



Diane Roy
Vice President, Regulatory Affairs

Gas Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 576-7349
Cell: (604) 908-2790
Fax: (604) 576-7074
Email: diane.roy@fortisbc.com
www.fortisbc.com

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



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Terms for an Operating Agreement between the City of Surrey and FEI (the Application)	Submission Date: September 29, 2017
Response to Randolph Robinson (Robinson) Information Request (IR) No. 1	Page 2

- 1 directly related to the relocation (i.e. service upgrades). Please also refer to the response to
- 2 Surrey IR 1.3.4.1.
- 3

FortisBC Energy Inc. (FEI or the Company) Application for Approval of Terms for an Operating Agreement between the City of Surrey and FEI (the Application)	Submission Date: September 29, 2017
Response to Randolph Robinson (Robinson) Information Request (IR) No. 1	Page 5

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

C_{AC} = 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)

Y_C = Current year in 4 digits

Y_{OI} = Year of original installation in 4 digits

- 1
- 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.

5

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.

6
7

8

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).
 12

13 **Response:**

14 At the highest level, the charges are together designed to recover the costs of operating the gas
 15 system plus provide FEI with a regulated rate of return. They do not include gas commodity
 16 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

25
26

27

28 4.5 How would the operating fees be recovered from either of the above charges,
 29 days vs consumption?
 30

FortisBC Energy Inc. (FEI or the Company) Application for Approval of Terms for an Operating Agreement between the City of Surrey and FEI (the Application)	Submission Date: September 29, 2017
Response to Randolph Robinson (Robinson) Information Request (IR) No. 1	Page 8

1 **Response:**

2 Please refer to the response to Landale IR 1.8.

3

4

5

6 4.6 In recovering operating costs in the Delivery Charges category do you apply a
7 cost plus formula mandated by BCUC?

8

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.

27

28

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?

32

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) Application for Approval of Terms for an Operating Agreement between the City of Surrey and FEI (the Application)	Submission Date: September 29, 2017
Response to Randolph Robinson (Robinson) Information Request (IR) No. 1	Page 9

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

3

FortisBC Energy Inc. (FEI or the Company) Application for Approval of Terms for an Operating Agreement between the City of Surrey and FEI (the Application)	Submission Date: September 29, 2017
Response to Randolph Robinson (Robinson) Information Request (IR) No. 1	Page 10

1 **5. Reference: Exhibit B1-1 From the agreement Appendix A 8.3 Estimation of**
2 **Costs and 8.4 Notification of Costs, Invoicing and Payment (c)**
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,
11 vehicle costs, etc.) and the indirect costs that are attributable but not directly charged. Indirect
12 costs include supervision, back office, and administrative support activities. The overhead
13 loadings billed are intended to recover the indirect (overhead) costs incurred by FEI for the work
14 performed. The overhead rates are calculated and applied currently as a percentage of the
15 direct costs incurred, with different percentages applied to the different type of costs (i.e. labour,
16 materials, contractor, etc.).

17
18

19
20 5.2 How are activity-based-costing techniques for overhead applied?
21

22 **Response:**

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

25