Patrick Wruck
Commission Secretary

Commission.Secretary@bcuc.com
bcuc.com

Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3
P: 604.660.4700
TF: 1.800.663.1385
F: 604.660.1102

May 22, 2018

FAES 2018/19 RR & CoS TES
DELTA SCHOOL DISTRICT EXHIBIT A-5

Via eFile

Mr. Doug Slater
General Manager
FortisBC Alternative Energy Services Inc.
10th Floor, 1111 West Georgia Street
Vancouver, BC V6E 4M3
FAES.Regulatory.Affairs@fortisbc.com; mghikas@fasken.com

Re: FortisBC Alternative Energy Services Inc. – 2018/2019 Revenue Requirements and Cost of Service Rates Application for the Thermal Energy Service to Delta School District No. 37 – Project No. 1598949 – British Columbia Utilities Commission Information Request No. 1

Dear Mr. Slater:

Further to your February 8, 2018 filing of the above noted application, enclosed please find British Columbia Utilities Commission Information Request No. 1

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

cc: Ms. Erika Lambert-Shirzad
ELambertshirzad@blg.com

Mr. Dionysios Rossi
DRossi@blg.com

/ad
Enclosure

bcuc
British Columbia
Utilities Commission

Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3
bcuc.com

P: 604.660.4700
TF: 1.800.663.1385
F: 604.660.1102

FortisBC Alternative Energy Services Inc.
2018/2019 Revenue Requirements and Cost of Service Rates Application for the Thermal Energy Service to Delta School District No. 37

INFORMATION REQUEST NO. 1 TO FAES

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A. TRANSITION FROM MARKET RATE TO COST OF SERVICE RATE

1.0 Reference: TRANSITION FROM MARKET RATE TO COST OF SERVICE RATE
Exhibit B-1, Sections 1, 3.1, 4.3.1, pp. 2, 14, 22
Transition from Market Rate to Cost of Service Rate

FortisBC Alternative Energy Services Inc. (FAES) states on page 2 of the Application that there are several reasons why now is the appropriate time to begin to charge the Cost of Service (COS) Rate, including the following:

1. The natural transition period to the underlying COS Rate of 2 to 5 years has now elapsed and the DSD [Delta School District No. 37] has paid $4,268,000 less than the expected business as usual (BAU) and $2,720,000 less than the COS during that period;

…

4. FAES and DSD have made effort to negotiate alternative solutions, but those efforts did not result in an agreement.

On page 14 of the Application, FAES states that “the timing of the switch to COS was left flexible but was expected to occur within the 2 to 5 year timeframe. At present, it is clear that the MR [Market Rate] will remain below the COS in the foreseeable future.”

On page 22 of the Application, FAES states: “The transitional MR was originally setup to allow a transition period to the COS Rate in recognition of the DSD’s need to manage its annual budgetary requirements.”

1.1 Please provide FAES’ rationale for its view that a reasonable transitional period from the MR to the COS Rate was within two to five years.

1.2 If the MR had instead been consistent with, or higher than, the forecast COS Rate over the past five years, please discuss whether FAES would still consider it necessary to move to the COS Rate at this time.

1.3 If the MR were expected to increase above the COS Rate in the "foreseeable future", please discuss whether FAES would still consider it necessary to move to the COS Rate at this time.

1.4 Please clarify how the transitional MR was intended to assist DSD with managing its annual budgetary requirements. For instance, at the time the Rate Development Agreement (RDA) was entered into, was it contemplated that an immediate switch from DSD's existing cost of energy to the COS Rate would result in too large of an initial increase? Please explain.

1.5 Please provide the forecasts for the following if the switch from the MR to the COS Rate were delayed for a further three years, five years, and 10 years (with supporting calculations and assumptions):

- The annual COS Rate at the time of conversion and for the remainder of the initial RDA term;
- The annual MR until the time of conversion to the COS Rate;
- The balance of the District Deferral Account (DDA) at the time of conversion to the COS Rate;
- The annual amortization expense related to the DDA commencing at the time of conversion to the COS Rate; and
- The unamortized balance (if any) of the DDA at the end of the initial RDA term.

1.6 In the event that FAES was approved to switch to the COS Rate as proposed in the Application, please provide the dollar and percent increase in rates and the dollar and percent bill impact for DSD for 2018/2019. Please provide all calculations and explain all assumptions.

