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October 24, 2018

VIA ELECTRONIC MAIL

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**Attention: Patrick Wruck, Commission Secretary
 and Manager, Regulatory Support**

Dear Sirs/Mesdames:

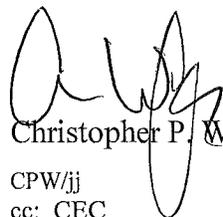
**Re: FortisBC Energy Inc. 2019 and 2020 Revenue Requirements and Rates Application
 for the Fort Nelson Service Area ~ Project No. 1598970**

We are counsel to the Commercial Energy Consumers Association of British Columbia (the "CEC"). Attached please find the CEC's first set of Information Requests with respect to the above-noted matter.

If you have any questions regarding the foregoing, please do not hesitate to contact the undersigned.

Yours truly,

OWEN BIRD LAW CORPORATION



Christopher P. Weafer

CPW/jj
 cc: CEC
 cc: FortisBC Energy Inc.
 cc: Registered Interveners

**COMMERCIAL ENERGY CONSUMERS ASSOCIATION
OF BRITISH COLUMBIA**

INTERVENER INFORMATION REQUEST NO. 1

**FortisBC Energy Inc. 2019 and 2020 Revenue Requirements and Rates
Application for the Fort Nelson Service Area
Project No. 1598970**

October 24, 2018

1. Reference: Exhibit B-1, page 12

Table 2-3: Total Annual Bill Impacts for Average Customers (incl. RDA, RRA, and RSAM)⁸

Rate Schedule	GJ	2019		2020	
		Annual \$ Increase	% of Previous Annual Bill	Annual \$ Increase	% of Previous Annual Bill
Rate Schedule 1 Residential Service	125	\$ 48	6.26%	\$ 48	5.80%
Rate Schedule 2 Small Commercial Service	350	\$ (18)	(0.71%)	\$ 154	6.24%
Rate Schedule 3 Large Commercial Service	3,165	\$ (1,271)	(6.60%)	\$ 1,041	5.78%
Rate Schedule 25 General Firm Transportation Service	41,500	\$ 6,842	4.16%	\$ 13,009	7.60%

As shown in Table 2-3 above, the total bill impacts to be experienced by the individual Rate Schedules are less than 10 percent in each year of 2019 and 2020 when combining both the RDA decision and the 2019/2020 Revenue Requirements. As discussed in the RDA Decision, Elenchus Research Associates Inc. (Elenchus), an independent consultant retained by the Commission staff in FEI's 2016 RDA, observed that a common threshold for defining a rate/bill increase that constitutes rate shock is a double-digit increase (i.e. 10 percent or more)⁹. Since the total bill impact to be experienced by each Rate Schedule, including Residential, is less than 10 percent in each year for 2019 and 2020, FEI is not proposing any mitigation mechanism to

⁷ Annual bills shown in Table 2-2 do not include RSAM Rate Rider

⁸ The 2019 RSAM Rate Rider 5 included in the total bill impact calculations is proposed to be \$0.199 per GJ (as outlined in Section 3.4), which is a decrease of \$0.192 per GJ from the 2018 RSAM Rate Rider 5 of \$0.391 per GJ. For 2020, the RSAM rate rider used for the total bill impact calculation equals the proposed 2019 RSAM Rider 5 rate rider of \$0.199 per GJ; therefore the bill impacts represent no change in the RSAM rate rider.

⁹ Commission Order G-135-18 and Decision, page 57

- 1.1 Please confirm that the 'rate shock' definition of a double-digit increase would apply to a single year, and does not carry over to double digit increases occurring over 2 or more years.

2. Reference: Exhibit B-1, page 13 and 14

Table 2-4: Comparison between FEI and FEFN Delivery Rates^{11,12}

	FEI Proposed Rate (2019)	Fort Nelson Proposed Rates (2019)	Difference	FN/FEI	Fort Nelson Proposed Rates (2020)	Difference	FN/FEI
Rate Schedule 1							
Basic Charge/Day	\$ 0.3890	\$ 0.3701	\$ (0.0189)		\$ 0.3701	\$ (0.0189)	
Delivery Charge/GJ	\$ 4.370	\$ 3.712	\$ (0.658)		\$ 4.093	\$ (0.277)	
Annual Usage (GJ)	125	125			125		
Effective Rate/GJ	\$ 5.51	\$ 4.79	\$ (0.71)	(13%)	\$ 5.17	\$ (0.33)	(6%)
Rate Schedule 2							
Basic Charge/Day	\$ 0.8161	\$ 1.2151	\$ 0.3990		\$ 1.2151	\$ 0.3990	
Delivery Charge/GJ	\$ 3.523	\$ 3.996	\$ 0.473		\$ 4.435	\$ 0.912	
Annual Usage (GJ)	349	349			349		
Effective Rate/GJ	\$ 4.38	\$ 5.27	\$ 0.89	20%	\$ 5.71	\$ 1.33	30%
Rate Schedule 3							
Basic Charge/Day	\$ 4.3538	\$ 3.6845	\$ (0.6693)		\$ 3.6845	\$ (0.6693)	
Delivery Charge/GJ	\$ 2.939	\$ 3.492	\$ 0.553		\$ 3.821	\$ 0.882	
Annual Usage (GJ)	3,164	3,164			3,164		
Effective Rate/GJ	\$ 3.44	\$ 3.92	\$ 0.48	14%	\$ 4.25	\$ 0.80	23%
Rate Schedule 25							
Admin Charge/Mth	\$ 78.00	\$ 39.00			\$ 39.00		
Basic Charge/Mth	\$ 587.00	\$ 600.00			\$ 600.00		
Demand Charge/GJ/Mth	\$ 20.077	\$ 31.785	11.708		\$ 34.449	14.372	
Delivery Charge/GJ	\$ 0.825	\$ 1.053	0.228		\$ 1.141	0.316	
Contract Demand	293	293			293		
Annual Usage (GJ)	41,500	41,500			41,500		
Effective Rate/GJ	\$ 2.72	\$ 3.93	\$ 1.21	45%	\$ 4.24	\$ 1.53	56%

