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October 24, 2018,

Sent via email/eFile

FEI 2019-2020 FORT NELSON REVENUE REQUIREMENTS	**EXHIBIT A-3**

Ms. Diane Roy
Vice President, Regulatory Affairs
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8
diane.roy@fortisbc.com;
gas.regulatory.affairs@fortisbc.com

Re: FortisBC Energy Inc. – 2019 and 2020 Revenue Requirements and Rates Application for the Fort Nelson Service Area – Project No. 1598970 – Information Request No. 1

Dear Ms. Roy:

Further to your September 4, 2018 application of the above noted matter, enclosed please find the British Columbia Utilities Commission Information Request No. 1. Please file your responses by November 19, 2018.

Sincerely,

Original Signed by:

Patrick Wruck
Commission Secretary

/aci
Enclosure

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Fortis BC Energy Inc. – Fort Nelson Service Area
2019–2020 Revenue Requirements Application

INFORMATION REQUEST NO. 1 TO FORTISBC ENERGY INC.

Table of Contents **Page no.**

A. REVENUE REQUIREMENTS AND RATES

1.0 **Reference:** **REVENUE REQUIREMENT AND RATES**
Fortis BC Energy Inc. – Fort Nelson Service Area 2019–2020 Revenue Requirements Application (Application), Exhibit B-1, Section 2.4, p. 13, Table 2-4
Postage stamp rates

On page 13 of the Application, FortisBC Energy Inc. (FEI) provides the following table:

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%

In footnote 12, FEI states that the "FEI Proposed Rate (2019)" is before the changes to FEI's rates

resulting from the Rate Design Application (RDA) Decision.

On page 13 of the Application, FEI further states: "Given that there is still a rate impact that would be experienced by FEFN's residential customers from moving to FEI's rates, and that FEI has not yet filed for approval of 2020 rates, FEI is not proposing to postage stamp Fort Nelson rates in this Application."

1.1 Please update Table 2-4 with the "FEI Proposed Rate (2019)" after the changes to FEI's rates resulting from the RDA Decision.

1.2 Please discuss, and quantify where possible, at what point there would no longer be a rate impact experienced by FEFN's residential customers from moving to FEI's rates. Please provide all calculations and explain all assumptions.

1.3 Please discuss when FEI would likely consider applying to "postage stamp" Fort Nelson rates. As part of this response, please describe the factors and circumstances which would drive such a proposal.

B. GAS SALES AND DEMAND AND OTHER REVENUE

2.0 **Reference: DEMAND FORECAST**
FEI Application for Approval of 2017-2018 Revenue Requirements and Rates for the Fort Nelson Service Area (FEFN 2017-2018 RRA), Exhibit B-3, BCUC Information Request (IR) 3.1.1;
FEI Annual Review for 2019 Delivery Rates, Exhibit B-3, BCUC IR 15.1
FEI demand forecast methodology

In response to the British Columbia Utilities Commission (BCUC) IR 15.1 in the FEI Annual Review for 2019 Delivery Rates, FEI stated the following:

> A full report summarizing FEI's findings of the forecast method comparison completed during the PBR [performance based ratemaking] period, including the pros and cons of each method, a discussion of the pros and cons of using ETS [Exponential Smoothing] for the UPC [use per customer] forecast only and a recommendation regarding which forecasting method to use going forward, will be filed as part of FEI's application for rates for 2020 and future years, to be filed in Q1 2019.

In response to BCUC IR 3.1.1 in the FEFN 2017-2018 RRA, FEI stated the following:

> If the recommendations proposed in the Annual Review of 2017 Rates, which were based on an evaluation of FEI Mainland customers only, are accepted, FEI will begin evaluating the proposed alternate methods for Fort Nelson, Vancouver Island and Whistler customers as well over the remaining term of the existing PBR. If at the end of the PBR period the alternate methods are determined to perform substantially better than the current methods for the majority of service areas, FEI would implement the alternate method for all regions, including Fort Nelson, in future demand forecasts from that point onwards.

2.1 Please confirm, or explain otherwise, that FEI has been evaluating the proposed alternate load forecasting methods for Fort Nelson since the conclusion of the FEI Annual Review for 2017 Delivery Rates proceeding, as described in FEI's response to BCUC IR 3.1.1 in the FEFN 2017-2018 RRA proceeding. Please discuss the results of the evaluation to date.

