 Depreciation Study. However, subsequent to the  
 13 filing of this Application, the Commission denied the implementation of the rates that were  
 14 recommended in the 2014 Depreciation Study in 2016, requesting that further information be  
 15 provided by FEI and its depreciation rate consultant. Thus, FEI has provided the two tables  
 16 below which compare the 2016 depreciation and salvage rates used to determine the Facilities  
 17 Fee in the Application to the currently-approved depreciation and salvage rates for 2016. The  
 18 revised composite depreciation rate for the interconnect facilities using the currently-approved  
 19 2016 depreciation rates is now 4.43% as compared to the composite rate of 3.08% as included  
 20 in the Application.

21 **Table 1: Depreciation Rate Comparison**

Asset Group	(\$,000) Plant in Service	Application Depreciation Rate	Application Depreciation Expense (\$,000)	Revised * Depreciation Rate	Revised * Depreciation Expense (\$,000)
Structures & Improvement 472 -20	\$ 82	2.72%	\$ 2	3.78%	\$ 3
Distribution Mains 475	64	1.55%	\$ 1.0	1.25%	1
Distribution Meas. & Reg Equipment 477-10	721	3.24%	\$ 23.4	4.72%	34
Meters	8	5.02%	\$ 0.4	10.00%	1
<b>Total</b>	<b>\$ 875.0</b>		<b>\$ 27.0</b>		<b>\$ 38.7</b>
<b>Composite Depreciation Rate</b>			<b>3.08%</b>	<b>4.43%</b>	

22 \* Revised depreciation reflect the use of the 2015 BCUC Approved depreciation rates. The 2014 depreciation study was not approved.



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1

**Table 1: Net Salvage Rate Comparison**

FEI

Surrey Application IR's No. 1 - Confidential

Asset Group	(\$,000) Plant in Service	Application Net Salvage Rate	Application Net Salvage Expense (\$,000)	Revised * Net Salvage Rate	Revised * Net Salvage Expense (\$,000)
Structures & Improvement 472 -20	\$ 82	0.28%	\$ 0	0.00%	\$ -
Distribution Mains 475	64	0.32%	\$ 0.2	0.33%	0
Distribution Meas. & Reg Equipment 477-10	721	0.45%	\$ 3.2	0.00%	-
Meters	8	0.00%	\$ -	0.22%	0
<b>Total</b>	<b>\$ 875.0</b>		<b>\$ 3.7</b>		<b>\$ 0.2</b>
<b>Composite Negative Salvage Rate</b>			<b>0.42%</b>		<b>0.03%</b>

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\* Revised net salvage reflect the use of the 2015 BCUC Approved rates. The 2014 depreciation study was not approved.

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7.2 Please explain any differences between the depreciation and negative salvage rates used in the Tab Capital Inputs & Calculations and the 2014 Depreciation Study.

**Response:**

This response is being filed non-confidentially on the public record.

Please refer to the response to BCUC Confidential IR 1.7.1.

19

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1    **8.0    Reference:    FINANCIAL SCHEDULES**

2                                    **Exhibit B-1-1, Appendix B, Tab – O&M and Property Tax, Schedule 2**

3                                    **Application costs**

4                    8.1    Please provide a breakdown of the Application costs of \$75,000 by cost centre  
 5                                    and resource code.

6  
 7    **Response:**

8    This response is being filed non-confidentially on the public record.

9    The forecast Application costs are broken out as follows:

Cost Component	Forecast Cost (\$)
<b>Legal Fees</b>	\$25,000
<b>Commission Fees</b>	\$25,000
<b>PACA Reimbursements</b>	\$20,000
<b>Other</b>	\$5,000
<b>Total</b>	\$75,000

10

11    Application costs are not tracked by cost center and resource code. Consistent with Order G-  
 12    15-15, the actual application costs will be included in the BVA. FEI will recover the actual  
 13    application costs from Surrey through the Facilities Fee. The Facilities Fee recoveries are  
 14    captured in the BVA.

15

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18                    8.1.1    Are the Application costs incremental to the costs included in the FEI  
 19                                    2015 and 2016 Performance Based Ratemaking formula? Please  
 20                                    explain why, or why not.

21

22    **Response:**

23    This response is being filed non-confidentially on the public record.

24    Yes the Application costs are incremental to the costs included in FEI's Performance Based  
 25    Ratemaking (PBR) formula. That is, consistent with other application costs, they are considered  
 26    to be outside of the PBR formula as confirmed on page 7 of the Reasons for Decision to Order  
 27    G-193-15. In addition, in accordance with Order G-15-15, the costs associated with this





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- 1 Application will be captured in the Biomethane Variance Account (BVA) because this
- 2 Application is related to the cost of the supply and acquisition of biomethane.
- 3



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1    **9.0    Reference:    FEI-CITY OF SURREY BIOMETHANE PURCHASE AGREEMENT**  
2                            **Exhibit B-1-1, Appendix A, p. 5; Appendix B, Tab – O&M and**  
3                            **Property Tax, Schedule 2**  
4                            **Property tax and other applicable taxes**

5            Schedule 2 of Appendix B shows the property taxes estimate from years 2019 through  
6            2041.

7            In Article 4 – Access to and Use of Land, Clause 4.3(d) sets out FEI’s agreement for the  
8            Use of License Area.

9            9.1        Please confirm, otherwise explain, that the forecast property tax is included in the  
10            Monthly Facilities Fee and not the actual property tax.

