FortisBC Energy Utilities (“FEU”)
2012-2013 REVENUE REQUIREMENTS AND NATURAL GAS RATES APPLICATION

UNDERTAKING No. 30

HEARING DATE: October 11, 2011

TRANSCRIPT REFERENCE: Volume 7, Page 1150, Lines 11 to 24

REQUESTOR: Mr. Fulton

WITNESS: Mr. Bell

QUESTION: Please quantify the savings that resulted from deferring activities.

RESPONSE:

As indicated by Mr. Loski (Transcript Volume 6, page 1023, lines 3 to 14), the issue of savings related to deferred activities during the PBR period was significantly canvassed in TGI’s 2010-2011 RRA proceeding. The FEU note that the issue was not addressed in the present Application as it does not impact the 2012 and 2013 test period and the issue was minimally canvassed in the IRs in this proceeding. Since the request was made, Mr. Bell and his staff have had the opportunity to check past records from the period in question and the information provided in the previous revenue requirements application when this issue was resolved. The complete detail can now be provided. Aspects of Mr. Bell's responses during the hearing, which were based on his recollection, also require correction.

<u>Savings related to deferred activities during PBR:</u>

Savings related to deferred activities during the PBR was discussed in the 2010-2011 TGI RRA and the costs of these deferred activities are described in the attached responses to BCUC IR 1.75.1, BCUC IR 1.77.1 and BCUC IR 2.100.1 from TGI’s 2010-2011 RRA proceedings. These IR responses set out the amounts of forecast expenses related to deferred activities during the PBR period. As indicated in these IR responses, these costs were all forecast to be incurred in 2010 and no costs related to deferred savings under PBR were forecast for 2011 *or beyond*. The FEU confirm that no deferred costs from the PBR are forecast to be incurred in 2012 or 2013.

At Transcript Volume 6, page 1016 line 22 to page 1017, line 5 and Transcript Volume 7, page 1153, lines 3 to 4, Mr. Bell referred to deferred bridge inspections. As indicated in the attached response to the 2010-2011 TGI RRA, BCUC IR 1.75.1, the deferred activity was not actually the inspections, but the bridge crossing repairs which includes activities such as painting at bridge crossings and replacement and maintenance of hangars and other gas infrastructure components at the bridge crossing. Mr. Bell confirms that he misspoke and that he meant to refer to bridge maintenance, such as painting, as he referred to at Transcript Volume 6, page 1016, line 23 to page 1017, line 5.

<u>Reduced Meter Recall Activity:</u>

At Transcript Volume 7, pages 1149 to 1152, Mr. Bell also discussed the "deferral" of meter recall activity during the PBR period. As explained below, this was not actually a "deferral" but a reduction in the residential meter recall or exchange activity. The reduction of meter exchanges during the PBR period and in particular years 2006, 2007 and 2008 is summarized in the 2010-2011 TGI RRA on page 188 as follows:

> *Prior to 2006, Terasen Gas managed the residential meter fleet to a 28 year life span enabled by one maintenance and recondition operation at the midpoint of this 28 year life. This resulted in a meter recall frequency of 14 years. Communications with vendors, ongoing discussions within the Canadian Gas Association Measurement Committee and the company's own internal analysis, provided Terasen Gas the confidence to target a 20 year life span for the residential meter fleet without a mid-life recondition operation. <u>This allowed Terasen Gas to temporarily reduce the number of meter recalls over the period 2006 - 2008 to bring the demographics of the meter fleet in line with a 20 year life expectancy which provided both customers and shareholders the cost benefits of previous investment in the fleet.</u>* [Emphasis added.]

The level of meter replacement activities was presented in Table B-1-30 on page 188 of the 2010-2011 TGI RRA. As indicated there, the number of meter exchanges drops from the 2005 level of 46,900 to 28,446 in 2006, 30,417 in 2007, 33,275 in 2008 and back up to 46,700 in the 2009 projection. Approximately 48,000 recalls (16,000 per year) were deferred over the three-year period.

