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September 21, 2016

NOVA Gas Transmission Ltd.
450 – 1 Street SW
Calgary, Alberta
T2P 5H1

Attention: Mr. Matthew D. Ducharme

Dear Mr. Ducharme:

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 NOVA Gas Transmission Ltd. (NGTL) 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 NGTL 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

IR Number: **NGTL-FEI-1.1**

Reference: **(i) Application, Page 10, Lines 1-2**

(ii) Application, Page 10, Lines 4-5

(iii) Application, Page 13, Lines 5-6

Preamble: In reference (i) FEI lists factors contributing to capital cost pressures, including "Unanticipated system improvements and new stations to supply gas to large new customers".

In reference (ii) FEI notes increases to the cost of equipment and supplies purchased from the United States due to the unfavourable exchange rate.

Request:

a) For the "unanticipated system improvements" noted in reference (i), please list each individual project or improvement with a capital cost in excess of $1 million and provide information on individual project cost, capacity, purpose, location, and any other relevant details.

<u>Response:</u>

With regard to the "unanticipated system improvements" noted in reference (i), there is only one individual project with a capital cost in excess of $1 million.

The system improvement is for the Vedder Road area of Chilliwack where it is forecast that the system pressure will decrease below acceptable levels due to infill growth in the area. The forecast cost for the system improvement is $1.4 million for the installation of approximately 1600 metres of 323mm OD steel pipe.

b) Please provide the Canada-United States exchange rate forecast on which FEI based its capital cost assumptions for the 2014-2019 Performance Based Ratemaking (PBR) term.

<u>Response:</u>

FEI's Base Capital for the PBR plan was set at FEI's 2013 Approved levels, with additions for FortisBC Energy (Vancouver) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW) based on 2014 approved expenditures, following the amalgamation of the companies. FEI's 2013

Approved capital expenditures were based on a CAD/USD exchange rate forecast of $0.9723. FEVI's approved capital expenditures in 2014 were based on a CAD/USD exchange rate of $0.99.

Over the course of the PBR term, the Base Capital is escalated using the formula described in section 7.2.1 of the Application. A Canada-United States exchange rate forecast is not part of the formula.

However, when FEI filed its Application for Approval of a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018, FEI included a forecast of its O&M and capital expenses over the PBR Period for information and reference purposes. Those forecasts were indicative of the future trends, opportunities and challenges that FEI expected during the PBR Period. Embedded in that forecast were the following CAD/US exchange rates. FEI notes the initial application was from 2014-2018, not 2014-2019 so a 2019 exchange rate is not included in the table below.

2014	2015	2016	2017	2018
$0.99	$1.01	$0.99	$0.96	$0.95

c) Please provide the Canada-United States exchange rate forecast on which FEI will rely for the remainder of the PBR term, if different from b).

Response:

FEI is not relying on a specific exchange rate forecast for the remainder of the PBR term. The formula O&M and capital expenditures under FEI's PBR do not utilize an exchange rate, but are escalated only by BC-CPI and BC-AWE.

FEI's CAD/USD exchange rate forecast for 2017 is $0.76.

Since FEI's Base Capital was set based on an expectation that the exchange rate would be close to $1 (as described in FEI's response to NGTL IR 1.1.b) and capital expenditures during the PBR term are now being incurred at an exchange rate closer to $0.76, this causes capital cost pressure on FEI's formula-driven expenditures under the PBR plan.

IR Number: **NGTL-FEI-1.2**

Reference:
(i) Application, Page 36, Lines 7-9
(ii) May 19, 2016 FortisBC Press Release (Attachment1)
(iii) July 20, 2016 FortisBC Press Release (Attachment 2)
(iv) Application, Page 55, Line 10

Preamble: In reference (i) FEI states: "This section summarizes the CNG and LNG demand forecasts related to demand derived from GGRR incentives awarded, FEI's General Terms and Conditions 12B and non-NGT related Rate Schedule 16/46 LNG demand."