2.2 In the event that FEI proposes to change to an alternate forecasting method in the 2020 rates application and is approved to make such a change, how would FEI plan to implement this

change in method for Fort Nelson and when would such a change likely take effect? Please discuss.

3.0 **Reference:** **GAS SALES AND DEMAND, AND OTHER REVENUE**
Exhibit B-1, Section 4.5, pp. 27-30, Figures 4-4 to 4-6
Use per customer

Figures 4-4 to 4-6 on pages 28 to 30 of the Application provide annual Use per Customer (UPC) rates for each of Rate Schedules 1 through 3.

On page 27 of the Application, FEI states that "[t]he Rate Schedule 1 UPC is forecast to continue to decline through the Test Period…."

On page 28 of the Application, FEI states that "the UPC of Rate Schedule 2…has been declining steadily since 2015…. The recently approved rate design for FEFN will result in 16 customers being moved out of Rate Schedule 2 and into Rate Schedule 3."

3.1 In FEI's view, what are the primary reasons for the continuing decline in the UPC for Rate Schedule 1 and Rate Schedule 2 customers? Please discuss.

3.1.1 Does FEI anticipate the decline in UPC for Rate Schedules 1 and 2 to continue beyond the Test Period? Please explain why or why not.

3.2 Please provide a graph that shows the revenue per gigajoule (GJ) from actual 2008 to 2017, projected 2018 and forecast 2019 and 2020 for each of Rate Schedules 1 through 3.

3.3 In FEI's view, is there a correlation between rate increases and the energy demand for each rate class? Please discuss.

4.0 **Reference:** **GAS SALES AND DEMAND, AND OTHER REVENUE**
Exhibit B-1, Appendix A-2, Section 2, pp. 1-2, Tables A2-1 and A2-2
Historic and Forecast Customer Counts, Customer Additions, Use per Customer and Energy

On pages 1-2 in Appendix A2 of the Application, FEI provides Tables A2-1 and A2-2:

Table A2-1: FEFN Historic Customer Counts, Customer Additions, Use per Customer and Energy

FORT NELSON	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Customers										
Rate Schedule 1	1,925	1,925	1,937	1,955	1,947	1,959	1,962	1,963	1,945	1,927
Rate Schedule 2.1	414	412	421	447	443	446	446	474	478	476
Rate Schedule 2.2	28	28	28	31	31	31	31	7	7	6
Rate Schedule 25	2	2	2	2	2	2	2	2	2	1
Total Customers	**2,369**	**2,367**	**2,388**	**2,435**	**2,423**	**2,438**	**2,441**	**2,446**	**2,432**	**2,410**
Customer Additions										
Rate Schedule 1	(3)	-	12	18	8	12	3	1	(18)	(18)
Rate Schedule 2.1	6	(2)	9	26	4	3	-	28	4	(2)
Rate Schedule 2.2	(2)	-	-	3	-	-	-	(24)	-	(1)
Rate Schedule 25	-	-	-	-	-	-	-	-	(1)	-
Total Customer Additions	**1**	**(2)**	**21**	**47**	**12**	**15**	**3**	**5**	**(15)**	**(21)**
Energy (TJs)										
Rate Schedule 1	268	266	271	268	269	270	268	265	262	251
Rate Schedule 2.1	185	191	194	206	205	204	204	223	222	214
Rate Schedule 2.2	88	94	95	97	100	110	106	65	55	48
Rate Schedule 25	210	69	55	51	56	61	68	50	41	42
Total Energy (TJs)	**751**	**621**	**615**	**622**	**630**	**645**	**645**	**603**	**580**	**556**
Use Rate (GJ)										
Rate Schedule 1	139.6	138.4	140.9	137.8	138.8	138.6	136.5	135.5	134.2	129.9
Rate Schedule 2.1	448.9	464.0	468.1	475.6	465.0	460.2	455.5	482.0	465.8	447.8
Rate Schedule 2.2	3,137	3,371	3,388	3,326	3,228	3,555	3,425	6,616	7,869	8,086

Table A2-2: FEFN Forecast Customer Counts, Customer Additions, Use per Customer and Energy

