

March 29, 2012

Regulatory Affairs Correspondence  
Email: [gas.regulatory.affairs@fortisbc.com](mailto:gas.regulatory.affairs@fortisbc.com)British Columbia Public Interest Advocacy Centre  
Suite 209 – 1090 West Pender Street  
Vancouver, BC  
V6E 2N7**Attention:** Ms. Leigha Worth, Acting Executive Director

Dear Ms. Worth:

**Re: FortisBC Energy Inc. ("FEI")  
Application for a Certificate of Public Convenience and Necessity ("CPCN") for  
Constructing and Operating a Compressed Natural Gas Refueling Station at BFI  
Canada Inc.****Response to the British Columbia Public Interest Advocacy Centre on behalf of  
the British Columbia Old Age Pensioners Organization et al ("BCOAPO")  
Information Request ("IR") No. 1**

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On February 29, 2012, FEI filed the Application as referenced above. In accordance with Commission Order No. G-23-12 setting out the Regulatory Timetable for review of the Application, FEI respectfully submits the attached response to BCOAPO IR No. 1.

If there are any questions regarding the attached, please contact Shawn Hill at 604-592-7840 or Mark Grist at 604-592-7874

Yours very truly,

**FORTISBC ENERGY INC.*****Original signed:***

Diane Roy

Attachment

cc (e-mail only): Alanna Gillis, Acting Commission Secretary  
Registered Parties



FortisBC Energy Inc. ("FEI" or the "Company") Application for Certificate of Public Convenience and Necessity for Constructing and Operating a Compressed Natural Gas Refueling Station at BFI Canada Inc. (the "Application")	Submission Date: March 29, 2012
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**1.0 Reference: Exhibit B-1, Appendix A, paragraph 4.6, BCUC Approval**

- 1.1 In the event that the subject CPCN is not approved as filed, is there any limit to the amount of time that the parties, BFI and FEI, would have to negotiate amendments or revisions to the proposed contract, re-submit an amended application to the CPCN, and gain BCUC approval of the amended proposal?

**Response:**

BFI requires the fueling station to be ready for service to start its contract with the City of Surrey on October 1, 2012. FEI needs approximately 6 months to complete construction of the facility. The requested timeline for the CPCN process was to have a decision by April 20<sup>th</sup>, 2012. Hence there is very little time available to contemplate renegotiation or revision of the BFI Agreement.

As explained in section 3.8 of the Application, the timeline for the Project is ultimately driven by the City of Surrey. FEI is proceeding in a diligent manner in order to meet the BFI's need, and BFI is, in turn, being diligent in trying to meet the needs of its customer, the City of Surrey. FEI believes the requested review and approval process is reasonable given that the rates and key terms of the BFI Agreement comply with the terms and conditions established under Commission Order No. G-14-12 for providing CNG fueling service.

- 1.2 Please provide the impacts on (i) FEI, (ii) FEI's natural gas ratepayers, and (iii) BFI, of a decision by the BCUC to deny approval of the subject CPCN as filed and subsequently as amended and re-filed with the BCUC after re-negotiations between BFI and FEI.

**Response:**

The existing agreement has been executed with a clause that makes the entire agreement subject to BCUC approval. If the agreement is not approved the impact on the parties would be as follows:

- 1) FEI – FEI would not be able to complete the contract and would lose out on the opportunity to make an investment for which it earns its regulated rate of return.
- 2) FEI Ratepayers – This stakeholder group would lose out on the opportunity to earn approximately \$84,000 per year in additional delivery margin generated under the Rate



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Schedule 25 delivery tariff. In addition, FEI's reputation as a provider of NGT services would be damaged to the extent that future opportunities to add NGT load would be very much in jeopardy, thereby denying existing ratepayers the opportunity to earn further revenues in the form of delivery rates.

- 3) BFI – BFI would be placed in a situation where they would not be able to fuel their vehicles; hence they would not be able to provide service to the City of Surrey, potentially breaching its contract with the City of Surrey. FEI is not party to the agreement between Surrey and BFI, but understands that significant contractual penalties may apply if BFI does not meet the requirement to begin service by October 1, 2012.
- 4) City of Surrey – The City of Surrey would be likely left without a contractual arrangement for refuse collection.
- 5) Future Customers - FEI has an approved tariff to offer the fueling service, following a regulatory process that involved the time and efforts of many stakeholders. If this Application were denied, all the time and effort would be lost. Not only would customers not have confidence in how FEI could offer this service to customers, the customers would also be trying to reconcile that FEI has approved GT&Cs to offer this service to customers that want this service from FEI.

