



VIA EMAIL

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March 24, 2016

**FORTISBC ENERGY 2015 SYSTEM EXTENSION
EXHIBIT A-10**

Ms. Diane Roy
Director, Regulatory Affairs
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N OE8

Dear Ms. Roy:

Re: FortisBC Energy Inc.
Project No. 3698840 / Order G-126-15
2015 System Extension Application – Panel IR No. 1

On February 22, 2016, the Commission issued Panel Information Request (IR) No. 1 to FortisBC Energy Inc. (FEI) to obtain additional information on the Rate Impact Analysis inputs and assumptions and what effect changing these assumptions would have on the outcome of that analysis. These questions related to: the costs of installing meters and regulators, Sustainment and Other costs, System Improvement charges, Growth O&M, customer additions and average annual use per customer.

In addition, the Panel requested further information and clarity on services and meter cost estimates and commercial consumption.

The Panel requested FEI's response to the Panel IR and any resulting changes to final arguments in accordance with an amended regulatory timetable included in Exhibit A-8.

On February 29, 2016, FEI requested a suspension of the Regulatory Timetable issued as Exhibit A-8, in order to seek clarification from the Commission on a number of Panel IRs (Exhibit B-11). FEI raised concerns that a number of the Panel IRs appeared to be premised on a misunderstanding of the MX Reporting and the Rate Impact Analysis. In order to ensure that the Panel has a full and accurate understanding of the information on the record, FEI made the following requests: ¹

1. For the Panel to review and provide further guidance on Attachment 1 to Exhibit B-11 (FEI Attachment 1) which listed all Panel IRs, detailing by IR whether FEI is able to respond, unable to respond, or where FEI required further clarification;
2. An extension of time to respond to for those IRs which FEI can address without clarification due to resource constraints during the period from March 10, 2016 to March 31, 2016; and
3. For the Panel to consider convening an informal technical workshop or meeting with FEI, Commission staff and interveners. FEI submits that face-to face communication would provide an opportunity for FEI

¹ Exhibit B-11, pp. 1–2.

to understand what the Panel is seeking to identify, to ensure that everyone is on the same factual basis, and to determine whether there are less labour intensive means of providing the desired information.

On March 3, 2016, the Commission temporarily suspended the Regulatory Timetable to provide the Panel adequate time to review FEI's request for clarification of information requests.

The Panel has reviewed Exhibit B-11. The Panel has considered FEI's submissions in Exhibit B-11, its request for clarification in FEI Attachment 1, and the additional information provided by FEI in the attachment. In Appendix 1 to this letter, the Panel has outlined the following:

- The issues on which it is seeking further information;
- An overview of why the Panel is seeking such information;
- Any adjustments, including where a response is no longer required, to the Panel IR resulting from additional information provided by FEI or further consideration of the issue; and
- For certain issues, a request for FEI to provide other proposals FEI considers will address the concerns outlined.

The Panel requests that FEI provide its proposed timeline to address:

1. Responses to the Panel IRs, as adjusted in Appendix 1 to this letter, for those items FEI previously indicated that it is able to respond to; and
2. Responses to those items where FEI requested clarification and the Panel indicates it is open to other proposals FEI considers will address the concerns outlined in Appendix 1.

The Panel acknowledges FEI's submission that a face-to-face meeting could be of benefit to the Panel as well as being more efficient than an iterative back and forth exchange in writing. Accordingly, the Panel also requests that FEI provide its submissions on the following:

- A. Considering Appendix 1 and the Commission's Streamlined Review Process Policy, Guidelines and Procedures, FEI's views on whether a streamlined review process (SRP) is still appropriate to address issues raised in the Panel information request as well as identification of those issues FEI proposes be covered by an SRP; and
- B. Proposed dates for an SRP, if one were to be held.