FORT NELSON	2014	2015	2016	2017	2018S	2019F	2020F
Customers							
Rate Schedule 1	1,962	1,963	1,945	1,927	1,909	1,941	1,918
Rate Schedule 2*	444	447	452	453	456	465	468
Rate Schedule 3*	20	20	20	20	20	19	19
Rate Schedule 25	2	2	2	1	1	1	1
Total Customers					**2,386**	**2,426**	**2,406**
Customer Additions							
Rate Schedule 1	-	1	(18)	(18)	(18)	32	(23)
*Rate Schedule 2**		3	5	1	3	9	3
*Rate Schedule 3**		-	-	-	-	(1)	-
Rate Schedule 25							
Total Customer Additions					**(15)**	**40**	**(20)**
Energy (TJs)							
Rate Schedule 1	268	265	262	251	245	244	237
*Rate Schedule 2**	210	195	186	182	171	160	150
*Rate Schedule 3**	91	88	82	77	71	61	53
Rate Schedule 25	68	50	41	42	42	42	42
Total Energy (TJs)					**527**	**507**	**482**
Use Rate (GJ)							
Rate Schedule 1	136.5	135.5	134.2	129.9	127.6	125.2	122.9
*Rate Schedule 2**	473.8	437.2	412.0	402.4	375.9	349.3	322.7
*Rate Schedule 3**	4,556	4,408	4,109	3,861	3,526	3,164	2,802

4.1 Please explain why the "Total Customers" and "Total Energy (TJs)" for 2014 to 2017 in Table A2-1 do not equal the "Total Customers" and "Total Energy (TJs)" in Table A2-2.

C. OPERATING AND MAINTENANCE EXPENSES

5.0 **Reference: DIRECT O&M EXPENSES**
Exhibit B-1, Section 6.3, pp. 41-42, Table 6-1; FEFN 2017-2018 RRA proceeding, Exhibit B-1, Table 5-1; Exhibit B-3, BCUC IR 6.3
Labour costs

The following extract of Table 6-1 on page 41 of the Application shows the following M&E and IBEW costs:

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**

5.1 Please explain the $6,000 variance between the 2017 Approved and 2017 Actual M&E costs.

The following is an extract from Table 5-1 provided in the FEFN 2017-2018 RRA:

Table 5-1: O&M Resources Required for FEFN ($ thousands)

Particulars	2015 Approved	2015 Actual	2016 Approved	2016 Projected	2017 Forecast	2018 Forecast
M&E Costs	$ 15	$ 18	$ 15	$ 18	$ 19	$ 19
IBEW Costs	334	320	345	326	330	339
Labour Costs	**349**	**338**	**360**	**344**	**349**	**358**

In response to BCUC IR 6.3 in the FEFN 2017-2018 RRA proceeding, FEI stated the following regarding the 2015 variance between Approved and Actual M&E costs:

> The variance of $3 thousand between the Approved and Actual M&E costs is due to an increased level of support for O&M activities that was required during 2015 which resulted in an increase in the percentage of the Prince George Operations team salaries allocated to O&M (more O&M activities were required and less capital activities were required). Further, FEI projects the same level of support that was required in 2015 for O&M activities will also be required in 2016 through 2018.

5.2 Please explain whether the "same level of support", as described in response to BCUC IR 6.3 in the above preamble, is expected to be required for the 2019 and 2020 test years.

5.2.1 If not, please discuss whether it would be appropriate to reduce the forecast 2019 and 2020 M&E costs to be consistent with the approved 2015 and 2017 amounts of $15,000.

Table 6-1 on page 41 of the Application shows a variance between the 2017 Approved and 2017 Actual IBEW Costs of $198,000.

On pages 41-42 of the Application, FEI states:

> 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.

5.3 Please confirm, or explain otherwise, that the remaining variance of approximately $88,000 is due to "lower than anticipated maintenance activities undertaken."

5.3.1 If confirmed, please explain in detail why there was less anticipated maintenance activities undertaken in 2017 and if any maintenance activities were deferred to future years. Please also provide a cost breakdown and description of the planned versus actual maintenance activities undertaken in 2017.

5.3.2 If not confirmed, please elaborate on the reason for the remaining variance.

5.4 Please explain where the approximately $70,000 for standby labour that was inadvertently excluded from the 2017 Actual O&M was recorded to in 2017.

