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

Attention: Laurel Ross, Acting Commission Secretary and Director

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. ("FEI")
Application for 2017 and 2018 Revenue Requirements and Rates for the Fort Nelson Service Area ("FEFN")
Project No. 3698885

In accordance with the Regulatory Timetable set for this proceeding, we write to provide FEI's reply argument in response to the submissions of the British Columbia Old Age Pensioners' Organization *et al.* ("BCOAPO") and the Fort Nelson & District Chamber of Commerce ("FNDCC").

BCOAPO's submission canvasses the evidence on the various topics explored in the proceeding and expresses support for the approvals sought by FEI.[1] At paragraph 13 of its submission, BCOAPO seeks confirmation that the Forecast 2017 and 2018 Transmission and Distribution Plant capital additions are not affected regardless of whether contractor costs are incurred or not. FEI can confirm that FEFN's Forecast 2017 and 2018 Transmission and Distribution Plant capital additions are as presented in the Application, based on the best information available at the time of the forecast. As explained in response to BCUC IR 1.8.8, when completing the forecast capital work, FEI will utilize contractor resources if FEI labour resources are unavailable, insufficient or not qualified to carry out specific tasks within the work, or if it is more cost effective to do so.[2] Thus, the mix of internal and contractor resources that are actually used to

[1] BCOAPO Final Argument.
[2] Exhibit B-3, BCUC IR 1.8.8.

complete capital work could contribute, in part, to variances between FEFN's forecast and actual capital additions.

FNDCC made submissions with respect FEFN's gas, storage and transport costs, and employee expenses for past years. Both of these issues, as they relate to the determination of FEFN's 2017 and 2018 Revenue Requirements and Rates, are addressed below.

FNDCC asserts that "direct savings to FEI" with respect to FEFN gas, storage and transport costs should be reflected in FEI's rate and revenue applications.[3] FEI respectfully submits that there are no such "direct savings" and that FNDCC's submissions on gas, storage and transport costs are outside the scope of this proceeding. FEI is not requesting approval of forecast gas costs, or storage and transport costs, in the Application[4] and there is no material evidence on the record in this proceeding regarding such costs. FEI did explain on page 4 of the Application that one of the benefits of FEFN customers being served by FEI is access to commodity-related benefits of being in a company that is a large regional buyer of natural gas and a significant holder of various natural gas storage, transportation, peaking and other gas supply arrangements designed to mitigate and optimize gas supply costs. FEI states:[5]

> FEFN's gas supply has typically been obtained through one contract. For the past number of years, the Company has used a small portion of its contracted gas storage capacity at Aitken Creek to improve the load factor of the Fort Nelson load and to mitigate the impact of gas volatility for Fort Nelson customers. The diversity of FEI's overall gas supply portfolio has assisted over the years in providing favourable gas supply arrangements for FEFN.

These gas costs, however, are not the subject of this proceeding. Instead, as explained in section 4 of the Application, any rate changes related to the flow-through of gas costs are dealt with in separate applications to the Commission. Consistent with established Commission practice, FEI will continue to review and report on the gas costs and the gas cost recovery rates for FEFN on a quarterly basis and, as necessary, will apply for any rate changes to recover the cost of gas. Any variations between forecast and actual gas costs will continue to be returned to or recovered from customers through the existing deferral account mechanisms. FEI also notes that it will be explaining the allocation of commodity and midstream costs to FEFN in its upcoming Rate Design Application.

FNDCC also submits that employee expenses incurred in 2015 and 2016 due to the transfer of employees and associated training costs should not be repeatedly and directly

[3] FNDCC Final Argument.

[4] Exhibit B-1, Application, p. 25.

[5] Exhibit B-1, Application, p. 4.

borne by the rate payer in FEFN, but should be apportioned properly.[6] FEI submits that the costs have in fact been properly allocated. The employee expenses and training costs were required to train employees for FEFN due to the attrition experienced within FEFN in 2015 and 2016[7]. Attrition can occur for many reasons beyond FEI's control, and the costs to ensure new FEFN employees are appropriately trained is a necessary and prudent cost of serving FEFN customers. Moreover, FEI has not forecast the continuation of attrition over the Test Period. The 2017 Forecast IBEW Labour Costs are anticipated to be less than the Updated Projected 2016 IBEW Labour Costs as the employee overlaps that existed in 2016 will no longer exist in 2017.[8] This results in reduced labour and training costs, which are partially offset by labour and benefits inflation for all IBEW employees. The increase in labour in 2018 is due to a two percent annual wage increase as per the IBEW Gas Collective Agreement for 2015-2019 as well as the associated pension and benefit overhead loading. In short, the increase in employee expenses and training costs that was experienced in 2015 and, to a lesser extent, 2016, is not forecast to continue over the test period.

FEI submits that the evidence provided in this proceeding, and the submissions of BCOAPO, demonstrate that the approvals sought by FEI are just and reasonable and should be approved by the Commission.

All of which is respectfully submitted.

FASKEN MARTINEAU DuMOULIN LLP

[original signed by Christopher R. Bystrom]

Christopher R. Bystrom
Personal Law Corporation

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[6] FNDCC Final Argument.

[7] Exhibit B-3, BCUC IR 1.6.5.

[8] Exhibit B-3, BCUC IR 1.6.5.