The Panel requests that FEI file its proposed timeline for items 1 and 2 above and submissions on items A and B by April 14, 2016. The Panel invites registered interveners to provide submissions items A and B by April 19, 2016. FEI is provided an opportunity to reply by April 22, 2016.

Yours truly,

Original signed by:

Laurel Ross

KK/kbb

Enclosure

cc: Registered interveners

BRITISH COLUMBIA UTILITIES COMMISSION
PANEL'S RESPONSE TO FORTISBC ENERGY INC.'S CLARIFICATION OF
PANEL INFORMATION REQUEST NO. 1 – ATTACHMENT 1

FortisBC Energy Inc.
2015 System Extension Application

A. EVALUATION OF THE PERFORMANCE OF SYSTEM EXTENSIONS – RATE IMPACT ANALYSIS

1.0 Sustainment/other capital

The Rate Impact Analysis does not include any sustainment capital attributable to new customers. Performance based ratemaking (PBR) plans covering the Rate Impact Analysis period from 2008 to 2014 included a factor for sustainment costs resulting from customer growth which varied from 50 percent to 100 percent of the growth rate multiplied by the total sustainment and other capital. The MX test parameters include a charge for system improvement.

In response to BCUC IR 2.30.4, FortisBC Energy Inc. (FEI) states that sustainment/other capital is excluded from the Impact Analysis because sustainment/other capital is not linearly related to customer growth but is required over time.²

In FEI's Clarification of Panel IR No. 1 (Exhibit B-11), FEI states that there is no correlation between customer growth in a specific year and any sustainment/other capital that may eventually result from that growth many years later.

While the Panel understands that it is difficult to estimate the impact on sustainment capital of adding new customers in any specific period, the Panel is concerned that exclusion of sustainment capital over the entire Rate Impact Analysis period may not fully reflect the impact of adding new customers.

The calculations requested in the Panel IR 1.2 series were an attempt to consider the sensitivity of the Rate Impact Analysis to sustainment capital using a factor consistent with the PBR plans. The Panel is open to reviewing other proposals that FEI considers will address the concerns outlined above.

2.0 Customer additions – gross versus net

EES Consulting Report dated June 2015 states that during the 2008 to 2014 period, a total of 85,348 new customers were added to the system based on detailed actual information.³ FEI provides data related to service line additions in response to BCUC IR 2.5.3 and states that the data is not in a one to one relationship with customer additions because a service line can be associated with more than one customer.⁴

² Exhibit B-9, p. 122.

³ Exhibit B-1, Appendix A, p. 25.

⁴ Exhibit B-9, p. 34.

In Exhibit B-11, FEI states that the difference between gross and net customer additions is the customers that are disconnected from the system.⁵ FEI uses gross additions in the Rate Impact Analysis because the capital for disconnected customers is not part of the MX Test or the SLCA and no reliance should be placed on an analysis that correlates net customer additions with customer growth capital.⁶

Based on information provided by FEI in Exhibit B-11, the Panel would like FEI to confirm that the 85,348 customer additions used in the Rate Impact Analysis only represents the total population of customer additions that resulted from service line additions after application of the MX Test or the SLCA.

The Panel has reviewed FEI's response to BCUC IRs 1.3.1 and 2.5.2 and would like to understand the extent to which new customer additions included in the Rate Impact Analysis represent single service line connections that simply replace a disconnection with a like reconnection (i.e. one for one) and whether it is possible for this type of addition to significantly affect the outcome of the analysis or offset other types of main extensions and service line additions that may be negatively impacting rates.

As an alternative to the Panel IR 4 series, the Panel is open to reviewing other proposals that FEI considers will address the Panel's remaining concerns as outlined above.

3.0 Average use per customer

In Exhibit B-11, FEI confirmed that it used the actual average use rates for customers in each rate class and region in the Rate Impact Analysis.⁷ FEI states that the actual average was calculated by taking the total consumption over the period of 2008 to 2014 divided by the total customers for the same period.⁸ Given FEI's confirmation, the Panel agrees that there is no need to answer the Panel IR 1.5 and 1.6 series.