This temporary reduction in the number of meter recalls was further discussed in response to the 2010-2011 TGI RRA, BCUC IR 1.134.1 as follows:

> *One of the activities conducted within Terasen Gas to ensure the cost effective and reliable operation of the meter fleet is to adjust the meter recall schedule based on the meter fleet age distribution and the results of the performance sampling program. Between 2006 and 2008, the decision to operate residential meters to the full life expectancy of 20 years, coupled with the positive results from sampled meter performance tests, allowed the company to temporarily reduce the total number of scheduled meter recalls. Therefore, no meter recalls were deferred during the time frame referenced within the question. All meter recalls were scheduled at times that were optimal in terms of operational reliability. Finally, by temporarily reducing the number of meter recalls during this period, both customers and shareholders were allowed to benefit from the savings in O&M and capital expenditure.*

In addition, the responses to BCUC IR 1.119.2 and 2.119.3 stated:

> *The average life expectancy of 20 years for residential meters was not applied for a closed period of three years but instead remains the ongoing target for long term planning by Terasen Gas. In 2006, a decision was made to operate residential meters to a life expectancy of 20 years. The temporary reduction of meter recalls served to bring the demographics of the meter fleet in line with a 20 year life expectancy and resulted in significant Capital and O&M savings (see the response to BCUC IR 2.119.3).*
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> *The 20 year life span relates to the Terasen Utilities' experience in average meter life expectancy determined through a statistical sampling monitoring process and validated through discussions with vendors and employees of utilities represented on the Canadian Gas Association Measurement Committee. As such, the data used to determine this target life expectancy was gathered over multiple years to establish trends in residential meter performance which has allowed Terasen Gas to forecast the long term performance of meters currently deployed within its residential meter fleet. Similarly, it is expected that any future adjustment to the targeted average life expectancy for the residential meter fleet will only be done after extensive study of trends in meter performance over an extended period, combined with ongoing discussions with other participants in the gas measurement industry.*
>
> *…*
>
> <u>*For clarity, the reduction was not a deferral.*</u> *In 2006, a decision was made to operate residential meters to a life expectancy of 20 years. The temporary reduction of 62,203 meter recalls served to bring the demographics of the meter fleet in line with a 20 year life expectancy and resulted in significant Capital and O&M savings as compared to the original policy. There is no subsequent increase in activity or cost in 2010 or 2011 that can be attributed to the temporary reduction in meter exchange activity.* [Emphasis added.]

The response to the 2010-2011 TGI RRA, BCUC IR 2.119.3 estimated the capital and O&M savings due to the reduction in meter recall activity. That response is also attached.

75.0 Reference: Operations and Maintenance Expenditures

Maintenance Deferred during PBR

Part III, Section C, Tab 6, p. 357, par. 1

"To continue to fulfil our recognized role as a respected and trusted operator providing safe, reliable and cost effective utility service to customers, Terasen Gas forecasts additional O&M funding required for its ongoing operations and activities. These include ... maintenance which has been pragmatically deferred during the PBR Period but cannot be deferred any longer."

75.1 Please provide details of the maintenance activities and related costs deferred, indicate which will now be required in the 2010 or 2011 period, and detail the reference in this Application.

Response:

O&M maintenance activities and related costs deferred from the PBR period into the 2010 period total to approximately $870K with none in 2011. Maintenance activities pragmatically deferred during the PBR period but that cannot be deferred any longer include:

1. $200K - Valve and maintenance repairs
2. $170K – Station heater maintenance
3. $30K - Bridge and aerial cross repairs
4. $25K - Station ground maintenance
5. $160K - Tools and equipment maintenance
6. $285K – Building maintenance

$870K – Total Deferred and Requested in 2010

Item numbers 1 to 4 are listed on page 362 of the Application in table C-6-16. During the PBR period, there were no changes in survey or inspection procedures. All regularly scheduled preventive maintenance, surveys and inspections were completed as per Code and Terasen Gas requirements. No work was deferred that was considered critical to the ongoing safe operation of the natural gas distribution system. Maintenance expenditures were managed and prioritized based on a corporate risk profile with higher risk items addressed first. Please refer to TGI's response to BCUC IR 1.8.2 for further discussion of this approach.