5.5 Please provide a detailed breakdown and description of the forecast IBEW costs for 2019 and 2020.

6.0 **Reference:** **DIRECT O&M EXPENSES**
FEFN 2017-2018 RRA proceeding, Exhibit B-3, BCUC IR 9.1
Facilities

In response to BCUC IR 9.1 in the FEFN 2017-2018 RRA proceeding, FEI provided the following tabular breakdown of Facilities costs:

In $000s	2013 Approved	2013 Actual	2014 Forecast [1]	2014 Actual [2]	2015 Approved	2015 Actual	2016 Approved	2016 Projection [3]	2017 Forecast	2018 Forecast
Heat, Light, Gas and Water	7	13	7	8	7	8	7	8	8	8
Janitorial Services	1	1	1	1	1	1	1	1	1	1
Other Facilities Costs	3	4	3	7	3	7	3	18	7	8
Communication Costs	0	0	0	12					12	12
Line Heater Fuel	0	0	0	12					13	14
Total Facilities Costs	**11**	**18**	**11**	**39**	**12**	**16**	**12**	**27**	**41**	**42**

6.1 Please update the above table with the 2016 Actual, the 2017 Actual, the 2018 Projected and the 2019 and 2020 Forecasts.

7.0 **Reference:** **DIRECT O&M EXPENSES**
Exhibit B-1, Sections 6.3 and 8.2, pp. 41 and 48, Table 6-1; FEFN 2017-2018 RRA proceeding, Exhibit B-1, p. 28; Exhibit B-3, BCUC IR 8.5
Contractor Costs

In Table 6-1 on page 41 of the Application, FEI provides the 2017 Approved and Actual, 2018 Approved and Projected, and 2019 and 2020 Forecast contractor costs.

On page 28 of the FEFN 2017-2018 RRA, FEI stated that the contractor costs were "incurred mostly for corrective maintenance work. In 2014 and 2015, actual costs were higher than approved mainly due to leak repairs, excavation, paving and flagging costs required to fix the below ground leaks detected on the gas main. The contractor costs are forecast to increase beginning in 2016 onwards based on past history as one or two leaks may have a major impact on the costs."

In response to BCUC IR 8.5 in the FEFN 2017-2018 RRA proceeding, FEI stated:

> FEI anticipates that leaks in 2017 and 2018 would likely occur on the distribution plant. As discussed in the response to BCUC IR 1.8.1, a review of recent history indicates leaks have been occurring on the distribution plant. As FEI does not have information available that suggests this trend is going to change, recent history serves as the basis for FEI's forecast of future leaks.

On page 48 of the Application, FEI discusses the "proactive replacement of steel distribution mains and services to address those that are prone to leaks."

7.1 Please discuss if FEI's proactive replacement of steel distribution mains and services is expected to have a positive impact on the 2019 and 2020 forecast contractor costs. Why or why not?

7.1.1 If yes, please quantify the positive impact and explain why the 2019 and 2020 forecast contractor costs is relatively similar to the 2017 and 2018 approved amounts.

7.2 Please compare the type of work forecast to be performed by contractors in 2017 and 2018 to the type of work actually performed by contractors in 2017 and 2018, and explain the cause(s)

of any changes in anticipated work.

7.3 Please explain if any leaks occurred in 2017 and 2018, including the type of leaks (i.e. transmission plant, distribution plant, etc.) and provide the cost to repair the leak(s).

D. TAXES

8.0 **Reference: PROPERTY TAX**
Exhibit B-1, Section 7.1, p. 44
Property tax variances

On page 44 of the Application, FEI states: "Any variances from the forecast of property taxes included in rates will be recorded in the Property Tax deferral account and returned to or collected from customers in the following year." [emphasis added]

8.1 Please confirm, or explain otherwise, that the above statement is in error and that the property tax variances recorded in the Property Tax deferral account are amortized over three years, not one year.

E. RATE BASE AND CAPITAL ADDITIONS

9.0 **Reference: GROSS PLANT ADDITIONS**
Exhibit B-1, Section 8.2, p. 47, Table 8-2
Intangible plant

On page 47 FEI provides the following table:

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

9.1 Please explain why the actual intangible additions in 2017 were $28,000 or 61 percent greater than the approved amount.