With respect to the Panel IR 1.7 series, FEI stated it does not have the data for "Mainland." FEI also states a sample drawn from completed mains extensions is not representative of the total population of customer attachments. Given FEI's statement that the sample data is not representative, the Panel no longer requires FEI to answer the Panel IR 1.7, 1.8 and 1.9 series.

To determine the appropriateness of using the Rate Impact Analysis to assess the performance of system extensions, the Panel would like to understand whether use of the annual average for new customers in each rate class and region rather than use of the annual average for all customers would have a significant impact on the Rate Impact Analysis. The Panel is open to considering a proposal from FEI as to how this issue can best be addressed.

B. ACCURACY OF SERVICES AND METER COST ESTIMATES

The Panel is concerned with determining the level of accuracy of estimates of services and meter costs used in the MX test and issued the Panel IR 1.10 to 1.15 series to better understand the evidentiary record. Unless FEI has other proposals that FEI considers will address this concern, the Panel suggests the amendments to this series of IRs as outlined in this section.

⁵ Exhibit B-11, Attachment 1, p. 2.

⁶ Exhibit B-11, Attachment 1, p. 2.

⁷ Exhibit B-11, Attachment 1, p. 3.

⁸ Exhibit B-11, Attachment 1, p. 3.

In Exhibit B-11, FEI explains that it cannot respond to Panel IR 1.11.13 because: "...there is no breakdown of customers by rate schedule prior to 2012."⁹ Therefore, the Panel revises the original question to now be as follows:

- 11.13 Please breakdown the number of expected attachments into rate schedule 1, 2 and 3 attachments for the 2012 and 2013 main years.

In Exhibit B-11, FEI explains that it cannot respond to Panel IR 1.12.3 as "There is no formula – it is the total of the costs divided by the number of service lines."¹⁰ Consequently, the Panel revises the question to be as follows:

- 12.3 Please confirm, otherwise explain, that provide the formula FEI used to determine the average service line cost of \$2,125 (and the average cost per service, if they are different) is the 2014 total actual service line costs divided by the combined total number of Rate Schedule 1 and Rate Schedule 2 service lines installed in 2014.

In Exhibit B-11, FEI explains that it cannot respond to Panel IR 1.13.10 and 1.13.11 because: "...there is no breakdown of customers by rate schedule prior to 2012."¹¹ Consequently, the Panel revises 1.13.10 and 1.13.11 to be as follows:

- 13.10 Please reproduce the above table for: Rate Schedule 1 attachments only, Rate Schedule 2 attachments only, and Rate Schedule 1 and 2 combined, for the 2012 and 2013 main years, and provide comment on all tables.
- 13.11 If FEI identified other rate schedules to which the main extension test applies please also complete the above table for those customers, for the 2012 and 2013 main years, and provide comment.

In Exhibit B-11, FEI explains it requires clarification on Panel IR 1.14.2.1. FEI notes: "...that \$2,125 is not [sic] the correct amount to use for the MX Test since it includes service line costs for all rate schedules and not just for the rate schedules that are relevant to the MX Test. FEI seeks clarification from the Commission Panel that it may instead use an average actual cost for the applicable rate schedules to respond to this question."¹²

The Panel notes that on page 63 of the Application, FEI explains: "Appendix D-2 provides a summary of all 2014 service line costs for Rate Schedule 1 and Rate Schedule 2 customers showing an average service line cost of \$2,125."

As such, the Panel revises Panel IR 1.14.2.1 as follows:

- 14.2.1 Please confirm that Rate Schedule 1 and Rate Schedule 2 customers are both relevant to the MX test and are the only customers included in the calculation of \$2,125.

⁹ Exhibit B-11, Attachment 1, p. 10.

¹⁰ Exhibit B-11, Attachment 1, p. 10.