Item number 5, tools and equipment maintenance is referenced on page 390. Maintenance on tools and equipment used in field operations has been deferred during the PBR period without impact to operations. However, much of this maintenance work is directed toward industry specific tools and equipment that would otherwise be expensive to replace through purchase or manufacture. As such, these additional maintenance activities are prudent and required in order to continue providing tools and equipment to our field employees in a cost effective manner.

Item number 6 is listed on page 390 of the Application. The additional facilities maintenance comprised of activities such as painting, fence replacement, maintenance on roofs, etc is not in essence deferred expenditures but more cyclical activities in nature that have varying frequencies. In 2011, there is reduction of ($160K) reflecting the completion of maintenance completed in 2010.

TGI continues to defer low risk or low priority items as it has done during the PBR period as part of its prudent management of expenditures.

77.0 Reference: Operating & Maintenance

Non-Maintenance Deferrals during BPR

Part III, Section B, Tab 1, p. 161, par. 1

"Deferring activities and related costs where safe and prudent to do so, particularly where the activities were of a cyclical nature."

77.1 Please provide details of the non-maintenance activities and related costs deferred, indicate which will now be required in the 2010 or 2011 period, and detail the reference in this Application.

Response:

Non-maintenance activities pragmatically deferred during the PBR period but that cannot be deferred any longer include:

1. $250K - Vegetation ($150K) and pipeline identification ($100K)
2. $150K - Data integrity improvements
3. $120K - Class location study

$520K – Total Deferred and Requested in 2010

The above items are listed on page 362 of the Application in table C-6-16. These non-maintenance expenditures were managed and prioritized based on a corporate risk profile with higher risk items addressed first, and Terasen Gas intends to continue with this prudent management of these types of expenditures. Please refer to TGI's response to BCUC IR 1.8.2 for further discussion of this approach.

100.0 Reference: Operations and Maintenance Expenditures

Exhibit B-4, BCUC 1.75.1 and 1.77.1

Items Deferred during BPR

Maintenance deferred during BPR was $870 thousand and non-maintenance deferred during BPR was $520 thousand. Expensing these costs in 2010 will result in the ratepayer incurring the entire cost whereas the ratepayer had 50 percent of the savings in the year deferred.

100.1 Since these expenditures are managed and prioritized based on a corporate risk profile with higher risk items addressed first, where will these expenditures rank in relation to Customer/Stakeholder Expectations identified in BCUC 1.72.2? Specifically, will these deferred expenditures be acted upon before the Customer/Stakeholder Expectations?

Response:

Before answering the question, TGI wishes to address the statement in the preamble, which appears to overlook the fact that the expenses for maintenance and non-maintenance referred to in the preamble were, and remain, expenses related to the ongoing operation of the utility. As such, they are costs legitimately borne by the customers in their entirety. The deferral of lower risk items as TGI has done is a part of prudent management, which TGI did prior to the PBR Period and during the PBR Period, and will continue to do beyond the PBR Period. The PBR Agreement incentive mechanism allocated benefits from these O&M expense deferrals equally to customers and the shareholder, but the expiry of the PBR Agreement does not have the effect of requiring the shareholder to incur half the cost of expenditures legitimately required for the ongoing provision of service to customers.