FEI believes it is strongly in the public interest that the CPCN application be approved within the requested timeline to avoid the consequences listed above.



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**2.0 Reference: Exhibit B-1, Sections 3.1 and 3.2, page7, Justification for the CNG Fuelling Station and BFI Agreement**

2.1 Please indicate the first time that FEI and BFI had discussions with respect to the subject proposal.

**Response:**

The first discussions with BFI regarding this project were held in June of 2011. In the summer months of 2011, various waste management companies contacted FEI for budget information regarding the cost of fueling facilities. FEI provided generic budget cost information to each proponent including BFI so that they could develop their bids for the City of Surrey waste collection service. Budget information was provided to BFI on August 26<sup>th</sup>, 2011. This information was based on a study that the City of Surrey commissioned with Jenmar Concepts.

No further discussions were held with BFI until after the bid was awarded on December 14, 2011. Between December 14, 2011 and January 9, 2012, BFI and FEI engaged in discussions regarding various potential options for the scope of the project. Concurrently, BFI engaged in negotiations with other parties. The final scope was narrowed down on January 6, 2012 and FEI submitted its firm proposal to BFI on January 9, 2012. Negotiations continued in earnest for the balance of the month until the agreement was concluded on January 31, 2012.

2.2 Please provide a copy of the RFP that BFI submitted to the City of Surrey.

**Response:**

FEI does not have a copy of the BFI proposal to the City of Surrey. FEI was not involved in this bid process other than as a supplier of cost information to BFI and other waste haulers that also bid on the service contract with the City of Surrey.

2.3 Please explain how BFI could have costed the RFP that they were awarded in December of 2011 at the time that they submitted the initial RFP to the City of Surrey.



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**Response:**

As discussed in the response to BCOAPO IR 1.2.1, FEI provided generic budget cost information to all interested proponents to assist them in the preparation of their bids. But FEI is not privy to the proposal made by BFI to the City of Surrey.

- 2.4 Please provide any and all specific guarantees or undertakings that FEI made to BFI at the time that BFI submitted the RFP to the City of Surrey.

**Response:**

FEI made no specific guarantees or undertakings to BFI at the time that BFI submitted their bid to the City of Surrey.

- 2.5 Please quantify the internal costs, regulatory and legal, that FEI incurred from the beginning of its discussions with BFI up until the effective date of the agreement between BFI and FEI and indicate how FEI intends to recover these costs.

**Response:**

Please see the responses to BCUC IRs 1.47.1, 1.47.2, 1.47.3 and 1.52.1 for a comprehensive discussion of costs incurred, allocation of costs and recovery of costs through both delivery rates and through the NGT station service rate in the BFI Agreement.

- 2.6 Please quantify the external costs, engineering and other, that FEI incurred from the beginning of its discussions with BFI up until the effective date of the agreement between BFI and FEI and indicate how FEI intends to recover these costs.



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**Response:**

External costs incurred by FEI are limited to the external engineering and project management costs of \$90 thousand that are included in the total BFI project capital costs of \$1.8 million. These costs are recovered from BFI via the capital component of the fueling station charge.

- 2.7 Given that traditional gas ratepayers will have subsidized the start-up costs of projects that are "non-traditional", both potential ones that are not further pursued and others such as the subject proposal through allocation of utility resources, incentive payments, etc., does FEI believe that it is fair that ratepayers should receive an overall "return" in the form of lower utility rates (than in the counterfactual), regardless of the financial outcome with respect to any particular project?

**Response:**

FEI does not agree with the characterization that start-up costs of fueling station projects are subsidized by traditional gas ratepayers. The development costs associated with each fueling station project are captured and recovered through the fueling station charges. Furthermore, the overhead and marketing charge captures and recovers from fueling station customers the non project specific or general fueling station overhead costs.

Secondly, FEI does not agree with the characterization of the NGT load as non-traditional as FEI has been providing NGT service since the mid 80's and these NGT customers also pay for delivery charges just like other FEI customers. Further, FEI believes it should respond to NGT development projects, such as the City of Surrey refuse collection project, just as it would respond to any other potential requirement for NG service. All customers benefit from the addition of such load through lower delivery rates.