As shown above, the proposed Fort Nelson residential customers' effective delivery rate for 2019 and 2020, including the impact of the RDA Decision and the 2019/2020 RRA, continues to be lower than FEI's residential customers' delivery rates. However, the effective delivery rates for commercial and industrial customers will be higher than FEI's commercial and industrial customers. For instance, commercial customers in Fort Nelson with annual consumption less than 2,000 GJ (Rate Schedule 2, formerly Rate 2.1) will have effective delivery rates approximately 20 percent and 30 percent higher than FEI in 2019 and 2020, respectively; commercial customers with annual consumption greater than 2,000 GJ (Rate Schedule 3, formerly Rate 2.2) will have effective delivery rates approximately 14 percent and 23 percent high than FEI in 2019 and 2020, respectively; and industrial customers in Fort Nelson under Rate Schedule 25 will have effective delivery rates 45 percent and 56 percent higher than FEI in 2019 and 2020, respectively.

- 2.1 Please provide a brief discussion of the underlying reasons behind the relatively higher commercial and industrial rates when compared to FEI postage stamp rates, particularly in light of the lower residential rates. Please also provide the R:C ratios for each rate class.
- 2.2 Does FEI expect to conduct rebalancing between rate classes for FEI Fort Nelson at some point in the future? Please explain why or why not.

2.2.1 If yes, please advise when this is expected to occur.

3. Reference: Exhibit B-1, page 24 and 25

The Conference Board of Canada (CBOC) housing starts forecast provides a proxy for Fort Nelson's residential customer additions. The year over year growth rate is calculated for 2019 to 2020 based on the CBOC Provincial Medium Term forecast on January 19, 2018, Table 156 and Table 157. The CBOC Provincial Medium Term forecast is provided in Appendix A1.

4.4.1 Residential Customer Additions

As shown in Figure 4-2 below, FEFN has experienced negative net customer additions in both 2016 and 2017. In the absence of the Prophet River Extension, and based on the CBOC forecast, FEFN would have forecasted a further loss of 18 customers in 2019. However, the addition of 53 customers from PRFN temporarily reverses the trend in 2019. In 2020, the forecast is once again based solely on the CBOC predictions and the net additions are forecast to be negative.

- 3.1 Please provide any other sources of information for housing starts that could be substituted for the CBOC forecast.
- 3.2 Are there other significant linkages other than housing starts that would be relevant to predicting customer growth? If yes, please provide.

4. Reference: Exhibit B-1, Appendix A2 page 3

Table A2-3: FEFN Demand Variances

Rate Schedule 1 - Residential	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Forecast	291,154	272,606	263,045	258,951	273,297	274,309	270,571	268,635	267,546	261,825
Actual	268,169	266,370	271,367	267,722	269,235	270,062	267,589	265,419	262,275	251,350
Error = (ACT-FCST)	(22,985)	(6,236)	8,322	8,771	(4,063)	(4,247)	(2,982)	(3,216)	(5,271)	(10,475)
Percent Error = (Error/ACT)	-8.6%	-2.3%	3.1%	3.3%	-1.5%	-1.6%	-1.1%	-1.2%	-2.0%	-4.2%
Rate Schedule 2.1 - Small Commercial	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Forecast	209,910	186,312	181,641	182,772	203,246	207,927	208,999	208,315	208,642	211,897
Actual	184,532	191,342	193,609	205,891	205,024	204,488	203,517	222,697	221,733	214,211
Error = (ACT-FCST)	(25,378)	5,030	11,968	23,119	1,778	(3,440)	(5,482)	14,382	13,091	2,314
Percent Error = (Error/ACT)	-13.8%	2.6%	6.2%	11.2%	0.9%	-1.7%	-2.7%	6.5%	5.9%	1.1%
Rate Schedule 2.2 - Small Commercial	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Forecast	96,042	87,957	94,774	94,774	101,063	104,320	109,660	115,656	120,843	56,570
Actual	88,281	94,378	94,669	96,842	100,065	109,821	106,168	64,924	55,081	48,357
Error = (ACT-FCST)	(7,761)	6,421	(105)	2,068	(998)	5,502	(3,492)	(50,732)	(65,762)	(8,213)
Percent Error = (Error/ACT)	-8.8%	6.8%	-0.1%	2.1%	-1.0%	5.0%	-3.3%	-78.1%	-119.4%	-17.0%
Commercial	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Forecast	305,952	274,269	276,415	277,547	304,309	312,247	318,658	323,972	329,485	268,467
Actual	272,813	285,721	288,278	302,734	305,089	314,309	309,685	287,621	276,814	262,568
Error = (ACT-FCST)	(33,139)	11,452	11,863	25,187	780	2,062	(8,973)	(36,351)	(52,672)	(5,899)
Percent Error = (Error/ACT)	-12.1%	4.0%	4.1%	8.3%	0.3%	0.7%	-2.9%	-12.6%	-19.0%	-2.2%
Rate Schedule 25 - General Firm Transportation	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Forecast	276,063	239,795	58,492	58,492	54,995	54,995	67,084	55,832	49,000	39,685
Actual	209,955	68,982	54,995	51,354	55,832	60,756	67,598	49,790	41,110	41,847
Error = (ACT-FCST)	(66,108)	(170,813)	(3,496)	(7,138)	837	5,761	515	(6,042)	(7,890)	2,162
Percent Error = (Error/ACT)	-31.5%	-247.6%	-6.4%	-13.9%	1.5%	9.5%	0.8%	-12.1%	-19.2%	5.2%
Total Demand	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Forecast	873,169	786,670	597,952	594,989	632,602	641,551	656,313	648,439	646,031	569,978
Actual	750,937	621,072	614,641	621,809	630,155	645,127	644,872	602,830	580,199	555,765
Error = (ACT-FCST)	(122,232)	(165,598)	16,689	26,820	(2,447)	3,576	(11,441)	(45,609)	(65,832)	(14,212)
Percent Error = (Error/ACT)	-16.3%	-26.7%	2.7%	4.3%	-0.4%	0.6%	-1.8%	-7.6%	-11.3%	-2.6%

