Diane Roy
Vice President, Regulatory Affairs

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

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
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

October 3, 2017

British Columbia Municipal Electrical Utilities
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 Inc. (FBC)

Project No. 1598920

Multi-Year Performance Based Ratemaking Plan for 2014 through 2019 approved by British Columbia Utilities Commission (Commission) Order G-139-14 – Annual Review for 2018 Rates (the Application)

Response to the British Columbia Municipal Electrical Utilities (BCMEU) Information Request (IR) No. 1

On August 10, 2017, FBC filed the Application referenced above. In accordance with the Commission Order G-116-17 setting out the Regulatory Timetable for review of the Application, FBC respectfully submits the attached response to BCMEU IR No. 1.

If further information is required, please contact Joyce Martin at 250-368-0319

Sincerely,

FORTISBC INC.

Original signed:

Diane Roy

Attachments

cc (email only): Commission Secretary
Registered Parties

1.0 REF: 1.2

1.1 With FBC seeking a 0.11% rate increase for 2018, are there any factors not yet fully known that could be late additions (e.g. Bank of Canada Interest Rates) that could have a significant impact to the 0.11% General Rate Increase?

Response:

FBC is filing an Evidentiary Update in conjunction with the filing of the responses to these information requests, which updates the formula Inflation Factor based on the inclusion of the June 2017 AWE-BC which had not been available at the time of filing, in addition to certain updates to the deferred charge accounts. FBC's final 2018 rate increase will not be known until approved by the Commission.

1.2 Does the projected 0.11% increase in electricity rates for 2018 include any increased in BC Hydro rates that will flow through to FortisBC and then on to their customers? If not what is this increase expected to be and what is the total percent increase for 2018 electrical rates expected to be?

Response:

Yes, the projected 0.11 percent increase in electricity rates for 2018 contains the 3 percent increase in BC Hydro rates as of April 1 2018, as discussed in Section 4.6 (page 39, line 5) of the Application.

2.0 REF: 1.4.2

SAP Integration: FBC claims $0.9M in savings starting in 2019. OMS project: FBC claims $0.2M in savings starting in 2018.

2.1 Does FBC have a business case for these projects? How are these savings being measured now and into the future? How will these savings be realized?

Response:

FBC notes that the $0.9 million in O&M savings for the SAP Integration project is for both FBC and FEI. FBC's share of the estimated savings is $0.3 million.

FBC has a business case supporting each of these projects. The O&M savings identified are annual savings and will be reflected in the different departments where the benefits are expected to be realized. Departments responsible will adjust their O&M budget as part of the Company's annual budgeting process to account for the realized savings.

Please refer to the response to BCUC IR 1.6 series MoveUP IR 1.7 series for further information on the SAP Integration project and the BCUC IR 1.7 series for further information on the OMS system.

3.0 REF: 1.4.3.1

3.1 The Actual / Projected figures are higher and in some cases significantly higher than the formula. Should the formula be adjusted to account for the fact that actual expenditures are exceeding formula expenditures?

Response:

FBC is not proposing an adjustment to the formula at this time. Please refer to the response to BCUC IR 1.12.9.

3.2 Why are the RG Anderson Terminal costs included, when the City of Penticton is paying for the costs of these improvements under a contract to FortisBC?

Response:

As required by standard utility accounting, the gross value of any construction or upgrade to FBC assets is recognized in rate base as plant in service. When a whole or partial customer contribution is used to fund the project, the contribution is recorded in Contributions in Aid of Construction (CIAC), which is a reduction to rate base (see Section 11, Schedule 2). The result is that rate base reflects the net expenditure by the utility.

Under FBC's PBR Plan, the components of customer-funded projects are not treated equally due to the definition of the capital formula. Gross capital expenditures are included in formula capital, but CIAC is excluded from formula. When capital spending exceeds the formula amount but falls within the dead band in a given year, the outcome is that the amount of capital over the formula (which was driven in part by the gross expenditure for a customer-funded project) is not included in rate base, while the actual CIAC reduction is included. The exclusion of CIAC from formula capital under the PBR Plan is discussed in the response to BCUC IR 1.8.1.

3.3 Why is the risk exposure higher from deferring capital projects? What is the nature of the risk, and who and how many customers would it effect?