Reference (ii) is a FortisBC press release dated May 19, 2016, stating that Fortis Hawaii Energy Inc. (Fortis Hawaii), a subsidiary of Fortis Inc. (Fortis), entered into an agreement with Hawaiian Electric Company, Inc. (Hawaii Electric) to export 800,000 metric tons of LNG annually (TPA) to Hawaii Electric, starting in 2021.

Reference (iii) is a FortisBC press release dated July 20, 2016, stating that a Hawaii Electric regulatory application associated with the agreement announced in reference (ii) was withdrawn from the Hawaiian Public Utilities Commission. The press release states that "The [Tilbury] facility is currently undergoing a $400-million expansion to serve domestic transportation and remote communities markets […] The site is scalable and can accommodate additional storage and liquefaction equipment."

In reference (iv), FEI reports an addition of $443.872 million to rate base as a result of the Tilbury Expansion Project.

Request:

a) Please confirm that the LNG demand forecasts as described in reference (i) do not include demand associated with LNG sales to export customers, such as Hawaii Electric. If not confirmed, please explain.

<u>Response:</u>

Confirmed. The LNG demand forecasts do not include demand associated with LNG sales to export customers.

b) Please confirm that the additional liquefaction capacity associated with the Tilbury LNG Expansion Project will be utilized only for domestic transportation and remote community markets, as noted in reference (iii). If not confirmed, please describe how the incremental capacity will be utilized.

Response:

Confirmed.

c) Please list and describe the customer classes to which the rate base related costs from reference (iv) will be assigned.

Response:

The rate base related costs from the Tilbury Expansion Project and associated revenues and operating costs are included in the rate calculation for all non-bypass customers.

d) Had the Hawaii Electric contract proceeded:

i. How would Fortis Hawaii have acquired 800,000 TPA of capacity from the Tilbury LNG facility?

Response:

FEI respectfully declines to respond to NGTL IRs 1.2.d and 1.2.e as these questions are out of scope of the Annual Review and speculative in nature. Fortis Hawaii's export agreement with Hawaii Electric is no longer proceeding. As such, questions related to what would have been the case if it had proceeded are hypothetical and cannot have any impact on FEI's revenue requirements or rates. FEI can confirm that no other export agreements have been executed. Any potential impacts to FEI and its customers due to future export agreements cannot be determined at this time, but will be discussed in future proceedings when applicable.

ii. Would the Tilbury LNG facility require additional expansion, as noted in reference (iii), to add the full incremental 800,000 TPA of capacity? If not, please explain why not.

Response:

Please refer to the response to NGTL IR 1.2.d.i.

iii. Would FEI's upstream gas supply contracts be used to provide feed gas to the Tilbury LNG facility for export demand requirements? If not, please explain what entity would hold the necessary upstream transportation contracts.

Response:

Please refer to the response to NGTL IR 1.2.d.i.

e) For LNG export volumes, please explain how costs associated with facility expansions, facility capacity, and upstream contracts, as noted in your response to d), will impact FEI ratepayers.

Response:

Please refer to the response to NGTL IR 1.2.d.i.

IR Number: **NGTL-FEI-1.3**

Reference: **(i) Application, Page 40, Table 4-1**

(ii) Application, Page 40, Lines 8-10

Preamble: In reference (i) FEI reports the forecast cost of gas at existing rates. The commodity cost of gas is lower than originally forecast, as the approved cost of gas exceeds the projected cost of gas for 2016.

In reference (ii) FEI states that it is not requesting approval of forecast gas costs with this Application, but that the forecast cost of gas is a required determination in a number of revenue requirement line items.

Request:

a) Please provide the commodity cost of gas forecast for Station 2 and NIT on which FEI based its assumptions for the 2014-2019 PBR term.

Response:

FEI did not request approval of forecast gas costs within its Application for Approval of a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018 (the PBR Application).