1.6.1 In consideration of the impact of the proposed switch from the MR to the COS Rate and the lack of any proposed transitional period, what considerations, if any, has FAES given with regard to DSD's budgetary constraints and its ability to pay the increased amount? As part of this response, please discuss whether the impact on DSD of an immediate transition from the MR to the COS Rate should be a consideration when proposing the switch.

1.7 Please discuss the pros and cons of phasing in a switch to the COS Rate in order to smooth the impact of DSD's annual rate change.

1.7.1 As part of this response, please describe how a phase-in of the COS Rate could be achieved if FAES was directed to phase in the COS Rate over two, three or five years. Please provide all calculations and assumptions.

1.8 Please describe the steps which FAES has taken to negotiate alternative solutions and to achieve a mutually desirable approach to resolve the current situation.

B. RATE DEVELOPMENT AGREEMENT

2.0 Reference: RATE DEVELOPMENT AGREEMENT
Exhibit B-1, Sections 1.2.2, p. 4; Appendix E, RDA Section 11.8
Entire Agreement clause

On page 4 of the Application, FAES states the following:

> The DSD's stated rationale for departing from typical practice is that this proceeding turns on credibility, including with respect to prior representations made by FAES. FAES submits that this proceeding, at its core, involves interpreting a written agreement between sophisticated parties that were represented by legal counsel. During the CPCN proceeding, the DSD confirmed in response to Commission information requests that

> they are sophisticated parties and that they understood the agreement. The agreement that DSD signed is unequivocal that the written agreement contains the entire agreement between the parties…

Section 11.8 of the RDA, included as Appendix E to the Application, contains the Entire Agreement clause, which states the following:

> 11.8 ENTIRE AGREEMENT
>
> This Agreement contains the whole agreement between the Parties in respect of the subject matter hereof and there are no terms, conditions or collateral agreements express, implied or statutory other than as expressly set forth in this Agreement and this Agreement supersedes all of the terms of any written or oral agreement or understanding between the Parties, including without limitation the letter of intent between the Parties dated February 7, 2011.

Counsel for DSD stated the following during the procedural conference:

> I would say that there have been a series, in my submission, of collateral representations made by FAES that are germane to the issue of whether or not the Commission should grant the relief that is being sought in this proceeding. That, again, I would submit may be unique in comparison to other cases that have come before the Commission…
>
> …I say that [the Entire Agreement] clause has to be read in light of the --what I will term the fail-safe mechanism that the parties built into the agreement to have this body decide whether and to what extent Delta should be switched from the market rate to the cost of service rate.[1]

2.1 Please explain FAES' position as to the proper interpretation of the Entire Agreement clause in consideration of the comments made by DSD's counsel at the procedural conference.

3.0 Reference: RATE DEVELOPMENT AGREEMENT
Exhibit B-1, Appendix E, RDA, Section 1.1, Definitions; FAES DSD F2015–16 Revenue Requirements Application (RRA) proceeding; Exhibit B-4, British Columbia Utilities Commission (BCUC) Information Request (IR) 1.2.1
Annual Cost of Service

In Section 1.1 of the RDA, provided in Appendix E to the Application, the Annual Cost of Service is defined as including, among other things: "(vii) the annual amount necessary to amortize the District Deferral Account balance, either credit or debit, over the remaining years in the Term or ten (10) years, whichever is longer".

In response to BCUC IR 1.2.4 in the FAES DSD F2015-16 RRA proceeding, FAES stated the following:

> …Once the COS switch has occurred, the number of years that the deferral account is amortized over equals the remaining years in the initial term if the switch occurs in the first ten years, or ten minus the number of years since the COS switch has occurred if the switch to COS rates occurred after the first ten years of service…

[1] T1: 31-32.

…To further illustrate how the amortization works, if the switch occurred in the 14th year of the 20 year term, then the amortization would be 10 years starting in that year, not six years, which is the remainder of the term and there would be four years of amortization left at the end of the term…

3.1 Based on the above definition, please confirm, or explain otherwise, that if DSD does not switch to the COS Rate within the first 10 years of the term then a portion of the balance in the DDA would remain unamortized and would therefore not be recovered from DSD (if the RDA is not renewed at the end of the initial term).

The Annual Cost of Service also includes the following: "(v) a reasonable amount for overhead allocation and administration."

3.2 Please explain how FAES interprets the term "reasonable" as it pertains to the amount of overhead allocation and administration included in the Annual Cost of Service amount.