- 4.1 Rate Schedule 1 (Residential) has experienced consistent over-forecasting for 8 of the last 10 years shown, and for all 6 of the last 6 years. Please comment on what steps, if any, FEFN is taking to improve its forecasting methodologies for the residential rate class.
- 4.2 Commercial rate schedules have experienced over-forecasting for 5 of the last 10 years shown, and for all of the last 4 years. Please comment on what steps, if any, FEFN is taking to improve its forecasting methodologies for the commercial rate class, particularly the small commercial rate class 2.2 which experiences the most significant variances.
- 4.3 Please identify all the ways in which FEFN's demand forecasting directly and indirectly impacts its O&M expenditures in a given year, and over 5 years and 10 years.

5. Reference: Exhibit B-1, page 27 and Appendix A2 page 3

4.5 USE RATES (RESIDENTIAL AND COMMERCIAL CUSTOMERS)

FEI developed individual UPC forecasts for each rate schedule by considering the recent (three year) historical weather-normalized use per account. See Appendix A3 for a more detailed description of FEI's UPC forecast methods.

The Rate Schedule 1 UPC is forecast to continue to decline through the Test Period as seen in Figure 4-4 below.

Table A2-4: FEFN UPC Variances

Rate Schedule 1 - Residential	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Forecast	149	140	136	133	140	140	138	136	135	133
Actual	140	138	141	138	139	139	137	136	134	130
Error = (ACT-FCST)	(9)	(2)	5	5	(1)	(1)	(1)	(1)	(1)	(3)
Percent Error = (Error/ACT)	-6.6%	-1.2%	3.6%	3.5%	-1.1%	-1.0%	-0.8%	-0.5%	-0.4%	-2.6%

Rate Schedule 2.1 - Small Commercial	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Forecast	503	474	435	435	466	465	463	453	437	444
Actual	449	464	468	476	465	460	456	482	466	448
Error = (ACT-FCST)	(54)	(10)	34	41	(1)	(5)	(7)	29	29	4
Percent Error = (Error/ACT)	-12.0%	-2.1%	7.2%	8.6%	-0.3%	-1.1%	-1.6%	6.1%	6.1%	0.8%

Rate Schedule 2.2 - Small Commercial	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Forecast	3,312	3,157	3,385	3,385	3,609	3,726	3,487	3,535	3,699	8,081
Actual	3,137	3,371	3,388	3,326	3,228	3,555	3,425	6,616	7,869	8,086
Error = (ACT-FCST)	(175)	214	3	(59)	(381)	(171)	(62)	3,081	4,169	4
Percent Error = (Error/ACT)	-5.6%	6.3%	0.1%	-1.8%	-11.8%	-4.8%	-1.8%	46.6%	53.0%	0.1%

- 5.1 Rate Schedule 1 (Residential) has experienced consistent over-forecasting for 8 of the last 10 years shown, and for all 6 of the last 6 years. Please comment on why FEFN believes its UPC forecasts have been consistently high for RS 1.
- 5.2 Please discuss what steps FEFN is taking, if any, to improve its UPC forecasting methodologies for the residential rate class.
- 5.3 Please provide FEFN's views on why the RS 2.1 UPC has been declining since 2015.
- 5.4 Commercial rate schedules experienced significant under forecasting of its UPC for 2015 and 2016, with over forecasting for several other years. Please comment on why FEFN believes its UPC forecasts appear to have variable accuracy.
- 5.5 What caused the significant increase in UPC in RS 2.2 between the years 2015 and 2017? Please explain.
- 5.6 Please comment on what steps FEFN is taking to improve its UPC forecasting methodologies for the commercial rate class, particularly the small commercial rate class 2.2 which experiences the most significant variances.

