Diane Roy
Director, Regulatory Affairs - Gas
FortisBC Energy Inc.

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

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

March 29, 2012

Commercial Energy Consumers Association of British Columbia
c/o Owen Bird Law Corporation
P.O. Box 49130
Three Bentall Centre
2900 – 595 Burrard Street
Vancouver, BC
V7X 1J5

Attention: Mr. Christopher P. Weafer

Dear Mr. Weafer:

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 Commercial Energy Consumers Association of British Columbia ("CEC") Information Request ("IR") No. 1

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 the review of the Application, FEI respectfully submits the attached response to CEC 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

1. Reference: Exhibit B-1, Page 7

Consistent with the approved Section 12B of GT&Cs, the BFI Agreement contains the following key terms:

- FEI's ownership of the refueling station (Clause 5.5);
- A minimum contract demand of 60,000 Gigajoules ("GJ") per year, equivalent to 5,000 per month (Clause 7.3);
- A take-or-pay fueling charge of $4.66/GJ, designed to recover the present value of cost-of-service for this refueling station incurred over the initial term of seven years (Clause 7.1, further described in section 5.3 below); and
- BFI's agreement to pay FEI the undepreciated capital cost of the fueling station if the contract is terminated after the initial term of seven years but prior to the 20th anniversary of the effective date of the contract (Clause 11.1).

1.1. Please confirm that these terms and conditions effectively confine the entire cost of this proposed service to the customer BFI and if not please explain.

Response:

Confirmed.

As discussed in responses to BCUC IRS 1.33.4 and 1.33.5, there is a minimal risk of $37,000 due to section 7.3 of the BFI Agreement to amend the fueling charge if the actual capital cost for the Project results in a variance of greater or less than 2 percent. This condition is mitigated by the expected delivery margin revenue benefit $483,000 over the term of the contract with the customer.

FEI also acknowledges the forecast risk to operate and maintain the fueling station as discussed in BCUC IR 1.33.2; however, this condition still conforms to Section 12B of the GT&Cs.

1.2. Please confirm that the only risk to other FEI natural gas customers is the normal capital investment, operating cost and credit risk involved in providing supply to customers and that FEI has performed its normal credit risk evaluation and found the customer to be sufficiently credit worthy as to represent no greater risk than FEI undertakes with service to its other customers, who may contract for these volumes. If this is not confirmed please explain.

Response:

Confirmed. FEI has conducted its normal credit assessment and approved BFI without additional security requirements (i.e. a letter of irrevocable credit or cash deposit). BFI is also an existing natural gas customer under Rate Schedule 2 – Small Commercial.

Please see BCUC IR 1.33.1.1 for additional discussion on this.

2. Reference: Exhibit B-1, Page 8

3.3.1 REDUCTION OF FUEL COSTS

The primary reason for BFI to purchase CNG trucks was to conform to City of Surrey's RFP requirement; however, FEI understands that the City of Surrey required CNG trucks for its collection service as a way to reduce its collection service cost through potential savings on fuel cost. As acknowledged by Commission Panel in Order No. G-128-11, operating CNG fueled trucks offers a cost-effective option to more traditional fuel alternatives. Based on BFI's take-or-pay volume of 60,000 GJ per year, which means approximately 1.5 million litres of diesel fuel displaced per year,[7] FEI believes BFI will save approximately 50% in annual fuel costs by converting to CNG. This amount is based on the differential between BFI's current cost of diesel and its fueling service charge and their anticipated gas delivery, demand and commodity charges. BFI's fuel cost savings can result in an overall lower collection service charge to the City of Surrey and would ultimately benefit the residents of Surrey.

2.1. Please confirm that this benefit is approximately $750,000 per year to BFI and would be factored into their bid to the City of Surrey along with all of their other costs of providing service therefore the citizens in Surrey would only see the benefit in the competitive pricing of the collection service.

Response:

Please see our response to BCUC IRs 1.13.1 and 1.13.1.1, which stated the following:

FEI is not privy to how the actual cost of the vehicles and the other costs are translated to service costs to the City of Surrey in the contract between BFI and the City for Surrey for the waste collection services, and thus does not have sufficient information to estimate the net impact on the costs of collection for the City of Surrey.

FEI estimates BFI's fuel cost reductions would be $1.23 million per year. If BFI's incremental capital cost for the vehicles is $40,000 per vehicle, this would total to $2.1 million; hence the payback of the incremental cost would be approximately 2 years. As shown in Exhibit A2-7, BFI's annual price for service to the City of Surrey is $9,505,923, about $2 million less than the next bidder.