10.0 **Reference:** **GROSS PLANT ADDITIONS**
Exhibit B-1, Section 8.2, Table 8-3, pp. 47-48; FEFN 2017-2018 RRA proceeding, Exhibit B-3, BCUC IRs 13.4, 13.5 and 13.7
Distribution plant

On page 48 of the Application, FEI provides the following table:

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

In response to BCUC IR 13.5 in the FEFN 2017-2018 RRA proceeding, FEI provided the following table with respect to a Class 5 cost estimate for the replacement of steel distribution mains and services:

($ 000)	2017		2018	
Planning Mains – Labour	20		30	
Materials Mains	2	Approx. 460 metres	3	Approx. 725 metres
Installation Mains – Labour	105		166	
Materials Services	2	Approx. 20 services	4	Approx. 30 services
Installation Services – Labour	46		72	
Total	175		275	

In response to BCUC IR 13.4 in the FEFN 2017-2018 RRA proceeding regarding the replacement of steel distribution mains and services, FEI stated:

> FEI intends to replace specific sections of main, based on age, known fittings prone to leakage and probability of unusual or unknown construction methods, to reduce the risk to the public. The steel pipe previously used for the mains and services would be replaced with polyethylene pipe, reducing corrosion concerns, and during the replacements, FEI would gain a better understanding of how the original system was constructed in the 1950s in order to assist with decision-making in the future.

In response to BCUC IR 13.7 in the FEFN 2017-2018 RRA proceeding, FEI stated:

> With regard to the replacement of steel distribution mains and services, FEI's Leak Management activity within its Integrity Management Program has the objective to reduce the probability of significant consequences should a failure or damage incident occur…FEI intends to select specific mains for replacement that will achieve these objective, that is, to reduce the probability of a leak in locations that would result in a significant hazard to the public.

10.1 Please discuss how recent projects to replace steel distribution mains and services have improved FEI's understanding of the causes of the leaks and how this knowledge has aided FEI in planning future replacement projects.

10.2 Please update the table provided in response to BCUC IR 13.5 in the FEFN 2017-2018 RRA proceeding with respect to the replacement of steel distribution mains and services with the

2017 and 2018 actuals and the 2019 and 2020 forecasts.

10.3 Please explain the time frame over which FEI anticipates undertaking the proactive replacement of steel distribution mains and services. As part of this response, please explain if the level of expenditures experienced in 2017 and 2018 and forecast to be experienced in 2019 and 2020 are anticipated to continue into the future.

10.4 Please discuss if there has been a change in scope of the replacement of steel distribution mains and services since the FEFN 2017-2018 RRA proceeding. If yes, please describe the change and the resulting implications.

10.5 Please provide a breakdown and description of the costs forecast for the Muskwa Gate Station Telemetry project and the Recreation Centre District Station Valve Replacement project.

10.6 Please describe and provide a breakdown of the "Misc Sustainment Capital" forecast for 2019 and 2020.

11.0 **Reference: GROSS PLANT ADDITIONS**
Exhibit B-1, Section 8.2, Table 8-3, p. 48, Appendix A2, Table A2-2, p. 2, Appendix A3, Table A3-5, p. 6; FEFN 2017-2018 RRA proceeding, Exhibit B-3, BCUC IR 14.2
Growth related distribution capital

Table 8-3 on page 48 of the Application shows forecasts of $23,000 for 2019 and $28,000 for 2020 of capital additions for growth related distribution capital.

Table A2-2 on page 2 of Appendix A2 of the Application shows the following forecast customer additions:

- RS 1: 32 for 2019 and (23) for 2020
- RS 2: 9 for 2019 and 3 for 2020
- RS 3: (1) for 2019 and none for 2020
- RS 25: none for 2019 and 2020

Table A3-5 on page 6 of Appendix A3 shows the total forecast residential additions (RS 1) without the Prophet River First Nation (PRFN) acquisition as (21.5) for 2019 and (22.7) for 2020.

In response to BCUC IR 14.2 in the FEFN 2017-2018 RRA proceeding, FEI stated the following:

> FEI's forecast for growth capital expenditures is related to attaching new service lines to the FEI system. It is not directly linked to the additions in Figures 3-2 and 3-3 as those are net customer additions. Net customer additions refers to the net incremental customer total after considering new service line additions and any customers leaving the system.

11.1 Please explain how FEI calculates the forecast for capital additions for growth related distribution capital.

11.1.1 As part of the above response, please explain how, if at all, the declining trend in customer additions impacts growth-related distribution capital spending.

11.2 Please provide a table with the following forecast for each of FEFN's rate schedules for 2019 and 2020: (i) the number of new customer service line additions and (ii) the number of customers leaving the system. Please ensure that the net of (i) and (ii) reconciles with the information provided in Tables A2-2 and A3-5.