4.0 Reference: DISTRICT DEFERRAL ACCOUNT
Exhibit B-1, Section 2.1.3.1, Section 3.3, pp. 11–13, 18; Appendix E, Energy System Service Agreement (ESSA), Section 15.1
Impact of the DDA at expiry

Section 15.1 of the ESSA states the following:

15.1 EXPIRY

Upon expiry of the Term, unless otherwise agreed between the Parties and subject to agreement by the BCUC (if required pursuant to applicable Laws), the District may, at its option and by written notice to FEI within 30 days following the termination:

(a) require FEI to remove the Energy System at FEI's cost in accordance with Section 15.5; or

(b) acquire the Energy System from FEI at the Adjusted Energy System Purchase Price.

On page 12 of the Application, FAES states the following:

Remaining on the MR and avoiding paying the COS will cause the DDA balance to continue to grow. With this growth, it is likely that the DSD will ask FAES to remove the assets, leaving DSD with a significant windfall (having paid less than even the ongoing operating costs) and leaving no opportunity for FAES to recover the DDA or to earn a fair return on its investment.

FAES further states on page of 18 of the Application that "FAES is at risk for the balance in the DDA in the event that the service is not renewed past the initial term and there is a remaining balance in the deferral account."

4.1 Based on FAES' current assumptions regarding the MR and COS Rate, please provide the ending balance of the DDA at the time of expiry of the RDA term (assuming the RDA is not renewed and DSD has not switched to the COS Rate during the RDA term), the net plant in-service for the DSD, and the Rate Base Value (as defined in the RDA).

4.1.1 Please confirm, or explain otherwise, that if DSD elected not to renew the RDA and elected to acquire the Energy System from FAES, the Adjusted System Purchase Price referred to in Section 15.1(b) of the ESSA would equal the Rate Base Value provided in the above response.

4.2 Under a scenario where DSD elected not to renew the RDA and elected to require FAES to remove the Energy System in accordance with Section 15.1(a) of the ESSA, please explain in detail what actions would be taken by FAES to remove the Energy System and discuss the implications for DSD of no longer having either an energy system or an energy services provider.

4.3 Please confirm, or explain otherwise, that FAES' position based on its statements on pages 12 and 18 of the Application is that if DSD elected not to renew the RDA and required FAES to remove the Energy System at the conclusion of the RDA term, FAES' shareholders would be responsible for the balance in the DDA.

C. COST OF SERVICE AND DISTRICT DEFERRAL ACCOUNT

5.0 Reference: COST OF SERVICE
Exhibit B-1, Appendix A, Financial Schedules
Financial schedules

FAES provides financial schedules in Appendix A to the Application.

5.1 Please provide the financial schedules in Appendix A as a live spreadsheet model.

6.0 Reference: FORECAST AND ACTUAL COST OF SERVICE
Exhibit B-1, Appendix A, p. 6, Table 3; Financial Schedules
Updated 2017/18 actual cost of service

6.1 Please provide amended schedules for Table 3 on page 6 of Appendix A and for the financial schedules in Appendix A to include updated actual results for 2017/18. Please indicate whether the amended actual 2017/18 results are based on final actual results or if the information still contains some forecast data.

7.0 Reference: FORECAST AND ACTUAL COST OF SERVICE
Exhibit B-1, Appendix A, Table 3, p. 6; Appendix G, Compliance Filing to OrderG-31-12, Schedule 1; Order G-88-12
Forecast and actual annual COS

Appendix G of the Application provides the Compliance Filing to Order G-31-12.

Subsequent to FAES' filing of the Compliance Filing to Order G-31-12 and the BCUC's review of this filing, FAES was directed by Order G-71-12 to file a revised compliance filing.

7.1 Please provide FAES' compliance filing to Order G-71-12.

Table 3 on page 6 of Appendix A to the Application provides the forecast annual cost of service for fiscal years 2012/13 through 2018/19.

7.2 Please compare the forecast COS amounts in Table 3 of Appendix A to the forecast annual revenue requirement amounts provided in Schedule 1 of the Compliance Filing to Order G-71-12 and explain all differences.

7.3 Please clarify which filing FAES used as reference for the forecast COS amounts provided in Table 3 of Appendix A and why.

8.0 Reference: FORECAST AND ACTUAL COST OF SERVICE
Exhibit B-1, Appendix A, pp. 1–2, 6, Table 3; Financial Schedules, Schedule 3; FAES DSD F2015-16 RRA proceeding; Exhibit B-4, BCUC IR 1.5.1, 1.5.2
Cost of natural gas

The following table summarizes the forecast versus actual cost of natural gas based on the information provided in Table 3 on page 6 of Appendix A.

