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September 26, 2018

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Mr. Patrick Wruck, Commission Secretary and Manager, Regulatory Support

Dear Mr. Wruck:

Re: FortisBC Energy Inc. (FEI)

Project No. 1598966

Annual Review for 2019 Delivery Rates (the Application)

Response to the British Columbia Utilities Commission (BCUC or the Commission) Information Request (IR) No. 1 – Revised Responses to Questions 8.3.1, 8.4 and 21.4

On September 18, 2018, FEI filed its responses to BCUC IR No. 1 in the above noted Application. FEI has revised the attached responses to BCUC IRs 1.8.3.1, 1.8.4 and 1.21.4 related to capital expenditures, which are also discussed in the Evidentiary Update being filed concurrently. The response to BCUC IR 1.21.4 has been updated to reflect the correct dates for estimated timing of expenditures.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Registered Parties

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1 **8.0 Reference: OVERVIEW OF CAPITAL EXPENDITURES**

2 **Exhibit B-2, Section 1.4.4, p. 11, Table 1-4; Appendix C4, Table C4-4;**
3 **2018 Annual Review, Exhibit B-2, p. 11, Table 1-4; Exhibit B-3, BCUC**
4 **IR 6.12, 6.15 6.17 & 10.2; FEI Annual Review for 2017 Delivery Rates,**
5 **Exhibit B-3, BCUC IR 9.9.1**

6 **Capital spending results**

7 In Table 1-4 of the 2018 Annual Review application, the projected 2017 variance
8 between formula and actual growth capital was \$14.547 million and between formula
9 and actual sustainment/other capital was \$26.671 million.

10 In response to BCUC IR 10.2 in the 2018 Annual Review, FEI stated the following:

11 FEI expects that, excluding any variances resulting from growth capital, 2017 will
12 be the year with the largest sustainment/other capital spending variance in the
13 six year PBR term. Overall on a cumulative basis, the sustainment/other capital
14 spending variance (in isolation from the growth capital variance) over the entire
15 PBR term is expected to average to just over 10 percent of the formula, which is
16 very close to being within the dead band. FEI does not consider that level of
17 variance to be significant in the context of the PBR Plan.

18 Table 1-4 on page 11 of the Application shows the following variances between formula
19 and actual/projected sustainment/other capital:

- 20 • Actual 2017 sustainment/other capital variance - \$26.311 million
- 21 • Projected 2018 sustainment/other capital variance - \$31.664 million
- 22 • Projected cumulative sustainment/other capital variance - \$59.291 million

23 Table 1-4 also shows an Actual 2017 variance of \$26.066 million for growth capital.

24
25 8.3.1 In consideration of the above response, please discuss FEI's
26 expectations regarding 2019 sustainment/other capital spending and
27 the expected variance between formula and actual spending compared
28 to previous years.

29
30 **Response:**

31 The variance between forecast sustainment/other capital spending and the formula amount for
32 2019 that was forecast at the time of the 2018 Annual Review was approximately \$24 million.
33 FEI's current expectation for sustainment/capital spending in 2019 is approximately \$26 million.
34 This level is similar to the capital spending variance experienced in 2017, but lower than the
35 variance experienced in 2018. In 2018, the costs of both the Whistler IP extension (\$7.2 million)



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1 discussed in the response to BCUC IR 1.8.11 and the required fleet and equipment to support
2 Operations growth capital (\$6 million) discussed in response to BCUC IR 1.8.3 were greater
3 than expected.

4

5

6 8.4 Please discuss whether, in consideration of the projected 2018 sustainment/other
7 capital spending variance (and the expected 2019 variance), FEI would now
8 consider the level of variance to be significant in the context of the PBR Plan.

9

10 **Response:**

11 FEI calculates the cumulative variance including the 2018 Projected to be 10.8 per cent. Given
12 the 10 percent dead band established as part of the PBR Plan, FEI does not consider this level
13 of variance in sustainment/other capital spending to be significant. After updating for the higher
14 2018 Projected capital expenditures and the most recent 2019 capital spending forecast
15 discussed in the response to BCUC IR 1.8.3.1, the sustainment/other capital spending variance
16 over the PBR term is expected to be approximately 15 percent. This level of variance could be
17 considered significant given that it is well above the 10 percent dead band.

18

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1 **21.0 Reference: NEW DEFERRAL ACCOUNTS**
 2 **Exhibit B-2, Section 12.4.1, pp. 129–132, Tables 12-1 & 12-2;**
 3 **Appendix C4, Section 3.2, p. 10**
 4 **Transmission integrity management capabilities (TIMC)**
 5 **development costs**

6 On page 129 of the Application, FEI provides the following table showing the forecast
 7 development costs for the TIMC project:

Table 12-1: CPCN Development Costs (\$000s)

<u>Line</u>		<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
1	Phase 1	\$ 5,680	\$ 5,710	\$ 230	\$ 11,620
2	Phase 2	-	19,000	11,000	30,000
3					
4	Total	<u>\$ 5,680</u>	<u>\$ 24,710</u>	<u>\$ 11,230</u>	<u>\$ 41,620</u>

8
 9 In Table 12-2 of the Application, FEI states that it is requesting the establishment of a
 10 new deferral account “to capture the development costs related to the TIMC project.” FEI
 11 further states that “anticipated costs for this phase will be incurred from 2018 through
 12 2021” and that in the absence of the proposed deferral account, these costs would have
 13 been forecast as a combination of O&M and capital expenses outside of the formula. FEI
 14 also states that “until the completion of Phase 1, the Phase 2 costs currently have a high
 15 degree of uncertainty.”

16 21.4 Please provide the estimated Certificate of Public Convenience and Necessity
 17 (CPCN) capital cost and provide a description of the project which FEI will be
 18 seeking approval for in the CPCN application.
 19

20 **Response:**

21 FEI anticipates filing a long-term vision for adopting crack-detection capabilities within its in-line
 22 inspection program within the TIMC CPCN application. Given the complexities and timeline
 23 associated with developing Class 3 cost estimates in accordance with the BCUC 2015 CPCN
 24 Application Guidelines, it is possible that FEI, in its mid-2020 submission, may not apply for the
 25 full extent of anticipated system modifications that may eventually be warranted. Please also
 26 refer to the response to BCUC IR 1.8.9.

27 The pipelines requiring modification and details such as priority and detailed integrity
 28 management solutions are yet-to-be determined through the CPCN development process.
 29 Given this, any estimated capital cost is highly uncertain at this time. For business planning
 30 purposes, FEI is currently projecting expenditures associated with the TIMC project of \$50
 31 million in 2021, and \$250 million in each of 2022, 2023, and 2024. Estimates for the years



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1 beyond this period are not yet defined. It is possible that the TIMC CPCN application may
2 extend to later years.

3