5.7 Please provide FEFN’s views on why the residential UPC rates have been steadily declining since 2008.

6. Reference: Exhibit B-1, Appendix A2 page 4

Table A2-6: FEFN Customer Additions Variances

Rate Schedule 1 - Residential	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Forecast	45	9	10	10	11	13	12	13	13	1
Actual	(3)	-	12	18	8	12	3	1	(18)	(18)
Error = (ACT-FCST)	(48)	(9)	2	8	(3)	(1)	(9)	(12)	(31)	(19)
Percent Error = (Error/ACT)	1600.0%		16.7%	44.4%	-37.5%	-8.3%	-300.0%	-1200.0%	172.2%	105.6%

Rate Schedule 2.1 - Small Commercial	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Forecast	13	3	3	2	11	11	11	11	11	2
Actual	6	(2)	9	26	4	3	-	28	4	(2)
Error = (ACT-FCST)	(7)	(5)	6	24	(7)	(8)	(11)	17	(7)	(4)
Percent Error = (Error/ACT)	-116.7%	250.0%	66.7%	92.3%	-175.0%	-266.7%		60.7%	-175.0%	200.0%

Rate Schedule 2.2 - Large Commercial	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Forecast	(1)	-	-	-	-	-	1	1	1	-
Actual	(2)	-	-	3	-	-	-	(24)	-	(1)
Error = (ACT-FCST)	(1)	-	-	3	-	-	(1)	(25)	(1)	(1)
Percent Error = (Error/ACT)	50.0%			100.0%				104.2%		100.0%

6.1 Please correct the Percent Error calculations in the above tables where there was a negative Actual and negative Error, in order to consistently demonstrate the direction of the error. For example, RS 1 2008 Percent Error should read (-1600%) not 1600%.

6.2 Please discuss FEFN’s plans, if any, to improve its customer additions forecasting for the Residential and Commercial rate schedules.

7. Reference: Exhibit B-1, page 37

Table 4-3: 2017-2020 Other Revenue Components (\$000s)

	Approved 2017	Actual 2017	Approved 2018	Projected 2018	Forecast 2019	Forecast 2020
Late Payment Charge	17	14	17	13	13	12
Application Charge	9	7	9	8	5	5
Other Recoveries	-	-	-	-	-	-
Total Other Operating Revenue	26	21	26	21	18	17

7.1 Why does FEFN expect that ‘Application Charges’ will decline from a steady figure of between 7-9 to 5 in F2019 and F2020? Please explain.

8. Reference: Exhibit B-1, page 41

6.3 FORECAST O&M

Table 6-1 below provides a combined resource view of the direct and allocated O&M costs for the years 2017 through 2020. The O&M forecasts for 2019 and 2020 were determined in accordance with the methodology described above.

Table 6-1: O&M Resources Required for FEFN (\$ thousands)

Particulars	2017 Approved	2017 Actual	2018 Approved	2018 Projected	2019 Forecast	2020 Forecast
M&E Costs	\$ 19	\$ 25	\$ 19	\$ 18	\$ 19	\$ 19
IBEW Costs	330	132	338	364	327	331
Labour Costs	349	157	357	382	346	350
Vehicle Costs	44	22	45	43	44	45
Employee Expenses	29	13	30	20	20	20
Materials and Supplies	8	8	8	8	8	8
Fees and Administration Costs	526	495	536	508	540	535
Contractor Costs	21	20	21	21	21	22
Facilities	41	32	42	34	36	37
Recoveries & Revenue	(2)	(2)	(2)	(2)	(2)	(2)
Non-Labour Costs	667	588	680	632	667	665
Total Gross O&M Expenses	1,016	745	1,037	1,014	1,013	1,015
Less: Capitalized Overhead	(122)	(122)	(124)	(124)	(121)	(122)
Total O&M Expenses	\$ 894	\$ 623	\$ 913	\$ 890	\$ 892	\$ 893

The 2017 Actual is lower compared to 2017 Approved, primarily due to an IBEW employee being on medical leave worth approximately \$40 thousand, an amount of approximately \$70 thousand for standby labour that was inadvertently excluded from the 2017 O&M, and lower than anticipated maintenance activities undertaken.

The 2018 Projected includes a true-up of \$70 thousand for 2017 Actual standby labour. Excluding this amount, the 2018 Projected is forecast to be lower than the 2018 Approved as one of the full-time IBEW employees was cross training in other areas outside of Fort Nelson during the first half of the year.

6.3.1.2 Employee Expenses

The 2019 and 2020 employee expenses are forecast to be the same as 2018 Projected. The 2018 Projected is lower than 2018 Approved due to lower than expected requirements for travel-related training for the two full-time IBEW employees and reduced Prince George Operations management team travel to FEFN. The 2017 Actual employee expenses are lower than 2017 Approved primarily due to an IBEW employee being on medical leave and reduced management team travel to FEFN.

