FORTIS BC™

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October 3, 2017

Movement of United Professionals
c/o Allevato Quail & Worth, Barristers and Solicitors
405-510 West Hastings St.
Vancouver, BC
V6B 1L8

Attention: Mr. Jim Quail

Dear Mr. Quail

Re: FortisBC Inc. (FBC)

Project No. 1598920

Multi-Year Performance Based Ratemaking Plan for 2014 through 2019 approved by British Columbia Utilities Commission (Commission) Order G-139-14 – Annual Review for 2018 Rates (the Application)

Response to Canadian Office and Professional Employees Union, Local 378 (known as Movement of United Professionals or MoveUP) Information Request (IR) No. 1

On August 10, 2017, FBC filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-116-17 setting out the Regulatory Timetable for the review of the Application, FBC respectfully submits the attached response to MoveUP IR No. 1.

If further information is required, please contact Joyce Martin at 250-368-0319.

Sincerely,

FORTISBC INC.

Original signed:

Diane Roy

Attachments

cc (email only): Commission Secretary
Registered Parties

1.0 FILLING STAFF VACANCIES

Reference: Introduction, page 1, line 15:

Under the PBR Plan, FEI projects savings in 2017 due to a continuation of its ongoing productivity focus, including a broad-based Company-wide effort to seek alternate solutions to the filling of vacancies and a number of initiatives that result in net O&M and capital savings.

1.1 What are the perceived difficulties with the current “solutions to the filling of vacancies”?

Response:

This IR response addresses MoveUP IRs 1.1.1 through 1.1.4.

The referenced words “solutions to the filling of vacancies” in the context of FBC’s Application refer not to difficulties and obstacles the Company is facing in filling vacancies, but to its efforts to achieve efficiencies and savings as part of its ongoing productivity focus. FBC has not encountered any specific obstacles to finding solutions that it was unable to resolve. The benefits are reflected in the progress the Company has made in achieving savings that have been shared with customers over the PBR term and that are described in section 1.4 of the Application.

The Company’s productivity focus, including seeking alternate solutions to filling vacancies, is a strategy to manage rates for customers. Instead of filling vacancies with the same existing requirements (i.e. like for like), the Company has been thoroughly reviewing each vacancy for how best to meet the need. The Company has been looking at alternate solutions to filling vacancies, including strategic re-deployment of resources combined with a broadening of roles and responsibilities. For FBC, an example of re-deployment of resources is the use of the Prince George (Gas) contact centre staff to answer Electric calls at peak times in the Trail (Electric) contact centre, reducing the required staff in the Trail contact centre.[1]

The productivity focus and alternative solutions to filling vacancies has been a specific emphasis for FBC, as it seeks to generate efficiencies and savings that are shared with customers while maintaining service levels.

1.2 What are the objectives of the “Company-wide effort to seek solutions”?

[1] FBC 2017 Annual Review for 2017 Rates – page 4, lines 27 to 31 and page 5, lines 1 to 6.

Response:

Please refer to the response to MoveUP IR 1.1.1.

1.3 What if any are the perceived obstacles to finding such solutions?

Response:

Please refer to the response to MoveUP IR 1.1.1.

1.4 Please describe such progress as has been made to date toward finding such solutions.

Response:

Please refer to the response to MoveUP IR 1.1.1.

2.0 1.3 REQUIREMENTS FOR THE ANNUAL REVIEW - EFFICIENCY INVESTMENTS

Reference: Table 1-1, page 3, Item 3:

Description: Identification of any efficiency initiatives that the Companies have undertaken, or intend to undertake, that require a payback period extending beyond the PBR plan period and make recommendations to the Commission with respect to the treatment of such initiatives.

Response or Reference: FBC has not identified any efficiency investments with a payback beyond the end of the PBR period that it is not pursuing

2.1 What efficiency investments with a payback beyond the end of the PBR has FEI identified that it is pursuing?

Response:

FBC believes that the question intended to refer to FBC, rather than FEI.

The efficiency investments that FBC has identified and is pursuing that have a payback period beyond the term of the PBR include:

- SAP Integration Project (pages 5 and 6 of Application);
- Advanced Distribution Management Systems (ADMS) (page 6 of Application);

However, FBC is not proposing Efficiency Carryover Mechanism (ECM) treatment for these efficiency investments.

The requirement in the PBR Decision for "identification of any efficiency initiatives that the Companies have undertaken, or intend to undertake, that require a payback period extending beyond the PBR plan period and make recommendations to the Commission with respect to the treatment of such initiatives" was in the context of an ECM. The ECM provides for the utility to receive benefits in periods following a PBR period for savings resulting from measures taken and costs incurred during the PBR period. The ECM is a means to incent the utility to pursue efficiency initiatives throughout the entire PBR period and is justified on the basis that, without it, the utility will have decreasing levels of motivation to initiative efficiency improvements as the PBR period moves forward.