Year	Forecast ($000's)	Actual ($000's)
2012/13	48	23
2013/14	87	249
2014/15	97	228
2015/16	180	247
2016/17	170	235
2017/18	229	228
2018/19	221	N/A

Schedule 3 of the Financial Schedules in Appendix A to the Application provides the actual natural gas consumption and actual natural gas costs for fiscal years 2012/13 through 2017/18 (and forecast 2018/19).

8.1 Please amend Schedule 3 to also include the forecast natural gas consumption for fiscal years 2012/13 through 2017/18.

In response to BCUC IR 1.5.1 in the FAES DSD F2015-16 RRA proceeding, FAES stated the following:

> The original forecast for natural gas consumption was based on engineering assessment and assumptions regarding anticipated seasonal efficiencies of the retrofitted systems. The current forecast for natural gas consumption is based on the actual performance. In the past two years, much of the thermal energy was supplied with the use of natural gas due to various operational issues[4], which resulted in higher than anticipated use of natural gas. The ongoing continuous optimization of the thermal energy systems is aimed at increasing the utilization of the heat pumps during the early Fall and late Spring. These changes should result in a lower consumption of natural gas.

8.2 Please confirm, or explain otherwise, that the variances between forecast and actual natural gas costs and consumption for the fiscal years 2013/14 through 2016/17 can be explained by FAES' above response to BCUC IR 1.5.1.

8.3 Please explain why, despite the continuing optimization of the Thermal Energy System (TES) described in FAES' response to BCUC IR 1.5.1, the actual natural gas costs have only minimally decreased since 2015/16 and the actual natural gas consumption has slightly increased.

8.4 Please provide FAES' forecast for natural gas consumption for the remainder of the initial RDA term.

FAES further stated the following in response to BCUC IR 1.5.2 in the FAES DSD F2015-16 RRA proceeding:

> Delta SD is a retrofit project that currently operates at a seasonal efficiency of approximately 70 per cent overall. Given the fact that approximately 50 per cent of the sites consist of boilers and the other 50 per cent consist of boiler/heat pump systems, this efficiency is expected to improve. As the efficiency of the boiler/heat pump sites improves, through ongoing optimization efforts,

> the heat pumps are expected to supply the majority of the thermal energy during the early Fall and the late Spring. This will reduce the use of natural gas and increase the overall system efficiency.

8.5 Please provide an update on the seasonal efficiency of the boilers/heat pump system and explain whether the heat pumps are now supplying the majority of the thermal energy, as described in FAES' above response.

9.0 Reference: FORECAST AND ACTUAL COST OF SERVICE
Exhibit B-1, Appendix A, Schedule 4; FAES DSD F2015-16 RRA proceeding; Exhibit B-4, BCUC IR 1.8.1; Exhibit B-6, BCUC IR 2.3.2
Cost of electricity and utilization

The following table summarizes the actual electricity consumption and costs based on the information provided in Schedule 4 of the Financial Schedules attached to Appendix A.

Year	Consumption (MWh)	Costs ($000's)
2012/13	3	0
2013/14	335	34
2014/15	287	31
2015/16	233	26
2016/17	359	33
2017/18 (Forecast)	359	34
2018/19 (Forecast)	359	34

In response to BCUC IR 1.8.1 in the FAES DSD F2015-16 RRA proceeding, FAES stated: "It is anticipated that with the modified sequence of operation the utilization of electricity can increase between 35 to 50 per cent."

9.1 Please explain why the electricity consumption decreased in 2014/15 and 2015/16 compared to 2013/14.

9.2 Please explain whether the increase in electricity consumption in 2016/17 is in line with FAES' expectations stated in the F2015/16 RRA and provide the current percentage increase in utilization.

9.3 Please discuss FAES' expectations regarding future electricity utilization and the impact this would have on the future annual COS.

In response to BCUC IR 2.3.2 in the FAES DSD F2015-16 RRA proceeding regarding the reasons for the decrease in electricity consumption, FAES stated the following:

> FAES agrees that forecast accuracy, the current seasonal utilization of the heat pumps and inclusion of equipment owned by the DSD in the original forecast all likely contributed to the lower electricity usage than forecast. Respectfully, since FAES and the DSD are currently investigating and analyzing the operation, FAES is not in a position at this time to identify the contribution of each variable to the overall variance.