8.1 Please provide an additional 3 years of historical information in the above table.

- 8.2 The IBEW Actual costs were approximately \$200,000 lower than Approved in 2017. Please confirm or otherwise explain that the 'lower than anticipated maintenance activities' amounted to approximately \$90,000.
 - 8.3 Please describe the 'lower than anticipated maintenance activities' and discuss why they were anticipated, but were not required.
 - 8.4 Does FEFN need to reschedule any maintenance activities in the future, or have these activities been undertaken or covered in plans for 2019-2020? Please explain.
 - 8.5 Please provide an estimate of the costs that were foregone as a result of the IBEW employee cross training and identify the costs for each category where they were reduced.
 - 8.6 Please explain why the 2018 Projected IBEW costs were higher than approved in 2018, and include a discussion of why this occurred when an IBEW employee was cross training outside of FEFN during the first half of the year.
9. **Reference: Exhibit B-1, page 42**

6.3.1.4 Fees and Administration Costs

For 2019, of the \$540 thousand forecasted fees and administration costs, \$528 thousand is the shared service fee, approximately \$1 thousand is related to FEFN's allocation of FEI's 2019-2022 DSM Expenditures application costs, and approximately \$8 thousand is related to the legal fees for the purchase of the Prophet River Extension and the remainder is for miscellaneous administration expenses. Please refer to Section 10 for further details related to the Prophet River Extension. The 2019 forecast shared service fee is increased by \$24 thousand from the 2018 Projected amount of \$504 thousand.

For 2020, of the \$535 thousand forecasted fees and administration costs, \$531 thousand is the shared service fee, which is a further \$3 thousand increase from the 2019 forecast.

- 9.1 Please explain why 'Fees and Administration costs' were approximately \$30,000 lower in the 2018 Projected than Approved.
- 9.2 Why are the Fees and Administration costs only decreased by \$5000 between F2019 and F2020 when the Prophet River Extension legal fees will be removed?

10. Reference: Exhibit B-1 page 46

Table 8-1: Rate Base (amounts in \$000s)

	Approved 2017	Actual 2017	Approved 2018	Projected 2018	Forecast 2019	Forecast 2020
Net Plant in Service, Mid-Year	10,793	11,138	11,019	11,340	11,610	11,894
Adjustment to 13 - Month Average	-	(42)	-	-	-	-
Work in Progress, No AFUDC	35	121	35	121	121	121
Unamortized Deferred Charges	297	376	126	198	130	21
Cash Working Capital	37	30	34	44	44	45
Other Working Capital	14	24	14	27	27	27
Utility Rate Base	\$ 11,176	\$ 11,648	\$ 11,228	\$ 11,730	\$ 11,932	\$ 12,108

The growth in rate base for the forecast period is largely attributable to capital additions. Each of the main components of rate base (plant balances, deferral accounts, and working capital) is discussed separately below.

8.2 NET PLANT IN-SERVICE (NPIS)

The mid-year NPIS balance of \$11,610 thousand in 2019 and \$11,894 thousand in 2020 per Table 8-1 above is the sum of the mid-year average of the gross plant in-service, contributions in aid of construction (CIAC), and accumulated depreciation and amortization related to these two items.

- 10.1 Why were FEFN's Projected Net Plant in Service, and Utility Rate Base significantly higher than the 2018 Approved. Please explain.
- 10.2 The 2018 Approved Utility rate base was more than \$400,000 lower than the 2017 actual, and only marginally higher than the 2017 Approved. Please discuss.

11. Reference: Exhibit B-1, page 47

Table 8-2: Summary of Gross Plant Additions (\$000s)²²

	Approved 2017	Actual 2017	Approved 2018	Projected 2018	Forecast 2019	Forecast 2020
Intangibles	46	74	46	46	28	28
Transmission	75	54	15	15	5	5
Distribution	307	302	388	399	575	463
General	50	50	50	50	41	41
Total	478	480	499	510	649	537

For 2017 and 2018 combined, capital additions were generally in line with amounts approved (Approved was \$977 thousand and Actual/Projected is \$990 thousand) with a variance of approximately 1.3 percent.

8.2.1.1 Intangible Plant

As approved in FEI's Annual Review for 2016 Rates²³, FEI is allocating Intangible capital costs to FEFN as of 2017. The amount of the allocation to FEFN's Intangible Plant in 2019 and 2020 is \$28 thousand, related to the purchase and sustainment of System Computer Software.

Please elaborate on the reduction of 'intangibles' from \$46,000 (2017 Approved and 2018 Projected and Approved) to \$28,000 in F2019 and F2020 and how this relates to a purchase and sustainment of System Computer Software.

- 11.1 Has FEFN been able to achieve quantifiable savings from its System Computer Software? If yes, for how long does FEFN expect these savings to continue?
- 11.2 If yes, did FEFN make an IT&T or other capital expenditure to create these savings? Please explain and provide quantification.

12. Reference: Exhibit B-1, page 47

Table 8-2: Summary of Gross Plant Additions (\$000s)²²

	Approved 2017	Actual 2017	Approved 2018	Projected 2018	Forecast 2019	Forecast 2020
Intangibles	46	74	46	46	28	28
Transmission	75	54	15	15	5	5
Distribution	307	302	388	399	575	463
General	50	50	50	50	41	41
Total	478	480	499	510	649	537

8.2.1.2 Transmission Plant

The forecast additions to transmission plant in 2019 and 2020 are forecasted to be less than prior years' capital expenditures.

