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September 21, 2016

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

Attention: Ms. Tannis Braithwaite, Executive Director

Dear Ms. Braithwaite:

Re: FortisBC Energy Inc. (FEI)

Project No. 3698886

Multi-Year Performance Based Ratemaking Plan for 2014 through 2019 approved by British Columbia Utilities Commission (Commission) Order G-138-14 – Annual Review for 2017 Rates (the Application)

Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, Together Against Poverty Society, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO) Information Request (IR) No. 1

On August 2, 2016, FEI filed the Application referenced above. In accordance with Commission Order G-122-16 setting out the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCOAPO IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Commission Secretary
Registered Parties

1.0 Reference: Exhibit B-2, FEI Application, page 12, lines 25-33 and Table 1-3

1.1 Please provide the calculation of the 19.1% increase in capital identified in line 27. In the response, please fully explain why the proper calculation is not derived by summing the actual/projected capital and formula capital for 2015 and 2016 and then calculating the percentage on the cumulative amounts.

Response:

The cumulative 19.1% variance was calculated as the sum of the 2015 and 2016 variance percentages from Table 1-3 (9.88% + 9.22% = 19.1%). This calculation is in accord with the Commission's direction, as referenced on page 11 of the Application, for a "two year cumulative 15 percent dead-band". [Emphasis added.]

The alternative presented in the question would result in the calculation of an average variance for the two years of 9.54%[1], and not a cumulative variance for the two years.

[1] From Table 1-3, ((157,903 + 163,157) – (143,705 + 149,390)) / (143,705 + 149,390).

2.0 Reference: Exhibit B-2, FEI Application, page 22, lines 3-20

2.1 On line 7, FEI indicates that its forecast of demand is consistent with that used in prior years. Please confirm that the methodology is identical to the methodology used in prior years. If not confirmed, please fully explain all differences in the methodology from priory years, along with a working paper that clearly identifies the impact of each difference on the forecast of demand for 2017.

Response:

Confirmed. The methods used are identical to those used in prior years.

3.0 Reference: Exhibit B-2, FEI Application, Table 5-1

3.1 Please provide a table similar to Table 5-1, with actual results for 2011-2015, and an explanation of why the trend in actual results should not form the basis of the 2017 forecast.

Response:

FEI has provided a table similar to Table 5-1 which includes actual results for 2011-2015. Please note that amounts prior to 2015 represent the pre-amalgamation amounts for FEI, FortisBC Energy Vancouver Island (FEVI) and FortisBC Energy Whistler (FEW) summed together. As well, to provide comparable results for analysis, FEI has separated out the items which were specific to the pre-amalgamated entities and are no longer forecast in 2017.

Other Operating Revenue, ($ millions)								
	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Approved 2016	Projected 2016	Forecast 2017
Late Payment Charge	2.978	2.864	2.600	3.172	2.545	2.314	2.242	2.178
Connection Charge	2.879	2.728	2.672	2.924	3.123	3.060	3.082	3.118
Other Recoveries	0.639	0.391	0.331	0.291	0.319	0.290	0.319	0.319
NGT Related Recoveries	-	0.720	0.801	2.068	2.292	2.898	2.947	4.507
Biomethane Other Revenue	0.090	-	(0.057)	(0.056)	(0.217)	0.294	0.263	0.448
SCP Third Party Revenue	14.811	15.272	14.826	14.772	15.035	14.957	14.957	14.347
LNG Capacity Assignment	13.537	18.049	18.049	18.049	18.039	18.039	18.039	18.039
Total Other Operating Revenue (with comparable items)	**34.934**	**40.023**	**39.221**	**41.220**	**41.136**	**41.852**	**41.848**	**42.956**
FEI-FEVI Wheeling Charges	3.348	3.353	3.348	3.307	-	-	-	-
FEVI SAP Lease Income	0.056	0.017	-	-	-	-	-	-
FEVI Royalty Income	15.303	(1.361)	-	-	-	-	-	-
FEVI/FEW Penalty Revenue	0.362	-	-	-	-	-	-	-
FEW COS Impact of Pipeline Contribution Cost Variance	-	(0.434)	-	-	-	-	-	-
Total Other Operating Revenue	**54.003**	**41.598**	**42.569**	**44.527**	**41.136**	**41.852**	**41.848**	**42.956**

As can be seen from the table above, there is no discernable trend in the historical data. Regardless, FEI provides a discussion below of the forecasting method for the various types of Other Operating Revenue and why the use of a trend for forecasting would not be an improvement on FEI's current methods.