11  
12    **Response:**

13    This response is being filed non-confidentially on the public record.

14    Confirmed.

15    The Property tax has two components:

16            (1) the School, General and Other property taxes, which would normally vary from year  
17            to year depending on the City of Surrey’s tax assessment practices and BC Assessment,  
18            and

19            (2) the In-Lieu property tax, which is calculated as a percentage of the Facilities Fee and  
20            therefore will be updated once FEI finalizes the Facilities Fee calculation.

21    FEI notes that the City has advised in writing that it will not charge FEI the School, General and  
22    Other component of the property tax, which results in a reduction to the annual Facilities Fee by  
23    approximately \$300. FEI will update this line item when it finalizes the Facilities Fee for actual  
24    capital costs.

25  
26            9.2        Please explain whether the actual property tax that FEI will be paying for the  
27            access to and use of Surrey’s land would be fixed or variable throughout the term  
28            of the Agreement.

29  
30    **Response:**

31    This response is being filed non-confidentially on the public record.

32    Please refer to the response to BCUC Confidential IR 1.9.1 filed non-confidentially.



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9.3 Please describe any other tax that FEI expects to pay for the access to and use of Surrey’s land throughout the term of the Agreement.

**Response:**

This response is being filed non-confidentially on the public record.

Based on the information currently available to FEI, FEI does not anticipate any other taxes that it would need to pay for access to and the use of the defined “License Area”.

9.3.1 To the best of FEI’s knowledge, are there any new taxes that is not currently paying but will be payable in the future as applicable to the access to and use of Surrey’s land? Please explain.

**Response:**

This response is being filed non-confidentially on the public record.

Please refer to the response to BCUC Confidential IR 1.9.3 filed non-confidentially.



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1    **10.0 Reference: FINANCIAL SCHEDULES**  
2                                    **Exhibit B-1-1, Appendix B, Tab – Facility Fee, Schedule 10**  
3                                    **Administrative and Heritage Fee**

4                    The Tab Facility Fee states:

<u>Notes</u>	
<sup>1</sup> Administrative and Heritage Fee	
Forecast Annual Administration	14
Negotiated Annual Heritage Contribution	<u>6</u>
	20

10            10.1 Please provide a breakdown of the costs to be recovered by the \$14,000  
11                    Forecast Annual Administration charge, by cost centre and resource code.

13    **Response:**

14    This response is being filed non-confidentially on the public record.

15    FEI does not have a breakdown of the administration charge by cost centre and resource code  
16    because these costs do not remain in FEI's O&M.

17    FEI notes that there is an inconsistency in the terminology used in the Financial Schedule 10  
18    referenced above, the Application (Section 6.1) and the Agreement (Schedule D). Further, the  
19    figures in the note provided on Schedule 10 were inadvertently transposed. As such, FEI has  
20    updated the note in Schedule 10 below to be consistent with Section 6.1 of the Application and  
21    the Agreement as follows:

<u>Notes</u>	
<sup>1</sup> Administrative and Heritage Fee	
Forecast Annual Administration	6
Negotiated Annual Heritage Fee	<u>14</u>
	20

23    The forecast annual administration component of approximately \$6 thousand is a forecast cost  
24    of the incremental monthly tracking, balancing and annual true-up activities. These will be new  
25    activities related to the administration of the Agreement and are therefore not currently included  
26    in the BERC General Administration Costs. This item is also referred to as Gas Supply  
27    Administration in Schedule D of the Agreement.

28    The Agreement with the City of Surrey is the first biomethane supply agreement to include an  
29    Annual Heritage Contribution. Whereas all previous supply agreements have only included



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1 terms for the supply of biomethane, the Agreement contemplates that Surrey will be both a  
2 supplier and a consumer of biomethane and that the price for the supply of biomethane that the  
3 City “re-purchases” will be at the same rate that the City “re-purchases” it from FEI. In short,  
4 FEI’s Biomethane Program provides the City with a unique arrangement whereby Surrey and its  
5 designated customers are able to notionally consume the biomethane Surrey produces. As the  
6 City’s intent is to purchase substantially the same amount of biomethane that the Surrey Facility  
7 supplies, the Annual Heritage Contribution reflects the mutual agreement of FEI and the City  
8 that the City should make a contribution to the ongoing, and historical, cost of administering the  
9 RNG program. Without the Annual Heritage Contribution, there would be no incremental benefit  
10 to RNG customers or the Biomethane Program if the City of Surrey consumes all of the RNG it  
11 produces. FEI and Surrey negotiated the Heritage amount and agreed that a nominal fee of  
12 \$14 thousand per year, for a total of \$20 thousand between it and the administrative fee was  
13 reasonable.

14

15

16

17 10.2 Is the Forecast Annual Administration charge of \$14,000 due to incremental  
18 costs that are not included in the BERC General Administration Costs? Please  
19 explain why, or why not.

20

21 **Response:**

22 This response is being filed non-confidentially on the public record.

23 Please refer to the response to BCUC Confidential IR 1.10.1 filed non-confidentially.

24

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26

27 10.3 Please explain if future Agreements will include an Annual Heritage Contribution?  
28 Discuss with respect to section 59 of the *Utilities Commission Act*.

29

30 **Response:**

31 This response is being filed non-confidentially on the public record.

32 If the Annual Heritage Contribution is approved by the Commission, then pursuant to section 59  
33 of the *Utilities Commission Act*, FEI will charge a similar rate to other similarly situated  
34 customers in the future, in particular, where a supplier seeks to sell biomethane to FEI where a



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- 1 substantial amount of the supply is expected to be at the same price as the biomethane that the
- 2 supplier will purchase through the Biomethane Program.

3