In the Commission's decision regarding FBC's 2014-2019 Multi-Year PBR Plan, the Commission acknowledged that "there is value in the inclusion of some form of ECM mechanism as a means of incenting the development of efficiency initiatives throughout the PBR period."[2] The Commission directed that in order for FortisBC to receive approval for an

[2] Order G-139-14 FBC 2014-2018 PBR Decision.

ECM initiative, for each proposed initiative for which benefits are expected to extend beyond the term of the PBR, FortisBC will file an ECM proposal providing a description of the proposal, its timing, costs and benefits, and reasoning as to why it is appropriate and how long benefits should be paid. While FBC has identified efficiency investments with a payback period beyond the end of the PBR term, FBC is not proposing ECM treatment for them. ECMs exists in PBR Plans to encourage utilities to continue to identify and pursue efficiency investments as the PBR term comes to a close; in this case FBC is already pursuing the initiatives. Bringing forward initiatives on a case by case basis as part of the Annual Review is generally unworkable; once an initiative is identified, FBC cannot wait until a decision is made on regulatory treatment at the end of the calendar year to pursue an initiative that has benefits greater than their costs.

3.0 EVALUATION OF THE PBR PLAN

Reference: Page 3 section 1.4:

FBC has continued its productivity focus in 2017 and initiated additional projects to enhance the customer experience and improve productivity, in addition to the continuing initiatives from prior years. As a result of this focus and these initiatives, FBC was able to realize savings in O&M expenditures above those embedded in the formula. FBC continues to be challenged to meet growth and maintain the system within the capital formula amount. Overall, the savings achieved result in $0.831 million of earnings sharing that will be returned to customers in 2018, serving to reduce overall rates for FBC's customers.

3.1 What is the reduction of overall delivery rates for FBC's customers expressed as

a) A percentage of the total delivery charge?

b) Dollar savings per annum for the average residential account?

Response:

The $0.831 million represents a reduction to rates of approximately 0.23 percent or $3.13 per year for an average residential customer.

3.2 What is FEI's best estimate of the gross cost of achieving the $0.831 million savings?

Response:

FBC believes that the question intended to refer to FBC, rather than FEI.

FBC is not able to respond to this question as the referenced amount is the earnings sharing amount (not the savings). The calculation of the $0.831 million in earnings sharing for 2018 is set out in section 10.1 of the Application, and includes the three components listed in Table 10-1. The largest component is the 2017 Projected Earnings Sharing, which is calculated in Table 10-2.

FBC has provided the cost and savings related to some of its major initiatives in Section 1.4.2 of the Application.

4.0 INITIATIVES UNDERTAKEN

Sharing of Gas and Electric Contact Staff

4.1 Please confirm that the BC Labour Relations Board has issued a certificate to MoveUP with respect to its representation of employees in the Customer Services Centres which replaces the union's original "voluntary recognition" status.

Response:

FBC is responding to this information request as a courtesy only. FBC's view is that this question and response are not relevant to this proceeding, and that there should be no further questions regarding labour relations that are not relevant to setting rates.

FBC confirms that the BC Labour Relations Board issued a certification to the Canadian Office and Professional Employees Union, Local 378 as the bargaining agent for employees in the Customer Services Centres bargaining unit. The certification is dated May 3, 2017.

A copy of the certification is included as Attachment 4.1.

4.2 Please confirm that the certificate identifies FEI and FBC (as a common employer) as the employer entity in relation to employees within the Customer Services Centres bargaining unit.

Response:

FBC is responding to this information request as a courtesy only. FBC's view is that this question and response are not relevant to this proceeding, and that there should be no further questions regarding labour relations that are not relevant to setting rates.

FBC confirms that with respect to employees in the Customer Services Centres bargaining unit, the Labour Relations Board in its certification determined that FBC and FEI constitute one employer for the purposes of the Labour Relations Code. The certification was made pursuant to an application for certification by COPE, Local 378 of the employees in the Customer Services Centres bargaining unit listing FEI as the sole employer of employees in this bargaining unit.

4.3 Please confirm that this identification of the two companies as a common employer is made pursuant to section 38 of the BC Labour Relations Code:

Response:

FBC is responding to this information request as a courtesy only. FBC's view is that this question and response are not relevant to this proceeding, and that there should be no further questions regarding labour relations that are not relevant to setting rates.