- The forecast of Late Payment Charges utilizes the current year's forecast of revenue and a three year average of the actual ratio of late Payment Charges to Rate Schedule 1, 2, and 3 revenues. FEI believes this is a more accurate basis to forecast than utilizing only trends from prior years.

- The forecast of Connection Charges utilizes the current year's forecast of customers. Given the availability of a current forecast of customers, FEI believes this is a more accurate basis to forecast than utilizing trends from prior years.

- The forecast of Other Recoveries utilizes the prior year's actuals. FEI believes this is a reasonable method to forecast given the small dollar value, and the absence of a discernable trend in prior years revenues.

- Using trends from prior years for NGT Related Recoveries and Biomethane Other Revenue would not be reasonable, as these revenues are a function of the underlying capital and marketing initiatives that support the programs. Historical actuals are not an accurate base for the 2017 forecast.

- Using trends from prior years to forecast SCP Third Party Revenue would not be reasonable as the pipeline capacity is contracted to various parties, with each contract having its own term and expiration date. The east to west capacity related revenue has generally been contracted under Fixed Transportation Service Agreements having multi-year terms. While the T-South Enhanced Service agreement between Spectra and FEI has provided a level of stability to the mitigation revenue associated with the west to east capacity, that agreement expires on October 31, 2016. Going forward the mitigation revenues are expected to be mainly driven by short-term mitigation activities and subject to more variability.

- Using trends from prior years to forecast for LNG Capacity Assignment would not be reasonable as the Mt. Hayes LNG facility assignment is a fixed allocation, determined through rate design. As indicated in the Application, the Mt. Hayes cost allocations will be reviewed in the Rate Design Application to be filed later this year.

FEI's existing methods for forecasting Other Revenue are reasonable and consistent with the methods used in previous applications approved by the Commission. FEI believes that it is preferable for these forecasting methods to remain consistent with previously approved methods over the term of the PBR plan.

4.0 Reference: Exhibit B-2, FEI Application, Section 6.3.2

4.1 Please fully explain why an escalation factor of 5% was used and not the I-factor used for O&M.

Response:

As shown on page 48, lines 22-223 of the Application, the I-factor is part of the calculation of the PBR formula O&M expense. The insurance expense is not included in the O&M that is subject to the PBR formula, and is therefore not subject to the I-factor.

As described on page 50, lines 5 to 12, of the Application, insurance expense is one of the items that is forecast outside the PBR formula. As such, a specific inflation factor that is appropriate for insurance expense is utilized. As noted in the Application, the 5% escalation factor is based on a combination of historical increases in premiums, increases in the value of assets year over year and the expectations of Fortis Inc.'s insurance broker on future premiums. Variances from amounts forecast are captured in the Flow-through deferral account and returned to or recovered from customers in the following year.

5.0 Reference: Exhibit B-2, FEI Application. Section 7.5.1.1

5.1 Please provide the specific reference in the order that directed the deferral account as proposed by FEI.

<u>Response:</u>

On page 62, lines 19 and 20, of the Application, FEI stated that it had filed an application for approval of an all-inclusive Code of Conduct and Transfer Pricing Policy in accordance with Order G-65-15. FEI did not state that a deferral account had been directed by the Order. There is no specific reference in Order G-65-15 to the recovery of costs related to the All-Inclusive Code of Conduct / Transfer Pricing Policy Application. As discussed in Section 7.5.1.1 of the Application, FEI is requesting approval of a deferral account to record these costs and amortize them in 2017.

6.0 Reference: Exhibit B-2, FEI Application, Section 12.3.1.2,

6.1 In lines 7 and 8 of page 121, FEI indicates that the new guidance results in operating leases being recognized as assets and liabilities on the balance sheet. Please fully explain the treatment of operating leases for rate making purposes. As an example, will operating leases be included in rate base? How will the related liability be treated for regulatory purposes? Please provide a working paper in excel format that demonstrates the impact on revenue requirement.

Response:

While the new lease guidance will result in operating leases being recognized as assets and liabilities on FEI's balance sheet for external financial reporting purposes, FEI has not yet determined how such operating leases will be treated for rate making purposes.

FEI is still interpreting the guidance, has not yet quantified the financial effects of the guidance and is continuing to monitor how other rate-regulated utilities intend to treat the new operating lease guidance for rate making purposes. For this reason, section 12.3.1.2 of the Application is intended to advise that future rate filings could be affected by the new lease guidance and that an update on developments will be provided in the Annual Review for 2018 Rates. Due to the items noted above, an excel worksheet demonstrating the impact on revenue requirement and customer rates has not been provided.