Maintenance deferred during the PBR Period in the order of $870K as referenced on Page 357 of the RRA and the response to BCUC IR 1.75.1, and non maintenance deferred in the order of $520K as referenced on Page 161 of the RRA and the response to BCUC IR 1.77.1 have both been prioritized as being necessary expenditures in the 2010 year. Given that these items have evolved over time from a lower risk profile where they were capable of being pragmatically deferred to that of a high risk profile where deferral would involve a high degree of risk, they will be incurred in 2010 and not deferred until 2011 or beyond.

Expenditures classified in the RRA as Customer/Stakeholder Behaviours and Expectations, quantified as $4.5 million on Table C-6-3, and referenced in the response to BCUC IR 1.72.2 are also expected to be incurred in 2010. These expenditures are of a different nature and present a different type of risk profile than those of the preceding paragraph. Based on a corporate risk profile, these expenditures are all categorized as being necessarily incurred in 2010.

In sum, the expenditures included in the Application are for the provision of service to customers and are accordingly appropriately borne by customers. TGI will continue to look for ways to defer non essential expenses, but the expenses included in the Application are necessary for the continued delivery of safe and reliable service to customers.

performance which has allowed Terasen Gas to forecast the long term performance of meters currently deployed within its residential meter fleet. Similarly, it is expected that any future adjustment to the targeted average life expectancy for the residential meter fleet will only be done after extensive study of trends in meter performance over an extended period, combined with ongoing discussions with other participants in the gas measurement industry.

"Finally, by temporarily reducing the number of meter recalls during this period, both customers and shareholders were allowed to benefit from the savings in O&M and capital expenditure."

119.3 What are the total savings to customers resulting from the reduction and subsequent increase in O&M and capital expenditures over the period 2006 through 2011?

Response:

For clarity, the reduction was not a deferral. In 2006, a decision was made to operate residential meters to a life expectancy of 20 years. The temporary reduction of 62,203 meter recalls served to bring the demographics of the meter fleet in line with a 20 year life expectancy and resulted in significant Capital and O&M savings as compared to the original policy. There is no subsequent increase in activity or cost in 2010 or 2011 that can be attributed to the temporary reduction in meter exchange activity.

See table below for detailed quantities:

	2006	2007	2008	2009	Cummulative
Meter recalls planned prior to "20 Year" policy change	49,634	49,806	50,647	50,954	201,041
Actual Meter Recalls	28,446	30,417	33,275	*46,700	138,838
Difference in meter recalls	21,188	19,389	17,372	4,254	62,203

* "***Actual Meter Recalls***" are projected for 2009.

Cumulative O&M savings of $1.6 million, of which the customers share was approximately $800 thousand (50%), were as a result of 62,203 fewer customers appointments required for field exchange activity and 21,118 fewer meters recalled for repair. See table below:

	Reduced Activity 2006 - 2009	Unit Cost	O&M Savings 2006 - 2009
Customer appointments	62,203	$ 5.50	$ 342,117
Meters recalled for repair	21,188	$ 59	$ 1,250,092
		Total O&M Savings	$ 1,592,209

Cumulative capital savings of $17.4 million were as a result of 41,015 fewer meters recalled for retirement and replacement. See table below:

	2006	2007	2008	2009	Cummulative
***Capital Cost Projection prior to "20-year" policy change ($millions)**	15.2	15.7	16.2	16.8	63.9
****Actual Capital Costs ($millions)**	11.9	10.3	11.8	***12.5	46.5
Difference ($millions)	3.3	5.4	4.4	4.3	17.4

* "***Capital Cost Projection prior to 20-year policy change***" from 2004 Annual Review for 2005 Revenue Requirements Tab B-1, page 5 Other Regular Capital, "Meters-Replacement"

** "***Actual Capital Costs***" from Part III Section B page 188 of the Application, "Meters - Exchange/Other"

*** Actual Capital Costs for 2009 are projected

Please note that the savings as described in the above tables were determined based on the difference between the original policy and the revised policy, and not based on a calculation of the sharing of actual vs. formula based O&M and capital amounts over the years 2006 to 2009.