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British Columbia  
Utilities Commission

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September 4, 2020

Sent via email/eFile

<b>FEI ANNUAL REVIEW FOR 2020 AND 2021 RATES</b>	<b>EXHIBIT A-3</b>
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Ms. Diane Roy  
Vice President, Regulatory Affairs  
FortisBC Energy Inc.  
16705 Fraser Highway  
Surrey, BC V4N 0E8  
[gas.regulatory.affairs@fortisbc.com](mailto:gas.regulatory.affairs@fortisbc.com)

**Re: FortisBC Energy Inc. – Annual Review for 2020 and 2021 Rates – Information Request No. 1**

Dear Ms. Roy,

Further to your July 20, 2020 filing of the above-noted matter, enclosed please find British Columbia Utilities Commission Information Request No. 1. In accordance with the regulatory timetable established by Order G-209-20, please file your response on or before **Monday, September 28, 2020.**

Sincerely,

*Original signed by:*

Marija Tresoglavic  
Acting Commission Secretary

/ae  
Enclosure



FortisBC Energy Inc.  
Annual Review for 2020 and 2021 Rates

**INFORMATION REQUEST NO. 1 TO FORTISBC ENERGY INC.**

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**A. SERVICE QUALITY INDICATORS**

**1.0 Reference: SERVICE QUALITY INDICATORS  
Exhibit B-2 (Application), Section 1.4, pp. 8–9  
Directions from previous BCUC Decision**

In the British Columbia Utilities Commission’s (BCUC) Decision on the 2020-2024 Multi-Year Rate Plan (MRP), the BCUC directed the content for annual review filings:

Review of the Utilities’ performance with respect to SQI’s [Service Quality Indicators].  
Bring forward recommendations to the BCUC where there have been a “sustained serious degradation” of service;

5. Assess and make recommendations with respect to any SQIs that should be reviewed in future Annual Reviews;<sup>1</sup>

1.1 Please explain whether FortisBC Energy Inc. (FEI) recommends any new SQIs that should be reviewed in future annual reviews. In your response, please provide any relevant assessments.

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<sup>1</sup> BCUC FEI MRP 2020-2024 Decision, p. 167;

**B. LOAD FORECAST**

**2.0 Reference: LOAD FORECAST AND REVENUE AT EXISTING RATES  
Exhibit B-2, Section 3.2, p. 13  
Demand forecast methodology**

FEI states on page 13 of the Application that the demand forecast methodology for 2020 and 2021 is consistent with the forecasting method followed by FEI in previous years.

- 2.1 Please explain when FEI last conducted a comprehensive review of FEI’s current demand forecast methodology for the purpose of setting rates.
  - 2.1.1 Please discuss whether FEI routinely conducts its demand forecast methodology. If yes, please explain the frequency of when a comprehensive review of its demand forecast methodology is conducted. If not, please explain why not.
  - 2.1.2 Please explain the factors that would suggest a need for a comprehensive review of FEI’s demand forecast methodology.

**3.0 Reference: LOAD FORECAST  
Exhibit B-2, Section 3.3.1.1, p. 15; Appendix A3, p. 6; Conference Board of Canada  
Provincial Outlook Economic Forecast Summer 2020, dated August 24, 2020<sup>2</sup>  
Forecast Methodologies: Residential Customer Additions**

In FEI Annual Review for 2020 and 2021 Delivery Rate Application (Application), FEI states:

Consistent with past practice, FEI uses the Conference Board of Canada (CBOC) housing starts forecast as a proxy for residential net customer additions. The CBOC data used for the forecast, in Appendix A3, was issued prior to the start of the pandemic and, at the time of this filing, the CBOC had not issued an updated single or multi-family forecast.

Further, in Appendix A3, FEI states:

The residential net customer additions forecast was developed based on housing starts data from CBOC forecast of December 5, 2019, Provincial Medium-Term Forecast: 20173 Run: 18, Table LTPF156 and LTPF157. The housing starts data was as follows:

**Table A3-3: Housing Starts Data**

Housing Type	2018	2019	2020	2021
SFD	11,163	9,480	9,063	7,957
MFD	29,694	36,246	28,789	26,933
Total	40,857	45,726	37,852	34,890

From the above housing starts forecast, the 2020 Projected Single Family Dwelling (SFD) growth rate is calculated as follows:<sup>3</sup>

<sup>2</sup> [https://www.conferenceboard.ca/focus-areas/canadian-economics/provincial-outlook?utm\\_source=pressrelease&utm\\_medium=ALL&utm\\_campaign=COMMS](https://www.conferenceboard.ca/focus-areas/canadian-economics/provincial-outlook?utm_source=pressrelease&utm_medium=ALL&utm_campaign=COMMS)

<sup>3</sup> Exhibit B-2, Appendix A3, p. 6.