9.4 Please provide an updated response to BCUC IR 2.3.2 and discuss the results of FAES and DSD's investigation and analysis of the operations of the heat pumps and DSD-owned equipment.

10.0 Reference: FORECAST AND ACTUAL COST OF SERVICE
Exhibit B-1, Appendix A, p. 6, Table 3; Financial Schedules, Schedule 5
Operations, Maintenance and Administration

In Table 3 on page 6 of Appendix A, FAES provides a continuity schedule showing the forecast and actual annual cost of service, including the Operations, Maintenance and Administration (OM&A) expense.

In Schedule 5 of the Appendix A Financial Schedules, FAES provides a detailed breakdown of Actual Annual OM&A expenses.

10.1 Please amend Schedule 5 to include both the Forecast and Actual Annual OM&A expenses and please explain the reason for the variances between forecast and actual amounts for each line item.

11.0 Reference: OPERATIONS, MAINTENANCE AND ADMINISTRATION
Exhibit B-1, Appendix A, Financial Schedules, Schedule 5
Forecast OM&A

11.1 In consideration of the six years of actual OM&A results, please provide the forecast annual OM&A amounts for the remainder of the initial RDA term in the same level of detail as provided in Schedule 5 of the Financial Schedules.

11.1.1 Please compare the forecast provided in the above response to the forecast OM&A provided in Schedule 4 of the Compliance Filing to Order G-71-12 and explain any variances exceeding plus or minus 5 percent.

12.0 Reference: OPERATIONS, MAINTENANCE AND ADMINISTRATION
Exhibit B-1, Appendix A, p. 2; Financial Schedules, Schedule 5
Labour Costs

Schedule 5 of the Financial Schedules in Appendix A to the Application shows the following annual Labour Costs:

- 2014/15 - $30,000
- 2015/16 - $28,000
- 2016/17 - $26,000
- 2017/18 - $20,000
- 2018/19 - $20,000

12.1 Please provide a description of the annual labour costs included in OM&A.

12.2 Please explain why no labour costs were incurred during the first two years of the RDA term (i.e. 2012/13 and 2013/14) but have since been incurred by FAES.

12.3 Please explain who is incurring the labour costs, the type of work performed by the individual(s), and how the individual(s) time is being tracked and charged to the DSD project.

12.4 Please explain why labour costs have been decreasing annually between 2014/15 and 2017/18 and why, based on historical results, FAES forecasts labour costs to remain stable in 2018/19.

12.5 What are FAES' expectations regarding labour costs for the remainder of the initial RDA term? Please explain.

13.0 Reference: OPERATIONS, MAINTENANCE AND ADMINISTRATION
Exhibit B-1, Appendix A, p. 2; Financial Schedules, Schedule 5
Employee Expenses

Schedule 5 of the Financial Schedules in Appendix A to the Application shows amounts for Employee Expenses in 2014/15 of $18,000 and in 2015/16 of $15,000.

13.1 Please provide a breakdown and description of the Employee Expenses incurred in 2014/15 and 2015/16, including why these costs were incurred.

13.2 Does FAES anticipate incurring Employee Expenses in the future? Please explain why or why not.

14.0 Reference: OPERATIONS, MAINTENANCE AND ADMINISTRATION
Exhibit B-1, Appendix A, p. 2; Financial Schedules, Schedule 5
Fees & Administration Costs

Schedule 5 of the Financial Schedules in Appendix A to the Application shows the following annual Fees & Administration Costs:

- 2012/13 - $3,000
- 2013/14 - $26,000
- 2014/15 - $0
- 2015/16 - $19,000
- 2016/17 - $1,000
- 2017/18 - $0
- 2018/19 - $0

14.1 Please provide a description and breakdown of the Fees & Administrations Costs incurred in years 2012/13, 2013/14, 2015/16 and 2016/17, including why these costs were incurred in some years but not others.

14.2 Does FAES anticipate incurring Fees & Administration Costs in the future? Please explain why or why not.

15.0 Reference: OPERATIONS, MAINTENANCE AND ADMINISTRATION
Exhibit B-1, Appendix A, p. 2; Financial Schedules, Schedule 5
Contractor Costs

Schedule 5 of the Financial Schedules in Appendix A to the Application shows the following annual Contractor Costs:

- 2012/13 - $0
- 2013/14 - $90,000
- 2014/15 - $80,000
- 2015/16 - $111,000
- 2016/17 - $184,000
- 2017/18 - $124,000
- 2018/19 - $124,000

On page 2 of Appendix A, FAES states the following:

> FAES forecasts that during the fiscal year 2018/19, the annual maintenance costs will amount to $144,000. FAES has contracted Johnson Controls to provide operations and maintenance on the equipment as of 2017, replacing the DSD facilities staff. In 2017/18, FAES will replace a boiler at Sunshine Hills Elementary School, a compressor at Delview Secondary School and a heat pump compressor at South Delta Secondary School. In 2018/19, FAES also expects to replace another boiler at Sunshine Hills Elementary.

