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February 2, 2018

BY EMAIL

FortisBC Energy Inc.
16705 Fraser Highway
Surrey, B.C. V 4N OE8

Attention: Ms. Diane Roy
Vice President, Regulatory Affairs

Dear Ms. Roy:

**Re: British Columbia Utilities Commission
FortisBC Energy Inc. and City of Surrey Applications for Approval of
Terms for an Operating Agreement ~ Project No. 1598915**

In accordance with the regulatory timetable established by British Columbia Utilities Commission Order No. G-201-17, we enclose the City of Surrey's Information Request No. 2 to FortisBC Energy Inc. for the above-referenced proceeding.

Yours very truly,

LAWSON LUNDELL LLP

A handwritten signature in black ink that reads 'Ian Webb'.

Ian Webb

Enc.

cc. Commission Secretary, British Columbia Utilities Commission
Anthony Capuccinello, City of Surrey

Ian Webb
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REQUESTOR NAME: **City of Surrey**
INFORMATION REQUEST ROUND NO: **2**
TO: **FortisBC Energy Inc.**
DATE: **February 2, 2018**
PROJECT NO: **1598915**
APPLICATION NAME: **FortisBC Energy Inc. and City of Surrey
Applications for Approval of Terms for an
Operating Agreement**

A. OPERATING FEE

**4.0 Reference: FEI's response to BCUC IR 1.5.4
FEI's response to Surrey IR 1.2.14
FEI's response to BCOAPO IR 1.8.3
BCUC IR 2.17.2 to FEI**

BCUC IR 1.5.4 to FortisBC Energy Inc. (FEI) asked FEI to describe the benefits and risks of utilizing delivery margin versus gross revenue in the calculation of an Operating Fee. In its response, FEI did not discuss any benefits or risks to FEI shareholders associated with utilizing delivery margin versus gross revenue as the basis for calculating the operating fee.

Surrey IR 1.2.14 to FEI asked FEI to explain why it takes the position that Surrey should receive an operating fee that is less than the 3% of gross revenue operating fee that FEI remits to other municipalities. In its response, FEI did not discuss any benefits or risks to FEI shareholders associated with FEI's operating fee proposal.

In response to BCOAPO IR 1.8.3, FEI said that its interests are aligned with customers in that fees added to customer bills represent a competitive challenge.

BCUC IR 2.17.2 to FEI asks FEI if applying a 3 percent operating fee to gross revenue would put FEI at competitive disadvantage.

- 4.1 Please explain and discuss the benefits and risks to FEI's shareholders if the operating fee is applied to (i) gross revenues (including commodity) as proposed by the City of Surrey, as compared to (ii) delivery margin as proposed by FEI.
- 4.2 If the operating fee is applied to gross revenues, would FEI expect to have a competitive disadvantage and reduced market share relative to competing fuels in the City of Surrey, as compared to if the operating fee is applied to delivery margin? Please discuss.
- 4.3 Does FEI expect that applying the operating fee to delivery margin instead of to gross revenue will result in relatively greater shareholder value for FEI shareholders? Please discuss.

**5.0 Reference: FEI's response to BCUC IR 1.5.3
FEI's response to Surrey IR 1.2.15.5**

In response to BCUC IR 1.5.3, FEI provided, for the municipality of Surrey, the gross revenue, delivery margin, delivery margin as a percentage of gross revenues, and estimates of operating fees for each year from 2007 to 2016.

In response to Surrey IR 1.2.15.5 regarding natural gas price volatility, FEI provided a figure showing historical daily natural gas spot prices for AECO/NIT and Sumas hubs. Volatility in the spot natural gas prices for AECO/NIT and Sumas hubs is not reflected directly in the commodity rates FEI charges to its customers.

- 5.1 Please add three more columns to the table FEI provided in response to BCUC IR 1.5.3 to show each of the following:
 - (i) year over year change (in %) in Gross Revenue (column 2)
 - (ii) year over year change (in %) in Delivery Margin (column 3)
 - (iii) (column (5) / column (3)) * 100
- 5.2 Please provide another figure showing, for the same time period as the figure provided in response to Surrey IR 1.2.15.5 (November 1996 to November 2016), the FEI Cost of Gas (Commodity Cost Recovery Charge) FEI actually charged to its customers. For reference, the charge is currently \$1.549/GJ.

B. DEFINITION OF "RELOCATION COSTS"

**6.0 Reference: FEI's response to Surrey IR 1.3.4.1
FEI Rebuttal Evidence, section 1.1**

In response to Surrey IR 1.3.4.1, FEI provided a table setting out FEI's proposed allocation of costs under five scenarios. The FEI Rebuttal Evidence, section 1.1, further develops and clarifies FEI's proposal regarding costs to be included in "Relocation Costs" for the operating agreement.

- 6.1 Please discuss how FEI proposes to provide transparent information to the City of Surrey to enable the City to verify whether FEI facilities to be relocated are already identified for replacement under FEI's asset management plans, per FEI's commitment in Scenario 1 in the response to Surrey IR 1.3.4.1.
- 6.2 Please provide a copy of (or web link to) FEI's current asset management plan(s) that identifies the facilities FEI is planning to replace in Surrey over the next ten years.
- 6.3 Please discuss how FEI proposes to provide transparent information to the City of Surrey to enable the City to verify that FEI's bill for the appropriate apportionment of costs to relocate facilities reflects the "lowest cost solution to meet applicable Laws (codes and regulatory standards – not company policies/practices)" per FEI's commitment at page 3, lines 13-16, of the FEI Rebuttal Evidence.

- 6.4 Please discussed how FEI proposes to provide separate, itemized detail for the incremental cost of the more expensive alternative or extra work if the City of Surrey specifically requests such alternative or extra work as described on page 3, lines 16-19 of the FEI Rebuttal Evidence.
- 6.5 Please discuss how FEI proposes to provide transparent information to the City of Surrey to enable the City to verify that FEI's bill for the appropriate apportionment of costs to relocate facilities complies with FEI's commitment that "any incremental cost between the less costly option and what FEI [actually] installs would be paid by FEI and would not be billed to Surrey" per the table on page 4 of the FEI Rebuttal Evidence.
- 6.6 In all of the scenarios set out in FEI's response to Surrey IR 1.3.4.1 and in section 1.1 of the FEI Rebuttal Evidence, FEI replaces the facilities that the City needs FEI to relocate to accommodate the City's work. Does FEI ever reuse and actually relocate its existing facilities in a relocation project, or does FEI always scrap the existing facilities and replace them with new facilities in the new location? Do codes or standards require FEI to scrap the existing facilities and replace them with new facilities? Please discuss.

C. APPORTIONMENT OF "RELOCATION COSTS"

7.0 Reference: FEI Rebuttal Evidence, section 1.4.2

On page 14 of the FEI Rebuttal Evidence, FEI says that "the most recent depreciation study estimates the financial end of life of distribution mains at 64 years and 65 years for transmission pipelines..."

- 7.1 Please provide a copy of (or web link to) the referenced depreciation study. Please provide the references to where the study recommends the 64 and 65 year lives.
- 7.2 Do steel gas mains have an expected service life of 64 years?
- 7.3 What proportion of FEI's gas mains installed in the City of Surrey are made of steel?
- 7.4 Please provide a copy of (or web link to) FEI's document(s) that identify the age and/or installation dates of FEI's existing pipes in the City of Surrey.

D. RELEASE OF STATUTORY RIGHTS OF WAY

No questions.