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September 29, 2017

3109 161 Street Surrey, B.C. V3A 2K4

Attention: Mr. Randolph Robinson, CPA, CGA

Dear Mr. Robinson:

Re: FortisBC Energy Inc. (FEI)

Project No. 1598915

Application for Approval of Operating Terms between the City of Surrey and FEI (the Application)

Response to Randolph Robinson (Robinson) Information Request (IR) No. 1

On May 18, 2017, FEI filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-98-17 setting out the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to Robinson IR No. 1.

If further information is required, please contact Ilva Bevacqua at 604-592-7664

Sincerely,

FORTISBC ENERGY INC.

Original signed:

**Diane Roy** 

Attachments

cc (email only): Commission Secretary Registered Parties



Response to Randolph Robinson (Robinson) Information Request (IR) No. 1

## 1 1. Reference: FEI'S P ROPOSED CITY OF SURREY OPERATING AGREEMENT

# 2 TERMS 1. DEFINITIONS AND INTERPRETATION and 3 AREA OF DISAGREEMENT – ISSUE NO. 3: RESPONSIBILITY FO

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## AREA OF DISAGREEMENT – ISSUE NO. 3: RESPONSIBILITY FOR UPGRADE /BETTERMENT COSTS

# 1.1 Why is the definition of betterment not included? Please provide a decision model of how FortisBC applies its definition of betterment.

## 8 Response:

9 In theory it would be possible to define betterment. However, this is just a drafting preference. 10 The same objective is met by defining what should be included in relocation cost, which are 11 those requirements to comply with applicable Laws and sound engineering practice. In addition 12 to considering applicable Laws and sound engineering practice, FEI also considers the specific 13 circumstances of the relocation and the lowest-cost alternatives. Please also refer to the 14 response to CEC IR 1.10.1.

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1.2 Give a specific example of how this has been applied.

## 20 Response:

When FEI receives a relocation request from the City or any third party, the assets involved in the relocation are analyzed to evaluate them for continued safe and reliable service, which may require the replacement of obsolete fittings and/or increasing the size of piping to ensure the capacity meets future customer growth. What FEI is proposing in this Application is that the relocation requester (Surrey) only pays the actual costs of a like-for-like replacement, or other more cost-effective alternative, as long as such replacement meets current laws and code requirements.

For example if the request was to relocate a 60mm steel main, Surrey would only be responsible to pay the actual cost of replacement with either like-for-like or other more costeffective code compliant alternative. If additional work would be required to meet the code requirements to provide the same level of service, then Surrey would pay that cost too.

There may also be circumstances where it may be the most cost-effective long-term decision for FEI and its customers to change the main material to polyethylene (PE) pipe and upsize it to 114mm. In this scenario, the City would only be responsible for the actual cost of the replacement, whether it be done with a 60mm steel (i.e., like-for-like) or more cost-effective PE alternative. FEI would be required to pay any incremental costs above that which are not



- 1 directly related to the relocation (i.e. service upgrades). Please also refer to the response to
- 2 Surrey IR 1.3.4.1.



# 12.Reference:Exhibit B1-1 3.2 Area of Disagreement – Issue No. 1: Apportionment2of Relocation Costs.

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- 2.1 For mains relocation work, does a job costing system plan and bill for work completed on standard costs, if so what is the basis of establishing those standard costs.
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## 7 **Response:**

No. FEI completes manual estimates for relocation work for each project separately using a
combination of contactor pricing and hourly rates depending on the scope of work. If the project
is of significant size or overly complex the Company has the option to go out to bid if time

- 11 allows. The invoice is independent of the estimate, and is based on the actual cost incurred to
- 12 complete the work by the FEI and Contractor crews.

FORTIS BC<sup>\*\*</sup>

#### 1 3. Exhibit B1-1 3.2.3 Cost Apportionment 1 3.2.3 re: High Pressure Reference: 2 **Pipelines**

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3.1 What is the difference in the planning and scope of work for a high pressure pipeline (above 700 kPa.) relocation and a mains relocation (less than 700 kPa). What departments are involved in each.