11.3 Please provide the actual growth related distribution capital expenditures for years 2012

through 2017 and projected expenditures for 2018.

12.0 **Reference: DEFERRAL ACCOUNTS**
Exhibit B-1, Sections 1.3 and 8.4, Table 8-4, pp. 6 and 50
Energy Efficiency & Conservation (EEC) deferral account

Table 8-4 on page 50 of the Application shows the following balances in the EEC deferral account:

- Approved 2017 - $54,000
- Approved 2018 - $71,000
- Forecast 2019 - $135,000
- Forecast 2020 - $182,000

On page 6 of the Application, FEI states that the approvals sought for FEFN will be impacted by FEI's 2019-2022 Demand Side Management (DSM) Application, which includes an increase in DSM expenditures. FEI further states that if a decision is received for the DSM Application in time, FEI will incorporate the DSM Application decision in its evidentiary update or compliance filing to this Application.

12.1 Please clarify if the increased DSM spending requested in the FEI 2019 – 2022 DSM Application has been included in the EEC deferral account balances forecast for 2019 and 2020 in Table 8-4.

12.1.1 If yes, please clarify if this was done in error and file a revised Table 8-4 if necessary.

12.1.2 If no, please explain the increase in the EEC deferral account balance forecast for 2019 and 2020.

13.0 **Reference: DEFERRAL ACCOUNTS**
Exhibit B-1, Section 8.4, pp. 53-54; FEFN 2017-2018 RRA proceeding, Exhibit B-1, pp. 38-39
Fort Nelson First Nations Right-of-Way Agreement

On page 53 of the Application, FEI states:

> As at June 30, 2018, FEI has incurred actuals costs of $111 thousand related to this Agreement. Based on the most recent appraisal available, the remaining fee for a 99 year agreement would be approximately $236 thousand, or a 10 year term prepaid fee at $62 thousand with each subsequent 10 year term fee being determined by appraisal at the time of renewal.

On page 39 of the FEFN 2017-2018 RRA, FEI states:

> To date, only approximately $110 thousand of the projected $410 thousand spending has been incurred with the remainder projected to be spent before the end of 2016.

13.1 Please explain the reasons for the delay in completing the Fort Nelson First Nations Right-of-Way (ROW) Agreement.

13.2 Please provide an update on the following:

i. The timing of when FEI anticipates the ROW agreement will be completed;

ii. The actual costs incurred to date to complete the agreement, if different from the $111,000 stated on page 53 of the Application; and

iii. Whether, based on the description provided on page 53 of the Application, the total expected cost of the ROW agreement is $347,000($111,000 plus $236,000), and if

not, what the total expected cost of the ROW agreement is.

F. CPCN FOR PROPHET RIVER FIRST NATION EXTENSION

14.0 **Reference: CPCN FOR PROPHET RIVER FIRST NATION (PRFN) EXTENSION**
Exhibit B-1, Section 10.1, p. 58
Certificate of Public Convenience and Necessity (CPCN) description and cost

On page 58 of the Application, FEI states the following:

> 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 $104,000.

14.1 Please provide a detailed cost breakdown and description of the items that make up the $104,000 estimate.

14.1.1 If a contingency amount has been included, please provide the amount and how it was determined. If a contingency amount has not been included, please explain why not.

14.2 Please explain if FEI has purchased distribution system assets in the past. If so, please describe in detail the two most recent distribution system asset purchases and compare and contrast these purchases to the requested CPCN for the PRFN extension.

14.3 Please provide a detailed explanation of FEI's typical due diligence practices prior to purchasing system assets from outside parties.

14.3.1 As part of the above response, please explain if FEI's approach to the proposed purchase of PRFN's gas distribution system is consistent with FEI's usual due diligence practices.

14.4 Please explain whether it is FEI's standard procedure to conduct a leak survey and inspection only after a pipeline is acquired, and not before, as proposed in this Application.

14.4.1 If it is not FEI's standard procedure, please explain why FEI is proposing to take this approach in the proposed purchase of PRFN's distribution system assets and why a deviation from FEI's standard practice is appropriate in this case.

14.5 Please discuss the feasibility of FEI conducting a leak survey and inspection prior to acquiring the pipeline and how such an approach would impact the proposed purchase.