FBC confirms that the Labour Relations Board's decision that FBC and FEI constitute one employer for the Customer Services Centre bargaining unit for labour relations purposes is made pursuant to section 38 of the BC Labour Relations Code.

Several businesses treated as one employer

38 If in the board's opinion associated or related activities or businesses are carried on by or through more than one corporation, individual, firm, syndicate or association, or a combination of them under common control or direction, the board may treat them as constituting one employer for the purposes of this Code and grant such relief, by way of declaration or otherwise, as the board considers appropriate.

Interactive Voice Response Enhancements

Reference: Page 5 line 24

In 2017, new functionality will be introduced into the Interactive Voice Response (IVR) in support of self-service channel options for customers. Basic transactions including obtaining the due date and the balance due as well as the amount and date of last payment will be available for customers 24 hours a day, 7 days a week without the need to speak to a representative. Not only will this new channel be more convenient for customers, but it is also expected to reduce operating costs in the contact centre starting in 2018 with estimated annual savings of approximately $0.075 million.

4.4 What proportion of the estimated annual savings would be the result of reduced labour costs?

Response:

The entire estimated annual savings of $0.075 million was a result of reduced labour costs.

4.5 Approximately how many FTEs of reduced labour does this represent?

Response:

The reduced labour represents approximately 1.2 FTE.

SAP Integration

reference: Page 5 Line 33

SAP Integration is an initiative to integrate the FBC and FortisBC Energy Inc. (FEI) SAP systems, moving towards a common SAP platform for both companies. It will primarily include the integration of the Human Resources, Supply Chain, and Finance systems in SAP. The benefits will include a simplified support model, alignment of processes, simpler business processes (i.e. employee expense processing and single sign-on), reduced licensing costs and integrated payroll. Reduction in support costs will be achieved through reduced annual contractor costs because internal resources will be able to displace the contractor support due to the simplified support requirements.

4.6 Please confirm that where it appears that greater efficiencies or cost-savings can be achieved by making use of employed staff than retaining contracted personnel or services, FEI does not exercise a bias against making use of employed staff, or against increases in headcount or FTEs as an end in itself

Response:

FBC believes that the question intended to refer to FBC, rather than FEI.

FBC does not seek to reduce FTEs or headcount as an end in itself; the headcount or FTE is not a good measure of overall cost or efficiency since overall cost levels are influenced by other factors as well.

In choosing between making use of employed staff and retaining contracted personnel, FBC considers each situation’s circumstances in its decision. Generally, FBC retains contracted personnel for situations requiring specialized skillsets and knowledge and as a workforce to handle peak resource requirements. Additionally, the choice of employed staff versus contracted personnel follows the established union agreements in effect with the unions, MoveUP and IBEW, which outline the type of work that is considered within the jurisdiction of the unions.

Advanced Distribution Management System

Reference: Page 6 Line 16

This project is to implement an Outage Management System (OMS) and to replace the existing Dispatch system with a Mobile Workforce Management System (MWM). This will enable the Company to improve its outage response through fault location prediction using customer calls and AMI meter messages, as well as update outages from the field using the MWM. Customers will be provided access to an outage map that will be updated automatically from the OMS. The project is currently underway and expected to be complete in 2017. The project benefits include streamlining of the manual outage management processes and the manual dispatch processes, with estimated annual savings of $0.2 million starting in 2018.

4.7 What proportion of the estimated annual savings would be the result of reduced labour costs?

Response:

The estimated annual savings of $0.200 million consists of labour savings, achieved through the reduction of 1 FTE in Operations and 1 FTE in Customer Service.

4.8 Please explain how workforce deployment will be modified by this initiative.

Response:

The workforce will continue to be deployed ensuring there is a focus on safety, reliability and timely service to customers. To that end, the Advanced Distribution Management System is a tool that combines the benefits of automated customer outage reporting through the OMS system as well as an improved MWM tool to move the reported outages to the field workforce.

MWM is also required to replace the current field workforce management tool that is based on Microsoft Outlook folders and is no longer supported.

5.0 PENSION AND OPEB EXPENSE

Reference: Page 46 Line 18

Pension and OPEB expenses for 2018 are based upon recent actuarial estimates using a range of assumptions at December 31, 2016 provided by the Company's actuary, Willis Towers Watson. Pension and OPEB expense is broken into O&M, Capital, Retirement Costs, and Core Market Administration Expense (CMAE) categories as shown in Table 6-4.