15.1 Please confirm, or explain otherwise, that the $144,000 forecast annual maintenance cost for fiscal year 2018/19 is comprised of Labour Costs of $20,000 and Contractor Costs of $124,000.

15.2 Please confirm, or explain otherwise, that all of the costs related to Johnson Controls are recorded in the $124,000 Contractor Cost line item in the OM&A expenses in Schedule 5.

15.3 Please clarify if the Contractor Costs incurred in fiscal years 2013/14 through 2016/17 were related to payments to DSD facilities staff.

15.4 Please explain why, as of 2017, FAES is no longer utilizing DSD facilities staff for operations and maintenance on the equipment.

15.4.1 What is the forecast impact on operations and maintenance costs as a result of switching from utilizing DSD facilities staff to contractors? Please provide all calculations and assumptions.

15.5 Please confirm, or explain otherwise, that Johnson Controls was selected based on a competitive bidding process and that the rates charged by Johnson Controls are consistent with competitive market rates.

15.6 For each of the fiscal years' 2013/14 through 2017/18, please provide a detailed breakdown and description of the maintenance costs incurred, including a description of the activities performed, the equipment that was replaced and why, the equipment that was repaired and why, the number of hours spent on these activities, and the rates charged.

15.7 For each of the fiscal years' 2013/14 through 2017/18, please indicate the percentage of time spent on operations and maintenance activities by DSD facilities staff versus outside contractors and the percentage of costs attributable to DSD facilities staff versus outside contractors.

15.7.1 For years where both DSD facilities staff and outside contractors were utilized, please explain why.

15.8 Please explain if the boiler, compressor and heat pump compressor planned to be replaced in 2017/18 had reached the end of their useful lives. If not, please explain why they require replacement at this time.

15.9 Please compare FAES' expectations/forecasts for operations and maintenance costs as well as asset replacements for the first five years of the RDA term when the 2011 Certificate of Public Convenience and Necessity (CPCN) was filed compared to the actual costs and replacements which have occurred in the first five years.

15.10 Please provide an updated forecast for operations and maintenance costs for the remainder of the initial RDA term and compare this forecast to the original forecast presented in the 2011 CPCN. Please explain all significant differences.

16.0 Reference: OPERATIONS, MAINTENANCE AND ADMINISTRATION
Exhibit B-1, Appendix A, p. 2, Financial Schedules, Schedule 5; Order G-71-12
Capitalized overhead

Directive 1 of Order G-71-12 stated the following:

1. The rate design is approved but the Panel is not accepting the rates until all its prior conditions are met and revised schedules are filed as follows:

    a. The methodology of calculating capitalized overhead at 14 percent of gross project operating and maintenance costs is accepted at this time for the Delta School District project, but only for the years where capital additions or capital replacements are expected. FAES is to recalculate the cost-of-service rate based on this amendment and submit the revised rate to the Commission within 10 business days.

    b. In future Delta School District revenue requirements applications, FAES is directed to apply the appropriate capitalization rate, based on the appropriate accounting policies in place at that time.

FAES states on page 2 of Appendix A that it is capitalizing $28,000 of OM&A in each of 2017/18 and 2018/19.

16.1 Please clarify if a 14 percent capitalization rate is in accordance with FAES' current accounting policies and provide the supporting accounting standard(s).

17.0 Reference: OVERHEADS AND SHARED SERVICES ALLOCATION
Exhibit B-1, Appendix A, p. 2, Financial Schedules, Schedule 5; Order G-71-12; Order G-167-17
Thermal Energy Services Deferral Account allocation

FAES states the following on page 2 of Appendix A:

> Order G-71-12 directed FAES to include $50,000 as a forecast for overhead charges as a proxy for an actual value, until such time as sufficient operational experience is gained and cost allocation methods are in place to update the estimate with actual overhead charges. At the time that this amount was derived, all overheads provided by FEI to the TES service were recorded in the TESDA [Thermal Energy Services Deferral Account] balance. These amounts alone contributed $3,320,000 to the TESDA balance from 2011 through 2014, not including carrying costs.