Large projects that were identified and initiated in the period of 2015 and 2016, such as the replacement of transmission pipeline valves (2017 - \$169 thousand), are being completed in 2017 and 2018²⁴.

For 2019 and 2020, there are no significant projects planned with only minor cathodic protection issues intended to be addressed. The forecasted cost of this work is \$10 thousand with \$5 thousand in 2019 and \$5 thousand in 2020.

- 12.1 Please provide a brief elaboration on the completed projects and rationalize the 2017-\$169,000 figure in the text with the figures in Table 8-2.

13. Reference: Exhibit B-1, page 47 and page 48

Table 8-2: Summary of Gross Plant Additions (\$000s)²²

	Approved 2017	Actual 2017	Approved 2018	Projected 2018	Forecast 2019	Forecast 2020
Intangibles	46	74	46	46	28	28
Transmission	75	54	15	15	5	5
Distribution	307	302	388	399	575	463
General	50	50	50	50	41	41
Total	478	480	499	510	649	537

Table 8-3: Summary of Capital Additions for Distribution Assets (\$000s)

	Forecast 2019	Forecast 2020
Growth related Distribution Capital	23	28
Muskwa Gate Station Telemetry	163	-
Recreation Centre District Station Valve Replacement	-	74
Replacement of Steel Distribution Mains and Services	243	319
PRFN Project	104	-
Misc Sustainment Capital	42	42
Total	575	463

- 13.1 Why are capital additions for Distribution significantly higher for 2019 and F2020 than they have been in past years? Please explain.
- 13.2 Does FEFN typically attempt to smooth its capital additions over time? Please explain why or why not.
- 13.3 Does FEFN expect that its Distribution Gross Plant Additions will return to a lower level over the next five year after F2020? Please explain why or why not and provide quantification of the forecast changes that FEFN expects to see in the future.

14. Reference: Exhibit B-1, page 49

The forecast additions to distribution plant in 2019 and 2020 include:

- Growth related distribution capital (new mains, new services, and new meters) which is forecasted to be \$23 thousand in 2019 and \$28 thousand in 2020. Growth capital investments are incurred to install gas mains, services and meters to attach new customers;
- Upgrades to the Muskwa Gate Station consisting of telemetry to remotely monitor the operation of the station; a new line heater burner management system with industry standard safety features for achieving regulatory compliance, improving reliability, and combustion efficiency; a new station grounding to meet updated industry standards (\$163 thousand in 2019);
- Replacement of an under-rated valve at the Recreation Centre District Station to ensure an adequate safety factor (\$74 thousand in 2020);
- The proactive replacement of steel distribution mains and services to address those that are prone to leaks, and due to their location in Fort Nelson, of greater risk to public safety due to longer periods of frozen ground and remoteness from emergency repair personnel (\$243 thousand in 2019 and \$319 thousand in 2020). These are similar expenditures to those incurred and forecasted for 2017 and 2018;
- Installation of individual gas meters to approximately 59 homes and business in PRFN, relocate services as necessary, and conduct work to ensure the distribution system meets FEI safety standards. The capital cost for this work which is included as part of 2019 capital additions is approximately \$104 thousand. This work is depended upon FEI receiving a CPCN approval for the Prophet River Extension. Refer to Section 10 for detail; and
- Other miscellaneous sustainment related distribution capital (distribution system integrity) which is forecasted to be \$42 thousand in both 2019 and in 2020.

14.1 Please provide the last 5 years of 'growth-related distribution capital' capital additions.

14.2 Did FEFN conduct business case analyses for any of the major capital expenditures?

14.2.1 If yes, please provide a brief summary of each including quantification of the costs and benefits.

14.2.2 If no, please explain why not.

15. Reference: Exhibit B-1, page 50, 51, 52 and 53

8.4.1 New Deferral Accounts

FEI is proposing to create the following new deferral account for FEFN discussed below.

Table 8-5: Deferral Account Filing Considerations

Item	Consideration	Determination
I.	Indicate if the request is: (a) for a modification or a change in scope to an existing Commission approved regulatory account; or (b) to establish a new regulatory account.	FEI requests the establishment of one new deferral account to capture the costs related to this application and the related regulatory proceeding.
A)	If the request is for a modification or change	N/A
X.	Propose a carrying cost for the balance in the regulatory account and explain why it is appropriate.	Rate base deferral accounts are included in rate base and therefore implicitly financed using the weighted average cost of capital (WACC).

8.4.1.1 2019-2020 Revenue Requirement Application

FEI will incur costs in 2018 and 2019 related to the 2019 and 2020 Revenue Requirements and Rates Application for FEFN estimated at approximately \$70 thousand (on a pre-tax basis). Costs incurred will consist of legal fees, intervener and participant funding costs, Commission costs, required public notifications, miscellaneous facilities, stationery and supplies costs. Consistent with past practice, FEI requests approval to capture the full costs of this Application for FEFN in this rate base deferral account and to amortize these costs over two years, in 2019 and 2020, which represents the period covered by this Application. Any variances between the forecast account balances and the actual incurred costs will be amortized in rates in the following years.