14.5.1 As part of the above response, please discuss the benefits of conducting the inspections prior to purchasing the distribution assets, the impact on FEI's estimated costs, and the impact on the project timeline.

14.6 Please describe in detail the potential risks and associated costs which FEI might face as a result of not conducting a leak survey and inspection of the system's condition prior to purchasing the PRFN's distribution system.

14.6.1 Please explain how FEI intends to mitigate the impact of the above-described risks and costs on the existing FEFN ratepayers.

14.7 In the event that the pipeline's condition is worse than anticipated by FEI, would FEI be able to recover from the PRFN the costs of restoring the pipeline to an acceptable condition?

14.7.1 Please clarify if the acquisition of the PRFN distribution system is on an "as is where is" basis. If yes, please provide the rationale for this.

14.8 Does FEI anticipate encountering any issues with installing individual gas meters to the 53

residential and six commercial properties? Please discuss.

14.8.1 Has FEI examined the premises where the individual gas meters are planned to be installed to assess whether any issues or impediments exist? If yes, please describe the results of these examinations. If not, please explain why not.

15.0 **Reference: CPCN FOR PRFN EXTENSION**
Exhibit B-1, Sections 10.1 and 10.5, pp. 58 and 61
Asset Purchase Agreement and permitting

On page 58 of the Application, FEI states:

> FEI is expecting to complete the Asset Purchase Agreement with PRFN in the fall of 2018 and the work to install individual gas meters at each property will commence and be completed in 2019….FEFN will file the signed Asset Purchase Agreement when it becomes available.

15.1 Please discuss the current status of the Asset Purchase Agreement and provide a copy of the executed agreement, if available.

15.1.1 If the executed copy of the agreement is not yet available, please provide a copy of the most current draft of the agreement.

Page 61 of the Application, FEI states:

> 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 terms.

15.2 Please provide a breakdown of the total estimated cost of obtaining the right of way permit, including the anticipated negotiation costs and permit fees. Please also indicate which costs would be capitalized versus expensed.

15.3 Please clarify if FEI has included the costs associated with obtaining the right of way permit as part of the $104,000 estimated project cost.

15.3.1 If not, please explain why not and explain how FEI intends to recover the costs associated with obtaining the right of way permit.

15.3.2 If not, please update the rate impact forecast for 2019 and 2020 for the proposed PRFN asset purchase with the estimated cost of obtaining the right of way permit.

15.4 Does the potential cost of obtaining the right of way permit represent a risk to FEI's existing Fort Nelson ratepayers? Please explain why or why not.

15.5 Please discuss when FEI anticipates finalizing the right of way permit.

15.5.1 Please discuss if there are any implications, financial or otherwise, if the right of way permit is not obtained by the date indicated in the response to the preceding IR.

15.6 Please discuss whether FEI anticipates any material conditions to obtain the right of way permit approval from the Ministry of Indian Affairs and Northern Development and PRFN.

15.6.1 If material conditions are anticipated, please discuss in detail what these conditions would be, and provide the estimated costs of complying with these conditions.

15.6.1.1 If applicable, please confirm, or explain otherwise, that the estimated cost of

complying with these conditions have been included in the $104,000 capital cost estimate.

15.6.1.2 If applicable, please update the rate impact forecast for 2019 and 2020 for the proposed PRFN asset purchase with the estimated cost of complying with these conditions.

15.7 Please provide a detailed project timeline which includes, among things, the following:

- The anticipated date for obtaining the right of way permit;
- The anticipated date for completing and executing the Asset Purchase Agreement;
- The timing of the pipeline inspections;
- The timing of the installation of the individual meters;
- The service changeover date from PRFN providing service to its individual members to FEI providing service to the individual PRFN members; and
- The commencement of individual billing to the PRFN members.

16.0 **Reference: CPCN FOR PRFN EXTENSION**
Exhibit B-1, Sections 10.4 and 10.6.4, pp. 61, and 63
CPCN description and consultation

On page 61 of the Application, FEI states that it was first approached by PRFN to assume ownership and operation of the gas distribution system within PRFN in February 2016. FEI further states that "PRFN does not currently charge its members for use of the system" and that the PRFN "has agreed to backstop payment should its members fail to make payment to FEI."

FEI states on page 63 of the Application that "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."

16.1 Please clarify FEI's statement on page 63 of the Application (provided in the above preamble). Specifically, please clarify if FEI will now be providing service to individual PRFN members and therefore will be billing the individual members and responding to any customer service-related issues.