In this circumstance FEI is offering a fueling station service which enables the load addition under existing tariffs. If the load is not generated there is no benefit created so it is difficult to see how rate payers would be provided with a financial "return" regardless of the success of the load building NGT project.

As presently structured, all rate payers benefit from NGT loads, while the NGT customer bears the risks associated with the station investments through terms and conditions in the long-term agreement, such as take or pay commitments, that are required by the approved GT&Cs issued under Commission Order No. G-14-12 and FEI has structured the BFI agreement according to



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these GT&Cs. Allocation of costs that form part of FEI's general business development activities to the NGT fueling service cost of service would be unfair to the NGT customers, would be inconsistent with the practice with respect to other FEI market and business development initiatives, and would be contrary to the regulatory principle to allocate costs to those who cause them. For example, if FEI's business development activity is directed towards development of combined heat and power (CHP) projects and results in the addition of Rate Schedule 25 customers to the system, the business development costs would not be assigned only to CHP customers but would be borne by all customers and the load building benefits of these activities benefit all customers.

Please see the response to BCUC IR 1.52.1 for additional discussion of this subject.

- 2.8 Please provide FEI's views as to the market conditions that would have to prevail in order for the BCUC to find that the instant proposal is not in the public interest.

**Response:**

FEI believes that the Project is in the public interest as it serves the interest of BFI and the City of Surrey and its residents and provides a wider range of resulting benefits, as explained in section 3 of the Application. FEI cannot foresee any other market conditions under which the instant proposal is not in the public interest.



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**3.0 Reference: Exhibit B-1, Section 2.4, page 3 and BCUC IR 1.18.1**

3.1 Please provide basic background information on Jenmar Concepts Inc.

**Response:**

Please see the response to BCUC IR 1.18.1.

3.2 Please explain how FEI can identify the "specialized service providers to provide electrical service and civil/structural construction" subject to a competitive bid process, before the competitive bid process has occurred.

**Response:**

The service providers referred to are the incumbent suppliers that FEI has used on previous projects such as the Waste Management project. FEI believes it is likely that they will be chosen for the BFI project, but cannot state this definitively as they will still have to be selected in the supplier selection process.

3.3 Please provide basic background information on Ross Morrison Electrical Ltd. and Avante Construction Ltd.

**Response:**

Ross Morrison Electrical Ltd. is a full service electrical contractor, specializing in the industrial and commercial sectors of the BC economy. Their projects vary from single service calls to multi-million dollar electrical installations. Expertise ranges from lighting and fire alarm systems to substations and power plants. Has broad experience in the forest, petro-chemical, bulk product handling, food processing, and manufacturing industries, as well as dozens of municipal and utility projects. Please see <http://www.rmelectric.com/> for additional information on Ross Morrison Electrical Ltd.

Avante Construction Ltd. is a contractor specializing in concrete work. They have over 35 years of experience serving the local market. Avante Concrete specializes in the installation of machine and equipment pads. Please see <http://www.avanteconcrete.com/> for additional information on Avante Construction Ltd.





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#### 4.0 Reference: General and BCUC IR 1.58.1

- 4.1 Would a regulated affiliate receiving services from the utility under a shared services agreement in order to support the affiliate in providing NGV services to the market necessarily be more costly than the proposed arrangement?

##### **Response:**

FEI does not believe that it would be appropriate for NGV services to be offered to BFI by a regulated affiliate of FEI for the reasons discussed in the response to BCUC IR 1.58.1.

Yes, a regulated affiliate receiving services from the utility under a shared services agreement may be more costly than the existing structure. As discussed in the response to BCUC IR 1.58.1, having NGV in a separate regulated affiliate would be similar to having each customer class in a separate corporate structure as a regulated affiliate. There are additional costs and administration that may occur such as corporate filings, accounting and financial reporting costs and general administration costs.

- 4.2 Please indicate the conditions under which FEI believes that the shareholder would be responsible for losses in the NGV market, as opposed to traditional ratepayers being at risk for such losses.

##### **Response:**

The question assumes that the present situation is one where losses in the NGV market are borne by "traditional ratepayers". This is not the case as the GT&Cs transfer risk to the NGT customer through the determination of the fueling station rate(s) and the termination payment required in the event that the contract is not renewed. Accordingly, the natural gas rate payer will enjoy delivery margin benefits, with minimal risks. In any event, FEI does not foresee conditions where NGT losses would be borne by the shareholder.