### 7 Response:

8 Both Main relocations and High Pressure Pipelines relocations have similar processes to 9 execute the scope of work. However, High Pressure Pipeline relocations are more structured 10 with increased requirements and cost. The extra requirements include:

- Detailed profile design drawings provided by our Engineer Drafting Department; 11 ٠
- 12 Regulatory approval required by the BC Oil and Gas Commission; •
- 13 Engineer oversight by FEI's engineering department to ensure design meets CSA Z662 14 code requirements, proper materials specifications, field installation and non-destructive 15 testing;
- 16 • Increased involvement with FEI's Land department because of Statutory Rights of Way; 17 and
- Extended lead times for material delivery for certain sizes of steel pipe and fittings. 18
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- 22 3.2 How is the "less an adjustment for the age of the assets" calculated. Give a
- 23 specific example.

### 24 25 Response:

26 FEI uses the following formula to calculate the age adjustment:



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## (1) Municipality's Contribution = $C_{AC} - [2\% \times C_{OI} \times (Y_C - Y_{OI})]$

**C**<sub>AC</sub> = Total cost of the required alteration of the gas piping in the current year (this includes the cost of temporary works, bypasses etc., i.e. all inclusive)

 $C_{OI}$  = Total cost of the original installation for the portion of the gas system being impacted and that will be taken out of service (see note below)

Yc = Current year in 4 digits

YoI = Year of original installation in 4 digits

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2 Based on the above formula, if a new relocation cost was \$50 thousand, the original cost was

- 3 \$25 thousand and the main was 20 years old, the adjustment would be \$10 thousand, reducing
- 4 the relocation cost to \$40 thousand.
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Response to Randolph Robinson (Robinson) Information Request (IR) No. 1

# 1 4. Reference: Exhibit B1-1 3.3 AREA OF DISAGREEMENT – ISSUE NO. 2: 2 OPERATING FEE

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4.1 What is the application of the operating fee when there is a new main installation?

## 6 **Response:**

An Operating Fee, if one is approved, would be collected by FEI, on behalf of the City of Surrey,
on the bills of all of FEI's customers in Surrey, including those that connect to a new main.
FEI's test to install a new main does not include the Operating Fee, because this fee is not
retained by FEI and does not represent incremental revenues to FEI.

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4.2 How are operating fees accounted for on high pressure lines?

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## 16 Response:

Operating Fees are not a fee charged by FEI for new infrastructure. Rather, they are a fee that is levied by the City in an amount or according to a formula approved by the Commission. FEI collects the Operating Fee on customers' bills and remits the fee to the municipality. FEI is willing to entertain an Operating Fee in the interest of allowing more efficient operations in the Municipality. Surrey is proposing a higher fee than FEI is willing to pay, as we believe it will result in a windfall to Surrey at the expense of FEI customers in Surrey.

23 More specific accounting treatment is addressed in the response to Robinson IR 1.4.3.

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4.3 If operating fees are capitalized does this create a larger base of cost to generate a ROI?
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30 <u>Response:</u>
31 No, Operating Fees do not allow FEI to earn any more than it would otherwise earn. They are collected on behalf of the municipality, not kept by FEI.

FEI, as a regulated utility, earns its return only on invested capital (called "rate base"). Operating Fees are collected by FEI and held in a liability account until they are remitted to the



1 municipality. While held by FEI, they reduce the rate base of FEI; this in turn reduces the 2 amount of return on rate base (but not the percentage) that FEI receives.

3 The only benefits that FEI receives from having an operating agreement are those articulated in

- 4 the Application (efficient service, avoidance of permit fees and dispute resolution etc.), and
- 5 those benefits flow to customers.
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- 9 4.4 What are the costs that are presently being recovered through the general
  10 category of Delivery Charges. Be specific: Basic charge (based on days)
  11 separate from the Delivery charge (based on consumption).
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## 13 **Response:**

At the highest level, the charges are together designed to recover the costs of operating the gas
system plus provide FEI with a regulated rate of return. They do not include gas commodity
costs (which are a pass through cost).