Although FEI assisted in providing some information in BFI's preparation for its response to the RFP of the City of Surrey, FEI was not a party to the development of BFI's bid or contract for the City of Surrey collection service. It is, however, reasonable to assume that both the higher initial costs and the lower operating costs, including lower fuel costs, would be factored into the pricing for this bid.

2.2. Please confirm that the City of Surrey will receive additional property taxation revenue related to the provision of these services and that the citizens of Surrey would all else equal see slight reductions to their property tax rates as a consequence of provision of this service.

Response:

The proposed fueling station for BFI would be located in the City of Coquitlam, thus FEI believes that any additional property taxation revenue would flow to the City of Coquitlam. FEI does not foresee any property taxation revenue flowing to the City of Surrey. However, fuel cost savings benefits may flow to the City of Surrey as the City of Surrey has indicated that cost of BFI's waste collection services contract is substantially less than the previous contract which utilized diesel vehicles (Exhibit A2-7 at page 10). FEI cannot confirm the flow of revenues as FEI was not party to the development of BFI's bid or contract for the City of Surrey collection service.

3. Reference: Exhibit B-1, Page 10

> Moreover, ratepayers will experience a slight decrease in delivery rates all else equal, likely commencing in 2014, as a result of the incremental volume associated with the BFI Agreement.[12] The estimated impacts to delivery rates to FEI's natural gas ratepayers from the BFI Agreement are minimal and summarized in Table 3 below. This calculation assumes that BFI takes gas service under Rate Schedule 25[13] and does not include revenues in excess of the minimum take-or-pay as stipulated in the BFI Agreement.

3.1. Please advise whether or not the WM contract has or is or is likely to result in revenues in excess of the minimum take-or-pay agreement.

Response:

WM has exceeded its take or pay commitment in each month from March 2011 to February 2012. FEI anticipates this consumption level will continue in the future.

3.2. Please advise whether or not there is a strong likelihood that the BFI contract would result in revenues in excess of the take or pay minimum.

Response:

FEI has no knowledge of how frequently BFI will operate its trucks outside of the 60,000 GJ per year volume commitment, which was an estimate BFI provided to FEI. While the CNG fueling station could service up to 86 trucks, FEI understands BFI has only purchased 52 vehicles at this time.

3.3. Please provide FEI managements best estimate of the probability of revenues in excess of the take or pay minimum.

Response:

As stated in the response to CEC IR 1.3.3, FEI has no knowledge of how frequently BFI will operate its trucks outside of their 60,000 GJ per year commitment, thus FEI has no established basis to estimate the probability of revenues in excess of the take or pay minimum.

As suggested by the Commission in BCUC IR 1.32.5, if BFI's fuel consumption volume tracks with WM's (approximately 150% in year one), BFI's volume would be approximately 90,000 GJ per year (60,000 GJ x 150%). This would result in revenues in excess of the take or pay minimum of $85,440 per year (30,000 GJ x $2.848/GJ). These revenues flow to the benefit of all existing ratepayers unless the buyout provision in the BFI Agreement is triggered, then these revenues would offset the undepreciated capital cost of the fueling station as per section 11.8 of the BFI Agreement.

3.4. Please advise how the revenues in excess of the take or pay minimum would be handled beyond the provision for their application described in section 5.2 of the application on page 16.

Response:

Please refer to the response to CEC IR 1.3.3.

4. Reference: Exhibit B-1, Page 18

> NGT Application.[20] This component of the charge recovers the property taxes, depreciation expense, removal provision, income taxes and earned return associated with the fueling station assets. It is derived by calculating the present value of the cost of service over the initial term of the contract (7 years) using FEI's after tax Weighted Average Cost of Capital (6.90 percent) as a discount factor and applying a 2 percent escalation rate.[21]

4.1. Please confirm that the FEI WACC of about 6.9% includes FEI's historical average cost of debt along with its allowed ROE.

Response:

Yes, the FEI's after tax Weighted Average Cost of Capital (WACC) of about 6.90% includes FEI's average cost of debt and allowed ROE.

The following provides the calculation:

(ROE x Equity Thickness) + [(Long Term Debt Rate x Long Term Debt Thickness) + (Short Term Debt Rate x Short Term Debt Thickness)] x (1 – Tax Rate)

FEI	Approved 2011
ROE	9.50%
Equity	40.00%
STD rate	4.50%
STD %	1.63%
LTD rate	6.95%
LTD %	58.37%
Tax	25.00%
After Tax WACC	6.90%

4.2. Please confirm that Schedule 10 of Appendix D provides FEI's historical average cost of debt and please provide FEI's recent borrowing cost of debt.