5.1 What are the assumptions included in the "range of assumptions at December 31, 2016"?

Response:

The range of actuarial assumptions as of December 31, 2016, which were determined in conjunction with the Company's third party actuary and are used for determining FBC's 2018 Pension and OPEB expense, are as follows:

Actuarial Assumptions	Forecasted 2018 Pension & OPEB Expense
Discount rate	3.75%
Expected rate of return on plan assets	6.00%
Rate of inflation	2.00%
Rate of compensation increases	3.00%
Health care trend rate	5.00%
Mortality	100% of 2014 Private Sector Canadian Pensioners' Mortality Table

6.0 SERVICE QUALITY INDICATORS – Telephone Abandon Rate

Reference: Page 133 line 24

The 2016 result was 3.9 percent and the June 2017 year-to-date result is 4.4 percent

6.1 What does FBC consider the most likely explanation(s) for the increased abandon rate between 2016 and 2017?

Response:

Please refer to the response to BCUC IR 1.27.2.

7.0 PROJECT ONE

7.1 Please confirm that FEI and FBC are migrating together to a new system known as "Project One".

Response:

The new system is not referred to as "Project One". The project to integrate the FEI and FBC SAP platforms, as described in FBC's Annual Review for 2018 Rates, Section 1.4.2, page 5, has been internally referred to as "Project One".

7.2 Please provide a description of Project One including its functions, capabilities and anticipated benefits. Please file convenient descriptive internally-used materials.

Response:

An overview of Project One, including capabilities and anticipated benefits, is as follows:

FBC is challenged with identifying opportunities for efficiencies, finding ways to better conduct business, seeking out innovation, reducing the incurrence of future higher costs and reducing or mitigating future customer rate increases. The integration of the two SAP systems (SAP Integration Project) for FBC and FEI is an initiative that addresses all these factors.

The SAP Integration Project will integrate the Gas and Electric SAP systems onto one platform, bringing Electric payroll in-house. This will enable Finance, Human Resources, and Supply Chain/Materials Management to advance their process integration, enable near term efficiency opportunities, as well as position the company to leverage a combined landscape for future projects and opportunities.

The benefits of the SAP Integration Project for the organization and customers include:

1. reduce duplication of licensing and hardware costs;
2. reduce dependency on contracted support services;
3. reduce the redundancy when implementing process changes across the companies (configurations having to be applied to two separate systems);
4. allow for consistent reporting across both divisions to produce a holistic view of the integrated company which is currently a more manual and inefficient process;

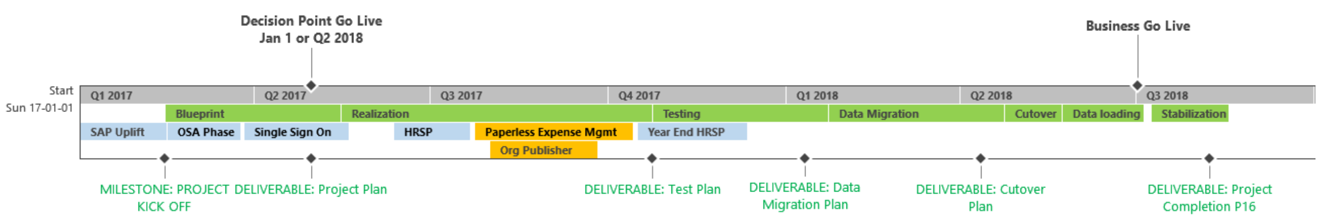
5. improve internal and external audit efficiency due to a singular system being audited rather than two, thus reducing the number of key system-based controls to be tested;
6. align processes such as payment of invoices, credit card expense reconciliations, preparation and reimbursement of employee expenses, and time entry which will reduce the current inefficiencies for departments with employees in both divisions;
7. establish a Single Sign-On feature which will result in reducing time for end users to log into multiple systems to conduct business;
8. provide efficiencies for all cardholders across the organization by implementing a new Paperless Expense Management module which will reduce the current and inefficient manual credit card and employee expense process;
9. replace the current manual and time-intensive intercompany cross-charging process with a more automated process;
10. address the inherent risk and future costs associated with certain critical financial toolsets which are no longer supported and out of date resulting in increased financial risk if these products cease to work as intended;
11. strengthen the system of internal controls through the implementation of the Business Planning Consolidation (BPC) financial reporting software which will allow for better integrity of data through increased controls and logging of changes to financial information; and
12. establish a consistent base ERP platform that will allow for upcoming and potential future projects to be consistently implemented for both gas and electric segments, including:
    a) Warehouse Bar Coding;
    b) Integrated budgeting and forecasting solution to replace many large and complex spreadsheets;
    c) financial reporting applications that would allow for the replacement of current key spreadsheets used for financial reporting; these system-based financial reporting applications allow for increased auditable controls and reduce the risk around manual input errors strengthening the system of internal controls which is of benefit in a SOX-compliant organization; and
    d) third party billing solutions to reduce manual processes and provide timely supporting documentation requested by customer.