17 The question of specifically what comprises the categorization of costs that are recovered 18 through the Basic Charge vs. costs that are recovered through the Delivery Charge is complex 19 and can only be discussed within the context of a Cost of Service Allocation Study (COSA) 20 which is the subject of Commission determinations. A COSA is used to classify the utility's 21 costs into three cost-causation categories - customer, demand and energy. Some of the major 22 classified costs are included below. Customer-related costs are generally recovered through the 23 Basic Charge and Demand and Energy related costs are generally recovered through the 24 Delivery Charge.

Customer Related Costs	Demand and Energy Related Costs
Customer Billing	Transmission pipeline
Customer Assistance (call centre)	Distribution pipeline
Meter Reading	Compression
Meters	On system peaking resources
Service Lines	Pipeline Right of Way

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- 4.5 How would the operating fees be recovered from either of the above charges, days vs consumption?
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### 1 **Response:**

2 Please refer to the response to Landale IR 1.8.

> 4.6 In recovering operating costs in the Delivery Charges category do you apply a cost plus formula mandated by BCUC?

### 9 **Response:**

10 To answer the specific question, operating and maintenance (O&M) costs are part of FEI's cost 11 to serve customers, which the Commission reviews when determining customer delivery rates. 12 Currently, FEI's O&M costs are set by formula under the 2014-2019 Performance Based 13 Ratemaking Plan approved by Commission Order G-139-14. FEI earns its return on capital 14 investments, and earns no regulated rate of return (your reference to "cost plus formula") on 15 O&M.

16 However, we note that Operating Fees are something completely distinct from our O&M and the 17 Delivery Charge. Operating Fees are a pass through cost for FEI – it is a fee levied by the 18 Municipality, which FEI must then recover from customers. FEI does not earn any return on the 19 amounts collected and the Fee does not affect the Delivery Charge or Basic Charge that 20 customers are required to pay.

21 FEI is referencing the Delivery Charge in the Application because we are using it as a reference 22 point for calculating the amount of the Operating Fee. Surrey wants the Operating Fee to be 23 calculated based on FEI's gross revenues, which includes commodity costs as well. FEI is 24 saying that is too high, and have proposed a lower fee that happens to be calculated with 25 reference to the Delivery Charge instead. But this is only a reference point - the Delivery 26 Charge itself is unaffected.

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- 29 30 4.7 What is the treatment of operating outside of British Columbia? Other gas utilities 31 incur municipal operating costs, how do they recover them from their customers?
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- 33 **Response:**

34 Other than the regulatory rate setting processes specific to other jurisdictions which are 35 normally based on some form of cost of service, FEI does not have direct knowledge of how



FortisBC Energy Inc. (FEI or the Company)Submission Date:<br/>Submission Date:<br/>September 29, 2017Application for Approval of Terms for an Operating Agreement between the City of<br/>Surrey and FEI (the Application)Submission Date:<br/>September 29, 2017Response to Randolph Robinson (Robinson) Information Request (IR) No. 1Page 9

- 1 municipal operating costs are recovered in other jurisdictions outside of British Columbia, nor
- 2 whether Operating Fees are collected.



1 5. Exhibit B1-1 From the agreement Appendix A 8.3 Estimation of Reference: Costs and 8.4 Notification of Costs, Invoicing and Payment (c) 2 3 administration and overhead charges if not included in the costs 4 under subsection (b) above; 5 5.1 How are overhead costs calculated and applied, currently? 6 7 Response: 8 For work performed for third parties, FEI includes, on the invoices it issues, both the direct costs 9 (i.e. costs directly attributable and charged to the work performed including the fully loaded 10 labour costs of FEI employees including time-off and benefits, materials, contractors services,

vehicle costs, etc.) and the indirect costs that are attributable but not directly charged. Indirect costs include supervision, back office, and administrative support activities. The overhead loadings billed are intended to recover the indirect (overhead) costs incurred by FEI for the work performed. The overhead rates are calculated and applied currently as a percentage of the direct costs incurred, with different percentages applied to the different type of costs (i.e. labour, materials, contractor, etc.).

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- 20 5.2 How are activity-based-costing techniques for overhead applied?
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## 22 Response:

FEI applies the appropriate overhead rate to the applicable category, as identified in the response to Robinson IR 1.5.1, on all relocation projects.