- 15.1 Please confirm that FEFN is proposing a ‘rate base’ deferral account.
- 15.2 Are there any other deferral accounts already in existence which could suitably be used instead of creating a new deferral account? Please explain why or why not.

16. Reference: Exhibit B-1, page 58

FEI expects there will be little to no impact to existing FEFN customers due to the Prophet River Extension and the subsequent capital expenditure. The rate impacts are 0.24 percent in 2019 from the approved 2018 RDA Rates which will then be offset by a decrease of 0.25 percent in 2020. For an average residential customer in FEFN with annual consumption of 125 GJ, the bill impact due to the Prophet River Extension will be an increase of \$1.40 in 2019 and a decrease of \$1.44 in 2020, or a net decrease of \$0.05 over two years. FEI notes the rate impacts account for the additional delivery margin from the additional basic charges to be collected from the 53 residential and six commercial customers after individual meters are installed and they become individual customers of FEFN.

- 16.1 Please provide the expected bill impact to FEFN’s commercial and industrial customers.

17. Reference: Exhibit B-1, page 61

10.4 CPCN DESCRIPTION

In February 2016, PRFN first approached FEI requesting that FEI assume ownership and operation of the gas distribution system within PRFN. PRFN expressed to FEI that PRFN has no ability or resources to expand it for the anticipated growth of PRFN over the next 5 to 10 years. PRFN wants to ensure the distribution system, including potential expansion in the future, continues to provide reliable natural gas service to its members and sees FEI as a provincially regulated utility that will be able to operate, maintain, and expand the system safely and reliably.

As indicated above, PRFN does not currently charge its members for use of the system. PRFN has indicated that having individual meters installed to the residential and commercial properties that use the system will be beneficial to its members. PRFN expressed that they would like to see PRFN members begin taking responsibility for their energy costs and that this is an opportunity for its members to begin establishing a credit rating by paying their own utility bills. The PRFN has agreed to backstop payment should its members fail to make payment to FEI. PRFN also provided a letter to BCUC, included in this Application as Appendix C, confirming that they have requested FEI and in full support of FEI to assume ownership of the distribution system.

If the CPCN for the Prophet River Extension is approved, FEI will proceed to install individual gas meters to the 53 residential and six commercial properties current attached to the system. FEI estimates the cost for the work at \$104 thousand²⁹, including relocating risers if necessary to install the meters, a leak survey and inspection as part of standard procedure for the newly acquired pipeline.

²⁹ The cost estimate for installation gas meters and relocating riser locations (if necessary) is based on current unit pricing for FEFN attaching new customers

- 17.1 Please provide the average and range of utility bills that the PRFN residential and commercial customers can expect to receive once the transfer is completed.
- 17.2 Please breakdown the \$104 thousand costs for meters, relocating risers, leak surveys and inspections.
- 17.3 Has FEFN received any feedback from any members of the FEFN regarding the expected change in ownership and requirement to pay utility bills if there is a change in ownership?
 - 17.3.1 If yes, please provide an overview of the commentary that FEFN has received.

18. Reference: Exhibit B-1, page 58 and 61

10.1 INTRODUCTION

Pursuant to Section 45 and 46 of the UCA, FEI is requesting a CPCN for an extension of FEI's distribution system in FEFN resulting from FEI acquiring 3.2 km of 60 mm polyethylene gas distribution main from the PRFN (the Prophet River Extension). The Prophet River Extension was initiated after PRFN approached and requested that FEI assume ownership and operation of the gas distribution system currently owned by PRFN. The distribution main currently has 53 residential and six commercial properties attached. The acquisition cost is ten dollars plus approximately \$8 thousand in legal fees to complete the acquisition. If the CPCN for the Prophet River Extension is approved, FEI will proceed to install individual gas meters to the 53 residential and six commercial properties. As part of the work, FEI will conduct leak survey and inspection per the standard procedure for pipeline previously not owned by FEI and relocate risers if necessary to fit with the new meters. The estimated capital expenditure for the work is \$104 thousand.

10.5 PERMITTING

The Asset Purchase Agreement will be conditional upon FEI obtaining a right of way permit pursuant to Section 28(2) of the *Indian Act*. The permit will grant FEI the necessary land tenure rights to own, operate and maintain the gas distribution system on the PRFN reserve. FEI will be engaging with the Ministry of Indian Affairs and Northern Development (representing Her Majesty The Queen in Right of Canada) and the PRFN to negotiate acceptable permit terms.

- 18.1 Is there any quantifiable value to the right of way permit?
- 18.1.1 If yes, please quantify.
- 18.1.2 Are the costs for engaging with the Ministry of Indian Affairs and Northern Development and the PRFN included in the \$8000 legal fees or the \$104,000 in work?
- 18.1.3 If no, please explain why not and provide an estimate of the costs of engagement.
- 18.2 Are there any other costs, such as additional administration, that FEFN expects to incur that are not included in the \$8000 legal fees or the \$104,000 in work related expenditures noted above?
- 18.2.1 If yes, please quantify.
- 18.3 Please confirm that FEI's estimate of \$104,000 for the estimated capital expenditure was not developed to a class 3 estimate, but is based on FEFN's own experience and knowledge of costs.

19. Reference: Exhibit B-1, page 61

10.6 JUSTIFICATION

10.6.1 Alternatives

The purchase of the PRFN gas distribution system is a single-option transaction. Therefore, a comparison of different alternatives, along with a related discussion of the costs, benefits, and financial analysis has not been included.