Response:

As noted in one authoritative industry reference, "It is universally accepted that the reliability of a system can be increased by increased investment. At the same time, the outage costs of the system will decrease"[1]. Conversely, it follows that decreased investment (for example by deferring capital projects), will decrease system reliability and increase risk.

The nature of the increased risk associated with significant deferral of capital varies depending on the system issues that would be addressed by the investment. Some examples, and the stakeholders impacted, could include:

1. Capacity Risk – in areas of the system where customer demand is increasing, then the capital deferral risk increases as the demand approaches the installed fixed capacity. All customers downstream of the system bottleneck would be exposed to this reliability risk. The number of customers impacted could range from hundreds to tens of thousands depending on if the issue was feeder, substation, or transmission-level.

2. Equipment Obsolescence Risk – this capital deferral risk is driven by both the passage of time and the increasing likelihood of a failure the longer that the obsolete equipment remains in service. Similar to the above, the number of impacted customers would vary depending the location of the equipment and the area of the system served by it.

3. Safety Risk – deferral of a capital project could leave a safety risk unaddressed and could increase the exposure and/or probability of events leading to an incident. Equipment failures could result in undesirable occurrences such as fires or public or employee contacts with energized facilities.

4. Cost Efficiency – deferral of capital investment could result in either increased operating costs or a lost opportunity to reduce operating costs. This would impact all customers through increased rates.

[1] Billinton, R. & Allan, R. (1996). *Reliability of Evaluation of Power Systems, 2nd Edition*, New York: Plenum Press

4.0 Ref: 3.5.1.1

4.1 Please discuss why the Use-per-customer (UPC) forecast is going down?

Response:

FBC believes that factors contributing to declining use rates include, but may not be limited to, increased appliance efficiency, improved building envelopes, conversions to more efficient lighting and general increases in conservation and energy awareness.

5.0 REF: 3.5.1.2

5.1 The residential load for FBC 2017S is low – presumably based on experience from 2016 and prior.

Response:

Confirmed. The 2017S residential load reflects a declining UPC, based on a negative and statistically significant trend from 2014 to 2016.

5.2 Given that the winter and summer of 2017 had high load periods, should the 2017 and onward forecast be adjusted to reflect this?

Response:

The increase in load in the winter and summer of 2017 was mostly due to weather. FBC normalizes the residential, wholesale and commercial loads to account for the increase or decrease in load due to weather. Therefore, the forecast, which is based on an expectation of normal weather, does not need to be adjusted.

6.0 REF: Table 4-3 line 5-8

6.1 Why would FortisBC reduce market purchases in favour of higher cost supply from BC Hydro?

Response:

Please refer to the response to BCOAPO IR 1.17.2.

7.0 REF: 4.5

7.1 Are rate payers paying for assets that are being used purely for energy export sales such as those going to the USA through 71 line? Are these energy export sales being deducted from the rate increase calculation? Are these profits being shared with the customer that is paying for the assets that make these sales possible?

Response:

No, FBC sells surplus capacity only within BC, as discussed in section 4.3 of the Application. All forecast revenue generated from the sale of surplus capacity has been included as a reduction to Power Purchase Expense and returned to customers in the year they are forecast. Any variances to forecast in surplus sales are recorded in the Flow-through Deferral account and returned to or recovered from customers in the subsequent year.

8.0 REF: 7.6

8.1 Has any work been done to determine what actual depreciation rates are occurring vs those agreed to in Order G-202-5 and C-7-13? What steps has FortisBC taken to investigate and action how they could increase the service lives of their assets thereby decreasing the annual depreciation amounts?

Response:

No. An assessment of any changes to depreciation rates is normally only performed as part of a third party depreciation study, which takes place every 3 to 5 years. FBC's current depreciation rates were determined through the last depreciation study which was based on assets in service in 2014, and the rates were derived from an estimate of the remaining service life of assets at that time.

The physical service life of FBC's assets already reflects the steps FBC takes through its sustaining capital program to safely and reliably extend the life of its assets, and the physical service life is reflected in depreciation rates through depreciation studies.

An assessment of the recommended remaining service life will be performed as part of the next depreciation study. Some of the factors that will be considered at that time will include additions, retirement history (which will be influenced by the Company's actions undertaken as part of its sustaining capital program), and changes in technology.