7.3 Please describe the timing and nature of all past and projected implementation phases, and describe the current state of implementation of the project.

Response:

The following table and Gantt chart show the breakdown of project deliverables and milestones completed and to come:

Task Name	Start	Finish
SAP Integration	Q1 2017	Q3 2018
Blueprint / Technical Design Phase	Q1 2017	Q3 2017
Single Sign-On	Q1 2017	Q3 2017
Realization Phase	Q2 2017	Q4 2017
Paperless Expense Management System	Q3 2017	Q4 2017
Testing	Q4 2017	Q1 2018
Data Migration Phase	Q1 2018	Q2 2018
Final Preparation & Cut-over Phase	Q2 2018	Q2 2018
Go Live	Q2 2018	Q2 2018
Post Go-Live	Q2 2018	Q2 2018
Stabilization Phase	Q3 2018	Q3 2018



7.4 Please detail the cost of implementing Project One during the term of the PBR and how it will be allocated.

Response:

Please refer to the responses to BCUC IRs 1.6.3 and 1.6.5.

7.5 Please describe how Project One will deal with cost tracking and cost allocation issues as between capital and O&M, and as between FEI and FBC.

Response:

For tracking of capital costs versus O&M costs, consistent with the companies' accounting practices, FEI and FBC will be using internal orders (O&M) and WBS elements (capital) to track the different costs associated with the project. Of the total forecast cost of $4.5 million for the project, approximately $4.2 million is capital with the remaining $0.3 million O&M (i.e. training activities).

The costs for Project One are expected to be shared between FBC and FEI based on employee count within each Company. The costs will be billed approximately 75 percent to FEI and 25 percent to FBC.

Please refer to the response to BCUC IR 1.6.5 for discussion of other cost allocation methods considered.

7.6 Please describe all future plans for the roll-out of Project One or related initiatives.

Response:

Please refer to the response to MoveUP IR 1.7.3.

8.0 WANETA DAM – PURCHASE OF TECK INTEREST

Reference: News Release May 12, 2017 "Fortis and Teck Announce Waneta Dam Agreement"

URL: http://www.teck.com/media/17-25-TR.pdf

And reference: News Release Aug 1, 2017 "BC Hydro plan to purchase remaining two-thirds interest in Waneta Dam will keep rates affordable"

URL: https://www.bchydro.com/news/press_centre/news_releases/2017/bc-hydroplan-to-purchase-two-third-interest-in-waneta-dam-will-.html?WT.cg_n=Hootsuite

8.1 Please describe FBC's reasons for entering into the agreement to purchase Teck's interest in the Waneta Dam, including system benefits, rate impacts (at least directionally) and other anticipated considerations.

Response:

FBC is not the entity that sought to purchase Teck's interest in the Waneta Dam. The agreement was between Teck and FBC's parent company, Fortis Inc., which is an unregulated private investor-owned company.

8.2 What will be the consequences to FBC and to its ratepayers if the BC Hydro purchase proceeds?

Response:

To date, FBC has had preliminary discussions with BC Hydro as to potential impacts should the purchase proceed; however, FBC is unable to speculate on the impacts until there is an opportunity to review BC Hydro's regulatory application. FBC will register as an intervener in the interests of its ratepayers and employees.

Attachment 4.1

LABOUR RELATIONS CODE

BRITISH COLUMBIA
LABOUR RELATIONS BOARD

CERTIFICATION

The LABOUR RELATIONS BOARD, being satisfied the employees named herein constitute a unit appropriate for collective bargaining and that all necessary requirements of the Labour Relations Code are met

HEREBY CERTIFIES

Canadian Office and Professional Employees Union, Local 378

as the bargaining agent for the employees in a unit composed of

employees in customer service centres located in British Columbia, excluding the Vancouver Island and Whistler areas, in any phase of office, clerical, technical, administrative or related work

and those excluded by the Code, employed by

FortisBC Energy Inc., 16705 Fraser Highway, Surrey, BC V4N 0E8 and FortisBC Inc., 100 - 1975 Springfield Road, Kelowna, BC V1Y 7V7 which the Board has decided pursuant to Section 38 of the Labour Relations Code to constitute one employer for the purposes of the Code

Given at Vancouver, British Columbia, this **3rd** day of **May**, A.D. **2017**.

LABOUR RELATIONS BOARD

BRUCE WILKINS
Vice-Chair

/ry