16.1.1 As part of the above response, please compare and contrast the service provided if the CPCN is approved, including how PRFN is billed now versus how the members will be billed if the CPCN is approved, and any customer service or operational related changes.

16.2 Does FEI anticipate any additional customer service issues given that the individual PRFN members have not previously been responsible for managing their own energy usage and utility bill payments? Please discuss.

16.2.1 Please discuss how, if at all, FEI intends to educate PRFN's members about energy conservation measures and ways to manage their utility costs before or concurrent with the switchover to individual metering and provide an estimate of the costs, if applicable, of such initiatives.

16.3 Please discuss in detail the consultation process between FEI and the PRFN and its members regarding the CPCN and the resulting impacts (i.e. billing, conflict resolution, provision of service, etc.) to the PRFN members.

16.3.1 Please describe any issues or concerns raised during the consultations, the measures taken or planned to address issues or concerns, or an explanation of why no further action is required to address an issue or concern.

16.3.2 Please identify any outstanding issues or concerns.

16.4 Please discuss whether the PRFN members have been notified as to this potential change in ownership and the resulting impacts to the individual members (i.e. that members will be individually metered and will be required to pay their own utility bills).

16.5 Please indicate whether FEI has incurred any costs related to consultation with the PRFN regarding the CPCN. If yes, please explain how these costs have been recorded and how much has been incurred.

16.6 Please discuss if there is or will be a contractual agreement between FEI and the PRFN regarding the backstop payment.

16.6.1 If so, please provide a copy of the executed PRFN backstop agreement, if available. If it is not available, please discuss when FEI anticipates the agreement to be finalized and provide the most current draft of the agreement if applicable.

16.6.2 If not, please discuss why the backstop payment will not be part of a contractual agreement.

16.7 Please discuss if there are any anticipated risks to the PRFN's ability to backstop its members' and businesses' utility bills to FEI.

16.8 Please provide the expected average bill for a residential PRFN customer and for a commercial PRFN customer. Please explain all assumptions.

16.9 In the event that the CPCN for the PRFN Extension is approved, please discuss whether the 53 residential and 6 commercial properties would be required to make a security deposit in accordance with FEI's General Terms and Conditions.

16.10 Please discuss the risks to FEI's existing Fort Nelson customers of the PRFN members not paying their utility bills and why, in FEI's view, the backstop agreement with the PRFN is adequate mitigation against these risks.

On page 63 of the Application, FEI states:

> 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.

16.11 Please discuss if the PRFN have also agreed to backstop payment to FEI with respect to its members' and businesses' utility bills in the anticipated expanded PRFN community.

17.0 **Reference: CPCN for PRFN Extension**
Exhibit B-1, Sections 10.3 and 10.6, pp. 59 and 62, Table 10-1
Incremental Revenue Requirement Impacts to FEFN

On page 59 of the Application, FEI states:

> Currently, PRFN is a single Rate Schedule 3 (Rate 2.2 prior to the RDA Decision) customer in FEFN with an annual consumption of approximately 7,800 GJ.

On page 62 of the Application, FEI states:

> Based on an addition of ten dollars to FEFN's rate base in 2019 for purchasing the

existing gas distribution system from PRFN, plus approximately $8 thousand in legal fees and the subsequent capital expenditure of approximately $104 thousand, and considering the incremental revenue from basic charges, the rate impacts are an increase of 0.24 percent in 2019 which will then be offset by a decrease of 0.25 percent in 2020 when compared to the approved 2018 RDA Rates.

Further on page 62, FEI provides the following table:

Table 10-1: Summary of Financial Analysis and Rate Impact of PRFN Project[30,31]

	2019	2020
Incremental Annual Revenue Requirement ($)	9,674	14,279
Offseting Additional Revenue from PRFN ($)	(3,622)	(14,487)
Net Incrmental 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%)

17.1 Please update the table in the preamble above for the following scenarios:

i. A 20 percent increase in the estimated capital cost of $104,000;

ii. A reduction in the 7,800 GJ annual energy consumption by 10 percent;

iii. A reduction in the 7,800 GJ annual energy consumption by 20 percent;

iv. The combined effect of (i) and (ii) above; and

v. The combined effect of (i) and (iii) above.

17.2 In FEI's view, please discuss the likelihood of each of the scenarios in the preceding IR.