9.0 REF: 8.1-8.3.3 / Table 8-1

Interest rate proposed by FortisBC as compared to the Municipal Finance Authority rates.

FortisBC Short Term	3.45%
MFA Sort Term	1.74%
FortisBC Long Term	3.80%
MFA Long Term	3.41%

9.1 Typically MFA rates are lower than what the private sector can achieve. That being said, the FortisBC short term rate of 3.45% appears high. We would appreciate a finance person's point of view on how FBC manages the interest rates.

Response:

FBC's forecast short term rate cannot be meaningfully compared to the MFA rate due primarily to two factors.

FBC's short term debt is calculated using the banker's acceptance rate plus an acceptance fee rate of 1 percent, which is based on FBC's A (low) credit rating. As the MFA is rated AAA it is able to issue debt for a lower spread over the underlying benchmark rates.

In addition, FBC's forecast short term rate includes indirect borrowing costs such as standby fees on undrawn credit capacity and other financing fees as a component of the all-in short term rate. The other financing fees are comprised of various costs which include upfront fees, bank administration fees, and interest paid on customer deposits and overpayments

The total forecasted indirect borrowing costs are converted into an implied rate by dividing these amounts over the forecast average short-term debt balance for the year. These converted fees make up a material component of the 3.45 percent short term rate for 2018, while the MFA short term rate referenced may not include the impact of similar indirect costs.

10.0 REF: 10.3

10.1 2015 Earnings sharing was $0.356 million higher than projected and will now be shared in F2018. Why was this not shared in 2017? Are the 2016 actual results being included in the 2018 earnings sharing?

Response:

The true-up to 2015 earnings sharing was included in 2017 revenue requirements. The statement on page 73 (lines 9 to 11) refers to the true-up of earnings sharing for 2016 and should read:

"The final amount of earnings sharing for 2016 was $0.610 million (after-tax), which was $0.356 million higher than the $0.254 million projected for 2016 as shown in Table 10-4 below."

The calculation of the $0.356 million true-up for 2016 can be seen in Table 10-4 on page 74 of the Application.

11.0 REF: 10.4

11.1 What would the General Rate Change need to be if the $0.831 million earnings sharing were not possible?

Response:

The reduction to rates resulting from the return of $0.831 million to customers is 0.23 percent ($0.831 million ÷ $356.340 million). If this sharing did not occur, the rate increase would change from 0.11 percent to 0.33 percent.

12.0 REF: 12.2.1

12.1 At what point does maintaining mandatory reliability standards become part of everyday business and not an extra item? All businesses strive to improve and protect themselves. Is meeting reliability standards not part of everyday business?

Response:

Please refer to the response to ICG IR 1.10.4.

13.0 REF: 13

P 132 line 23 to P133 Line 17:

13.1 How is the CSI survey conducted and how many customers are contacted? What is the response rate from customers?

Response:

The CSI survey is conducted quarterly via telephone. Outbound calls typically occur during the second and third weeks of February, May, August, and October each year. Each wave includes 350 telephone interviews with the primary decision maker responsible for paying the household or business electricity bill.

The research vendor uses quota sampling to ensure that 300 interviews are residential customers, and 50 are small commercial customers. The CSI response rate for FBC has typically been between 12 percent and 13 percent, so the research vendor typically calls about 2,900 customers to fill the desired survey quota.

14.0 REF: Table 13.1

14.1 Please discuss whether the billing index threshold of ≤5.0 is appropriate given the results are ≤0.57 and lower.

Response:

FBC believes the approved billing index threshold of ≤5.0 remains appropriate even though recent years' results have been below the threshold (i.e. 2016 – 0.57; 2015 – 0.39; 2014 – 2.34). The indicator is designed to track the effectiveness of the Company's billing system and is measured as the percent of customer bills produced meeting performance criteria. The billing index takes into account three components: Billing Completion, Billing Timeliness, and Billing Accuracy.

As this was a new measure to FBC, the threshold of ≤5.0 was approved for FBC's current PBR Plan based on FEI's use of the same billing index measure. FEI established the threshold of ≤5.0 as part of FEI's (formerly BC Gas) 2004 PBR Application based on the performance measures at that time with its outsource service provider CustomerWorks. Historical performance for FEI from 2004 has generally been less than the threshold except for 2008 and 2009 when performance exceeded the threshold.