$$2020P\ SFD\ Growth\ Rate = \left(\frac{9,063}{9,480}\right) - 1 = -4.4\%$$

The results of the growth rate on forecast residential customer additions are calculated from the tables provided in Appendix A3 as follows:

“Lower Mainland 2019 Actual 1 additions = 3,218 (column C)  
LML 2019 Actual SFD = 40% × 3,218 = 1,273 (column D)  
LML 2020 Projected SFD = -4.4% × 1,273 = 1,217 (column F)  
LML 2020 Forecast SFD = -12.2% × 1,217 = 1,069 (column I)”<sup>4</sup>

The CBOC recently published its Summer 2020 Provincial Outlook Economic Forecast, updated on August 24, 2020.

- 3.1 Please explain how often the CBOC produces an updated housing starts forecast.
- 3.2 Using the updated CBOC forecast dated August 24, 2020, please recalculate the residential customer addition forecast and the residential load forecast for 2020 and 2021, respectively.
  - 3.2.1 If an updated load forecast is not available, please produce a sensitivity analysis for an impact of +/- 5% and +/-10% variance that housing starts will have on the overall residential load forecast for 2020 and 2021.

**4.0 Reference: LOAD FORECAST**  
**Exhibit B-2, Section 3.3.2.1, p. 19**  
**Commercial Customer Additions**

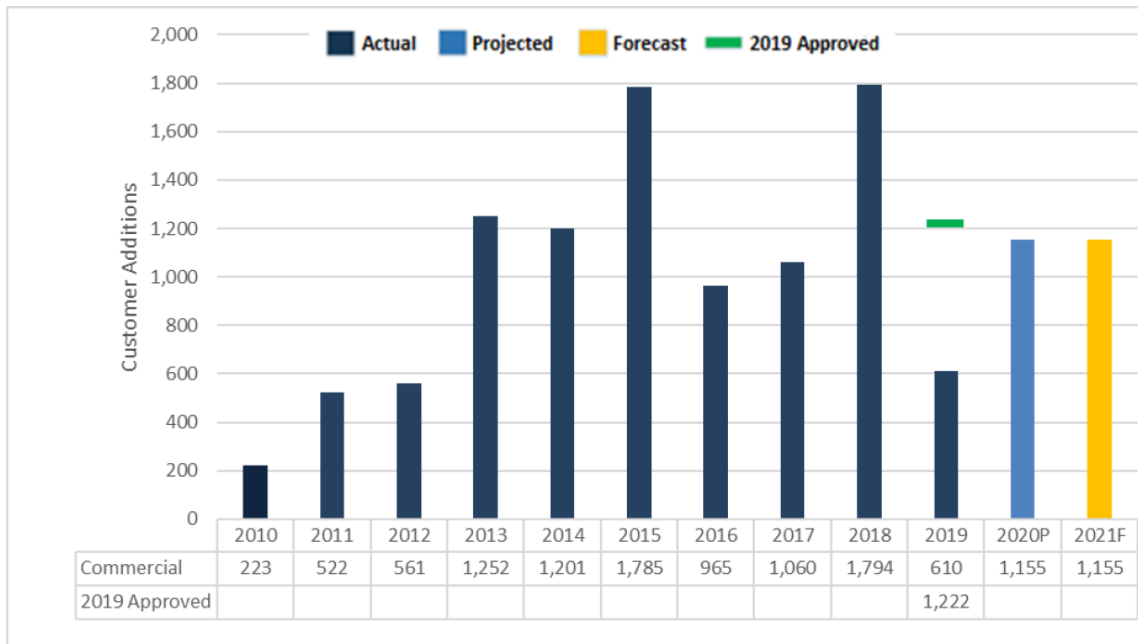
On page 19 of the Application, FEI provides Figure 3-5, Commercial Net Customers Additions:<sup>5</sup>

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<sup>4</sup> Exhibit B-2, Appendix A3, p. 7.

<sup>5</sup> Exhibit B-2, p. 19.

**Figure 3-5: Commercial Net Customers Additions**



- 4.1 Please explain the reasons for the variance between 2019 forecast and actual customer additions.
  - 4.1.1 What are the reasons for the 2019 load forecast and why this is not anticipated to continue into 2020 and 2021.
  - 4.1.2 Given that the state of emergency due to the COVID-19 pandemic was not announced until mid to late March 2020, please discuss the increase in 2020P commercial net customer additions compared to actual 2019 (before the pandemic).
  - 4.1.3 Please discuss why FEI forecasts the commercial net customer additions to be the same in 2020P and in 2021F.
- 4.2 Please provide the year-to-date commercial customer additions for 2020.
  - 4.2.1 Please explain whether the year-to-date numbers indicate FEI will reach its 2020 projections.