During the PBR term FEI continues to report gas costs on a quarterly basis to the Commission, as required under the Commission guidelines for reviewing FEI's gas cost deferral accounts and for setting gas cost rates (the Guidelines), which were established pursuant to Commission Letters L-5-01, L-40-11, and L-15-16. Consistent with the Guidelines, rate changes related to the flow-through of gas costs continue to be requested as part of the quarterly gas cost submissions to the Commission, and any variations between forecast and actual gas costs continue to be returned to or recovered from customers through the existing deferral account mechanisms.

While FEI did not request approval of forecast gas costs in the PBR Application, the forecast cost of gas was required in the determination of a number of revenue requirement line items that formed part of the forecasts included in the PBR Application. Similarly, FEI does not request approval of forecast gas costs in its annual review applications but the forecast cost of gas is required in the determination of a number of revenue requirement line items that form part of the forecasts included in those applications.

The forecast cost of gas used in the PBR Application, as well as the forecast used in any of the various annual review applications, is determined by multiplying forecast sales volumes from the demand forecast used in the particular application by the unit gas cost recovery charges in effect for each rate schedule at the time the application is prepared.

The calculation of the forecast cost of gas for the PBR Application used a commodity rate which was set based on a commodity portfolio comprising 70% Station 2, 15% AECO/NIT, and 15% Huntingdon supply, and the five-day average of the February 13, 14, 15, 16, and 17, 2012 forward prices.

The calculation of the forecast cost of gas in the Annual Review for 2017 Rates Application uses a commodity rate which was set based on a commodity portfolio comprising 75% Station 2 and 25% AECO/NIT, and the five-day average of the February 18, 19, 22, 23, and 24, 2016 forward prices.

b) Please provide the commodity cost of gas forecast for Station 2 and NIT on which FEI will rely for the remainder of the PBR term, if different from a).

Response:

Please refer to the response to NGTL IR 1.3.a.

IR Number: **NGTL-FEI-1.4**

Reference: **(i) Application, Page 46, Lines 19-22**

(ii) Application, Page 46, Lines 25-28

Preamble: In reference (i) FEI states that "… the mitigation revenue associated with the west to east capacity on SCP [Southern Crossing Pipeline] has been the result of the T-South Enhanced Service agreement between Spectra and FEI." FEI states that the agreement expires on October 31, 2016.

In reference (ii) FEI states it has secured a "… short-term agreement for a portion of the SCP west to east capacity for 2017" and that "… FEI forecasts generating net mitigation revenue in the amount of $4.326 million in 2017."

Request:

a) Please provide the SCP contracted capacity associated with the T-South Enhanced Service agreement.

Response:

The T-South Enhanced Service agreement between Spectra and FEI, in effect for the period November 1, 2014 to October 31, 2016, provides a maximum available capacity of 91 MMcfd. The actual capacity Spectra contracts with FEI matches the capacity Spectra contracts with shippers under its T-South Enhanced Service.

The 91 MMcfd of available capacity has been fully contracted since November 1, 2014.

b) For the short-term agreement noted in reference (ii), please provide the contracted capacity, contract term, and forecast annual contract revenues.

Response:

The 2017 forecast revenue of $4.326 million related to the 91 MMcfd of west to east capacity on SCP is based on a short-term agreement for approximately 25 MMcfd for summer 2017 and an estimate of the additional mitigation to be generated from the remaining capacity. Additional details of FEI's contract arrangements are commercially sensitive and confidential.

Any variance from the forecast SCP revenue will continue to be recorded in the SCP Mitigation Revenues Variance Account and returned to or recovered from customers over a two-year period.

c) Please provide capacity and toll assumptions associated with the $4.326 million forecast in reference (ii).

Response:

Please refer to the response to NGTL IR 1.4.b.

d) Please describe how FEI operationally treats west to east capacity on SCP. Do such volumes flow physically, by displacement, or through a combination of both? Please explain your response.

Response:

On a daily basis FEI manages the SCP movements through a combination of both physical and displacement actions to meet the obligations of the TBO shippers (West to East) and the SCP shippers (East to West).