17.1 Please confirm, or explain otherwise, that the $3,320,000 amount referenced in the above preamble is related to all overhead charges provided by FortisBC Energy Inc. (FEI) for TES services and not specifically related to overhead or management services provided to DSD.

Directive 1(c) of Order G-71-12 stated the following:

c. FAES is to file an annual affiliate charges report with the Commission detailing the actual costs incurred by FEI or other related entities that have provided services to the Delta School District and charged through the Transfer Pricing Policy mechanism. Details of the report should include the type and value of charges. The first report is due to the Commission no later than one year from the date of this Decision. The $50,000 per annum proxy is accepted for the time being but FAES is directed to provide full detailed forecasts of overhead and shared services costs as part of its next Delta School District revenue requirement application.

On July 31, 2013, FAES filed in compliance to Order G-71-12, the annual affiliate charges report, which included the following:

> Accordingly, FAES is submitting this Annual Affiliate Charges Report stating the actual costs incurred by FEI to provide service to FAES for the DSD through the Transfer Pricing Policy for the period of July 1, 2012 to June 30, 2013. A summary of charges are as follows:
>
> a) Total FEI capital charges= $50,444
>
> b) Total FEI O&M charges = $17,783
>
> FEI's capital charges include the time charged during the DSD construction phase while the O&M charges include the time charged after the in-service date of the DSD system.

On July 31, 2014, FAES filed in compliance to Order G-71-12, the annual affiliate charges report, which included the following:

> Accordingly, FAES is submitting this Annual Affiliate Charges Report stating the actual costs incurred by FEI to provide service to FAES for the DSD through the Transfer Pricing Policy for the period of July 1, 2013 to June 30, 2014. A summary of charges are as follows:
>
> a) Total FEI capital charges = $40,442
>
> b) Total FEI O&M charges = $4,152
>
> FEI's capital charges include the time charged during the DSD construction phase while the O&M charges include the time charged after the in-service date of the DSD system.

17.2 Please explain how the above capital charges and O&M charges were accounted for by FAES and how FAES recovered these charges from DSD.

17.3 Please clarify FAES' explanation of the capital charges incurred for the period July 1, 2013 through June 30, 2014 which states "capital charges include the time charged during the DSD construction phase". Specifically, please explain whether the DSD system was in place during this time period and, if so, how the capital costs could have been incurred during the DSD construction phase.

On July 31, 2015, FAES filed in compliance to Order G-71-12, the annual affiliate charges report, which included the following:

> Accordingly, FAES is submitting this Annual Affiliate Charges Report stating the actual costs incurred by FEI to provide service to FAES for the DSD through the Transfer Pricing Policy for the period of July 1, 2014 to June 30, 2015. A summary of charges are as follows:

	July 1, 2012 to June 30, 2013	July 1, 2013 to June 30, 2014	July 1, 2014 to June 30, 2015
Capital	$ 50,444.00	$ 40,442.00	$ -
O&M	$ 17,783.00	$ 4,152.00	$ -
	$ 68,227.00	$ 44,594.00	$ -

> FAES notes that the FEI capital and O&M charges have fallen to $0. This is due to the transfer of employees from FEI to FAES in January 2014, prior to the reporting period from July 1, 2014 to June 30, 2015. In addition, FAES has also been utilizing outside contractors, including DSD staff, where feasible to operate, maintain and repair the energy systems in place at the DSD. Finally, for other overhead services that FAES obtains from FEI, such as regulatory support, from time to time, those charges are covered as part of the continuing services contract FAES has with FEI in compliance with the Code of Conduct and Transfer Pricing Policy set out in BCUC Order G-31-15

17.4 Please provide a breakdown and description of the annual overhead services amount charged to FAES from FEI since the approval of the Code of Conduct and Transfer Pricing Policy set out in BCUC Order G-31-15.

17.4.1 Please explain how much of the above annual overhead services amount, if any, is attributable to the DSD and explain why.

17.5 Based on FAES' operational experience with DSD in the past 5 years, please provide a detailed breakdown of the overhead, shared services costs, and other indirect costs associated with DSD. Please explain in detail the nature of these costs, how the amounts were determined, and why they are appropriately attributable to the DSD.

17.5.1 If FAES were approved to only recover ongoing annual overhead, shared services costs and indirect costs associated with DSD and not costs related to the recovery of the Thermal Energy Services Deferral Account (TESDA), please indicate what the annual amount charged to DSD would be.