¹¹ Exhibit B-11, Attachment 1, p. 12.

¹² Exhibit B-11, Attachment 1, p. 13.

- 14.2.1.1 If not confirmed, please explain and list the other rate schedules that are relevant to the MX test and are included in the calculation of the \$2,125, and reconcile the statement in Exhibit B-11 with the statement on page 63 of the Application.

In addition, the Panel requests responses to the following additional questions:

- 14.2.2 Please confirm, otherwise explain, that generally Rate Schedule 1 and Rate Schedule 2 customers represent the majority of FEI's new customers. What percentage of new customers did Rate Schedule 1 and Rate Schedule 2 customers make up in 2012, 2013 and 2014?
- 14.2.3 Please also reproduce these tables using FEI's \$2,125 estimate and provide comment on the new variances.
- 14.2.4 As FEI proposes in Exhibit B-11, please also reproduce these tables using the average actual cost for the applicable rate schedules. In doing so, please provide a spreadsheet with the source data and calculations used to determine the average actual cost for the applicable rate schedules. Please also include thorough explanations of what is included / excluded from the data, how the calculations are performed and the new variances observed in the reproduced tables.

In Exhibit B-11, FEI indicates that it can respond to the Panel IR 1.15 series.¹³ The Panel has no changes to the wording of these information requests.

C. ACCURACY OF COMMERCIAL CONSUMPTION ESTIMATES

In Exhibit B-11, FEI explains it:

believes there are a variety of reasons why consumption is different than forecast, and as the actuals are only for years one and two of the service, with more years of data, FEI would expect the average actual to move towards the forecast. FEI respectfully suggests that FEI might be in a position to suggest another, and more practical and efficient approach, if it understands what the Commission is trying to obtain with the requested information.¹⁴

In the Application, FEI explains that industrial and commercial customers consumption is determined based on the specific business needs and/or operational requirements of each customer¹⁵ and reflects discussions with the potential customers.¹⁶ The Panel notes that there may be a natural bias for customers to overstate expected consumption in order reduce CIAC.

While the Panel recognizes FEI's comments in Exhibit B-11 that the MX reporting data may not be representative of the population, the Panel considers the variances identified in the tables referred to in Panel IR 1.16.1 to be significant. The Panel would like to give FEI the opportunity to provide, where possible, explanations for commercial consumption variances that have occurred during 2012 and 2013. As such, FEI can address Panel IR 1.16.1 by elaborating on the "variety of reasons why consumption is different than forecast" for each of the

¹³Exhibit B-11, Attachment 1, p. 14.

¹⁴ Exhibit B-11, Attachment 1, p. 14.

¹⁵ Exhibit B-1, p. 19.

¹⁶ Exhibit B-1, Appendix A, p. 14.

circumstances listed or alternatively, the Panel is open to other proposals that FEI considers will address the concerns outlined.

With respect to Panel IR 1.16.2, FEI indicates that it cannot respond as there is no breakdown of customers by rate schedule prior to 2012.¹⁷ Accordingly, the Panel no longer requires FEI to answer Panel IR 1.16.2.

D. OTHER ISSUES

1.0 Cost of installing meters and regulators

In Exhibit B-11, FEI explains it can respond to the original Panel IR No. 1.1.1, but the information requested is already on the record.¹⁸ As such, the Panel no longer requires an answer to the Panel IR 1.1.1.

2.0 Growth O&M assumptions

The Panel has reconsidered this issue and no longer requires FEI to answer Panel IR 1.2.

3.0 Committing to forecasts

In Exhibit B-11, FEI indicates that it can respond to the Panel IR 1.17 series.¹⁹ The Panel has no changes to the wording of the information request.

¹⁷ Exhibit B-11, Attachment 1, p. 15.

¹⁸ Exhibit B-11, Attachment 1, p. 1

¹⁹ Exhibit B-11, Attachment 1, p. 16