- 19.1 Please confirm that FEFN does have the option of declining the purchase.
- 19.2 Does FEFN believe that there could be risks or benefits of declining the purchase that are not laid out in the current application, such as straining relations with PRFN or others?
 - 19.2.1 If yes, please discuss and provide quantification of any potential costs or benefits if available.

20. Reference: Exhibit B-1, page 62

Table 10-1 below summarizes the incremental cost of service in 2019 and 2020 when compared to the approved 2018 revenue requirements, the offsetting delivery revenues from PRFN as a result of the additional basic charges to be collected from the individual customers instead of just one large commercial customer, and the rate impact to FEFN in 2019 and 2020. For an average residential customer in FEFN with annual consumption of 125 GJ, the bill impact due to the project will be an increase of \$1.40 in 2019 and a decrease of \$1.44 in 2020, or a net decrease of \$0.05 over two years.

Table 10-1: Summary of Financial Analysis and Rate Impact of PRFN Project^{30,31}

	2019	2020
Incremental Annual Revenue Requirement (\$)	9,674	14,279
Offsetting Additional Revenue from PRFN (\$)	(3,622)	(14,487)
Net Incremental Annual Revenue Requirement (\$)	6,052	(208)
2018 Approved Revenue Requirement (G-196-17), (\$000s)	2,489	2,489
Rate Impact (%) to Approved 2018 Rates	0.24%	(0.01%)
Rate Impact (%), Year-to-Year	0.24%	(0.25%)

The rate impacts indicated above do not account for the potential growth in PRFN as discussed in Section 10.6.3 below. Based on the preliminary expansion plans from PRFN, FEI believes that the acquisition provides the potential for additional revenue to FEFN which will have a positive impact on rates.

10.6.3 Benefits to PRFN

The primary reason that PRFN is requesting that FEI assume ownership and operation of its existing gas distribution system is because PRFN expressed they have no ability or resources

to maintain the existing distribution system while expanding it for their planned growth. PRFN wants to ensure safe and reliable natural gas service is continued to be provided to its members and expand the system in accordance to safety standard.

PRFN indicated to FEI that they plan to expand their community in the near future, including new restaurants, hotels/motels, convenience stores and other retail spaces, a church, a Fire Hall and subdivision housings for PRFN members. PRFN expressed they would have no ability or resources to expand the existing gas distribution system to accommodate the anticipated growth in PRFN. Based on these preliminary expansion plans from PRFN, FEI believes that the acquisition provides the potential for additional revenue to FEFN and which would have a positive impact on rates. This will also benefit existing customers in FEFN which will also see the positive impact on rates due to the potential growth.

- 20.1 Please provide quantification for the expected anticipated growth of PRFN over the next 5 to 10 years.
 - 20.2 Please quantify the costs FEFN is likely to experience to meet the anticipated growth over the next 5 to 10 years, or provide costs based on various reasonable scenarios that might occur.
- 21. Reference: Exhibit B-1, page 63**

10.6.4 No Detrimental Effect to Existing Users of PRFN Gas Distribution System

PRFN and its members will continue to receive natural gas service from FEI via FEFN regardless of the purchase of the assets. FEI's service to PRFN will not change as a result of the transaction.

As discussed in the previous section, although the Project will result in PRFN's members being responsible for their own natural gas bill as a result of this transaction, PRFN also agreed to backstop payment should its members fail to make payment to FEFN.

- 21.1 Please provide a brief discussion of the 'backstopping' arrangement and for how long this would be expected to continue.

22. Reference: Exhibit B-1, page 63

10.6.5 Risk Associated with the Prophet River Extension

FEI considers the following risks associated with the Prophet River Extension:

- The acquisition is dependent on FEFN successfully obtaining the right of way pursuant to Section 28(2) of the *Indian Act* as discussed in Section 8.8.3.2. FEFN is already engaged in negotiations with Ministry of Indian Affairs and Northern Development (representing Her Majesty The Queen in Right of Canada). PRFN will also be involved in permit negotiations; and
- The actual condition of the existing distribution system currently owned by PRFN. FEI considers the risk of this is small based on the history of the pipeline and FEI's

observations of the system which is in generally good condition. Furthermore, the pipeline is made of polyethylene which does not have the concern of cathodic protection like steel pipe. The distribution system was installed by BC Gas (predecessor of FEI) in 1989 following BC Gas' safety standards at that time. Over the years, FEI has been providing service from FEFN to PRFN regularly for any new installation to the existing distribution system as well as responding emergency calls and repairs such as leak detection from PRFN. Therefore, the risk of a long term leak that has been undetected over the years is small. FEI is also aware of the work within PRFN that might have an impact to the pipeline and is generally comfortable with the condition of the system. As standard practice, FEFN is planning to conduct a leak survey and inspection once the system is acquired by FEI. Given the distribution main currently owned by PRFN is 29 years old and distribution mains (currently owned by FEI) typically have an estimated life of approximately 65 years, FEI considers the risk related to pipe condition is acceptable.

- 22.1 Please provide a range of risk with associated dollar values regarding the actual condition of the existing distribution system currently owned by PRFN.