Directive 1 of Order G-167-17 stated the following:

> 1. FAES is approved to amortize the TESDA balance in the manner described in the Application, such that:
>   a. FAES will amortize amounts each year to the Legacy, Micro TES, and Stream A TES projects consistent with its negotiated customer agreements; and
>   b. The future amortization of the TESDA balance to the Delta School District project or any future Stream B TES projects is excluded from the scope of this order, and will be the subject of future Commission orders, as required.

FAES states on page 2 of the Application that it proposes to include in the Cost of Service an amount each year equal to the original forecast provided in the CPCN and rates application, which is equal to $50,000 in 2013/14 and escalated at two percent each year thereafter.

FAES further states that "[i]n this manner, the overhead allocation…is consistent with the amounts included in the original application".

17.6 Please provide FAES' (FEI's) original rationale and methodology supporting the proposed $50,000 annual allocation and please provide a detailed justification for why this allocation amount continues to be appropriate based on FAES and DSD's current operating environment.

17.7 Please provide a detailed breakdown and description, by category, of the costs recorded in the TESDA, including the total TESDA balance as of FAES' most recent year end.

17.7.1 For each category of costs, please explain why it is appropriate to recover these costs from DSD through the proposed $50,000 annual overhead charge.

17.8 Please provide a discussion of alternative allocation methods which could be utilized to allocate costs from the TESDA to DSD and provide the resulting allocation amounts under each alternative method, with supporting calculations.

18.0 Reference: DEPRECIATION
Exhibit B-1, Appendix A, pp. 2–3, Schedule 10
Contributions in Aid of Construction

On page 3 of Appendix A, FAES states the following:

> FAES has identified an error in the amortization rate used for the CIAC and has updated the amortization rate to reflect all assets in service as of 2018/19, resulting in a lower amortization rate of 3.17% instead of 5.36% which was used previously. This reduces the CIAC amortization each year from $65 thousand to $33 thousand, which subsequently increases the depreciation expense while keeping a larger CIAC balance to reduce rate base and the associated costs including earned return.

Appendix A, Schedule 10 of Exhibit B-1 indicates Contributions in Aid of Construction (CIAC) of $1,212,000.

On page 23 of the original CPCN application,[2]it is stated that:

> The SD will be contributing $1.357 million as CIAC towards this Project in order to minimize the rates that FEI will charge for the thermal energy over time. The SD received this amount from the Province via the Public Sector Energy Conservation Agreement ("PSECA") as a result of this Project and has chosen to contribute those funds to FEI in exchange for lower rates for thermal energy.

18.1 Please elaborate on the specifics of the error that has been identified in the amortization rate for the CIAC, including a detailed explanation of what has been changed.

18.2 Please explain why the beginning CIAC balance of ($1,212,000) in Schedule 10 is different from the CIAC amount of ($1,357,000) referenced on page 23 of the original CPCN application.

19.0 Reference: ACTUAL COS VERSUS FORECAST COS
Exhibit B-1, Section 3.2, p. 17; Appendix A, Schedule 2; FAES DSD F2015–16 RRA proceeding; Exhibit B-4, BCUC IR 1.2.1
Capital Cost Allowance

FAES states on page 17 of the Application that the "higher COS in the initial years relates to the delay in realization of Capital Cost Allowance tax benefits as compared to the initial forecast."

In response to BCUC IR 1.2.1 in the FAES DSD F2015-16 RRA proceeding, FAES stated the following:

> It is important to note that the CPCN Application was submitted by FortisBC Energy Inc. (FEI), meaning that the Capital Cost Allowance benefits would have been monetized in the years that they occurred, rather than the losses carried forward as they are now…As FAES does not generate enough taxable income to recognize these amounts in current taxes, FAES reduces the taxes to zero and carries the balance forward for offsetting future taxes.

19.1 Please confirm, or explain otherwise, that the explanation provided by FAES in response to BCUC IR 1.2.1 is consistent with the delay in realization of the Capital Cost Allowance (CCA) benefits referred to on page 17 of the Application.

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[2] Application for a CPCN for Approval of Contracts and Rates for Public Utility Service to Provide Thermal Energy Service to Delta School District 37 (original CPCN application), Exhibit B-1, p. 23

19.2 Please discuss whether FAES anticipates that it will be able to realize the CCA tax benefits during the initial RDA term. If yes, please explain when these benefits would likely start to be realized and explain the impact that these deductions would have on DSD's future COS.