Response:

Confirmed. Schedule 10 of Appendix D provides FEI's average cost of debt as approved for 2011.

FEI has filed with the Commission an Evidentiary Update to the FEU 2012-2013 Revenue Requirement and Rates Application on September 28, 2011, which includes forecast Weighted Average Cost of Capital of 6.76% and FEI's updated average cost of debt, as follows:

FEI	Forecast 2012
ROE	9.50%
Equity	40.00%
STD rate	2.75%
STD %	2.18%
LTD rate	6.73%
LTD %	57.82%
Tax	25.00%
After Tax WACC	6.76%

5. Reference: Exhibit B-1, Page 19

> FEI estimates that its NGT Sales Manager[24] dedicates 25 percent (or 0.25 FTE) of their time signing up new CNG/LNG customers. The forecast cost of signing new CNG/LNG customers at 25 percent of the NGT Sales Manager is $32,941 per year. Spread over FEI's expected CNG/LNG sales volume estimate of 163,489 GJ in 2012,[25] the $32,941 overhead and marketing charge equates to $0.20 per GJ. This calculation is summarized in Table 7 below.

5.1. Please provide FEI managements best estimate of the probability that the CNG/LNG sales volume estimate of 163,489 GJ could grow to more than double this amount over the next 7 and 10 years.

Response:

At this time, FEI's best estimate is that the CNG/LNG sales volume will grow to more than double within a two-year time frame, subject to availability of vehicle incentives. Significant growth of FEI's CNG/LNG sales volume is largely dependent upon vehicle incentive funding to increase adoption of natural gas for transportation. The exception of course, is when government policy, such as City of Surrey's RFP requirement mandates the use of NGT. Two scenarios are presented below; the first with no incentives and the second with vehicle incentives.

1) While no vehicle incentives for NGT are available at this time, a "prescribed undertaking" under Section 18 of the *Clean Energy Act*, if legislated, may provide such funding in the future. However at this time (and consistent with FEU's Evidentiary Update to the 2012-2013 RRA filed on September, 12, 2011) FEI did not forecast additional volume growth of CNG/LNG sales volume. In the response to BCUC IR 1.51.6, FEI updated the expected volume for 2013 to 267,000 GJ, which is summarized below:

    - Waste Management (30,000 GJ) – take or pay minimum is 19,000 GJ, however actual consumption in the first contract year of WM Agreement was 29,846 GJ.
    - Kelowna School District (5,000 GJ) – take or pay minimum based on the KSD Agreement
    - BFI (60,000 GJ) – take or pay minimum based on the BFI Agreement
    - Vedder Transport (172,000 GJ) – take or pay under the Vedder Permanent Refueling Agreement is 140,000 GJ, however Vedder has indicated it may commit to a volume of approximately 172,000 GJ under Rate Schedule 16 in the future.

2) If incentives for NGT are permitted through a Section 18 "prescribed undertaking", FEI expects CNG/LNG sales volume to increase substantially. The table below shows a preliminary load forecast based on the provision of approximately $62 million in vehicle incentives over a five year time frame ("British Columbia's Natural Gas Strategy" at page 5).

Sales Volume (GJ)	2013	2014	2015	2016	2017
CNG	136,063	219,090	379,937	550,072	779,239
LNG	321,875	698,065	1,036,161	1,482,315	2,103,148
Total	457,938	917,156	1,416,097	2,032,387	2,882,387

An incentive program of $62 million provides funding for heavy duty fleet operators to purchase approximately 1,450 total NGVs, or 2.88 PJ, by the end of 2017. FEI intends to revise and update this preliminary forecast by providing additional scenarios and assumptions if an NGT incentive program is enacted.

FEI believes the Overhead and Marketing Charge explained in the BFI Application sufficiently recovers the cost attributable to adding incremental fueling station customers. With vehicle incentive funding, the denominator (CNG/LNG sales volume) in this calculation increases substantially, decreasing the net Overhead and Marketing Charge. The table below shows that potential recoveries using an Overhead and Marketing Charge of $0.20 per GJ. FEI believes these recoveries more than adequately recover costs from FEI's NGT customers in each of the next five years.

	2013	2014	2015	2016	2017
Total Sales Volume (GJ)	457,938	917,156	1,416,097	2,032,387	2,882,387
Overhead and Marketing Charge ($)	91,588	183,431	283,219	406,477	576,477