**5.0 Reference: LOAD FORECAST**  
**Exhibit B-2, Appendix A3, p. 8**  
**Forecast methodologies: commercial customer additions**

FEI provides calculations on how it calculates forecast commercial customer additions:

The three-year average additions was 474, so 474 net additions are forecast in each of 2020 and 2021. *2020P Customers = 2019 Customers + 3 Yr Avg Additions*  
 Using the data above:  
 $2020P = 54,685 = 54,211 + 474$

- 5.1 In light of the commercial uncertainty caused by the COVID-19 pandemic, please explain whether FEI has considered alternative forecast methodology to better reflect the immediate impact of the COVID-19 pandemic in its 2020 and 2021 load forecast.
  - 5.1.1 If yes, please elaborate on what methodologies are considered and why they were not adopted for preparing the 2020P and 2021F load forecast.

5.1.2 If no, please explain why not.

**6.0 Reference: LOAD FORECAST**  
**Exhibit B-2, Appendix A3, pp. 10-11**  
**Forecast methodologies: ETS method**

In Appendix A3, FEI details its 2020 monthly forecast using the ETS method for the Lower Mainland Rate Schedule (RS) 1 rate class:<sup>6</sup>

2020 UPC Forecast	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
93.8	14.70	11.49	10.73	7.82	4.62	3.27	2.71	2.58	3.27	6.50	10.77	15.33	93.8

FEI explains: “Due to the extraordinary circumstances related to COVID-19, FEI created a projected year for 2020 by replacing the forecast values with actual values for January through June. The monthly actual use rates are:”<sup>7</sup>

LOWER MAINLAND	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2020 Projection	14.72	12.88	12.02	7.73	4.54	3.62	2.71	2.58	3.27	6.50	10.77	15.33	96.7

- 6.1 Please explain the variance between the ETS method projections for the 2020 consumption and the actuals.
- 6.2 Please explain whether FEI anticipates increased consumption in the Lower Mainland RS1 rate class to continue if the pandemic persists into 2021.
- 6.2.1 If yes, please explain how this would impact the load forecast.

**7.0 Reference: LOAD FORECAST**  
**Exhibit B-2, Appendix A2, pp. 4-19**  
**Historical data: Percent error RS3 and RS23**

In Appendix A2, FEI provides a number of tables in Sections 3.2 – 3.17. The 2019 column of each table has an asterisk next to percentage error for RS3 and RS23 rate classes with a footnote that reads “2019\* Rate Switching (Large Commercial RS3 and RS23).”

- 7.1 Please provide another copy of each table showing the data if the RS3 and RS23 rate switching had not taken place. Please show the percent error from forecast for 2019 for RS3 and RS23 for each table in Sections 3.2-3.17.
- 7.1.1 Please explain the reasons behind any variances from forecasts for customer classes RS3 and RS23 for 2019.
- 7.1.1.1 Please explain whether these issues were taken into account in preparation of the 2020 and 2021 forecast.
- 7.1.1.2 Please explain whether the reasons behind the 2019 variances from forecast, if any, are expected to recur in 2020 or 2021. Please explain why or why not.

On page 5 of Appendix A2, FEI provides Amalgamated Net Customer Additions. In the Table for RS2, FEI states the Amalgamated Net Customer Additions for 2019 were -152.3% error. Actuals were 442, Forecast was 1,115.

<sup>6</sup> Exhibit B-1, Appendix A3, p. 11;

<sup>7</sup> ibid

- 7.2 Please explain the reasons for the variance.
  - 7.2.1 Please explain whether the reasons for the variance were taken into account in preparation of the 2020 and 2021 forecast.
  - 7.2.2 Please explain whether the reasons for this variance are expected to recur in 2020 or 2021. Please explain why or why not.

On page 6 of Appendix A2 to the Application, FEI provides a Table showing Amalgamated Normalized Use per customer. 2019 Actuals show Amalgamated Normalized Use per customer actuals lower than forecast across all rate classes, ranging from -5.6% to -8.9%.

- 7.3 Please explain the reasons for the drop in Amalgamated Normalized Use per customer for each rate class in 2019.
  - 7.3.1 Please explain whether these reasons were considered in preparation of the 2020 and 2021 forecasts for Amalgamated Use per customer. If not, why not?
    - 7.3.1.1 If not, please explain the impacts to the forecast demand if these factors were to recur in 2020 and/or 2021.
  - 7.3.2 Please explain whether the reasons for the drop in Amalgamated Normalized Use per customer in 2019 as explained above will likely recur in 2020 and/or 2021.

**8.0 Reference: LOAD FORECAST  
Exhibit B-2, Section 3.3.3, pp. 22–24  
Industrial demand**

On pages 22-23 the Application, FEI describes its method to forecast industrial demand using a customer survey:

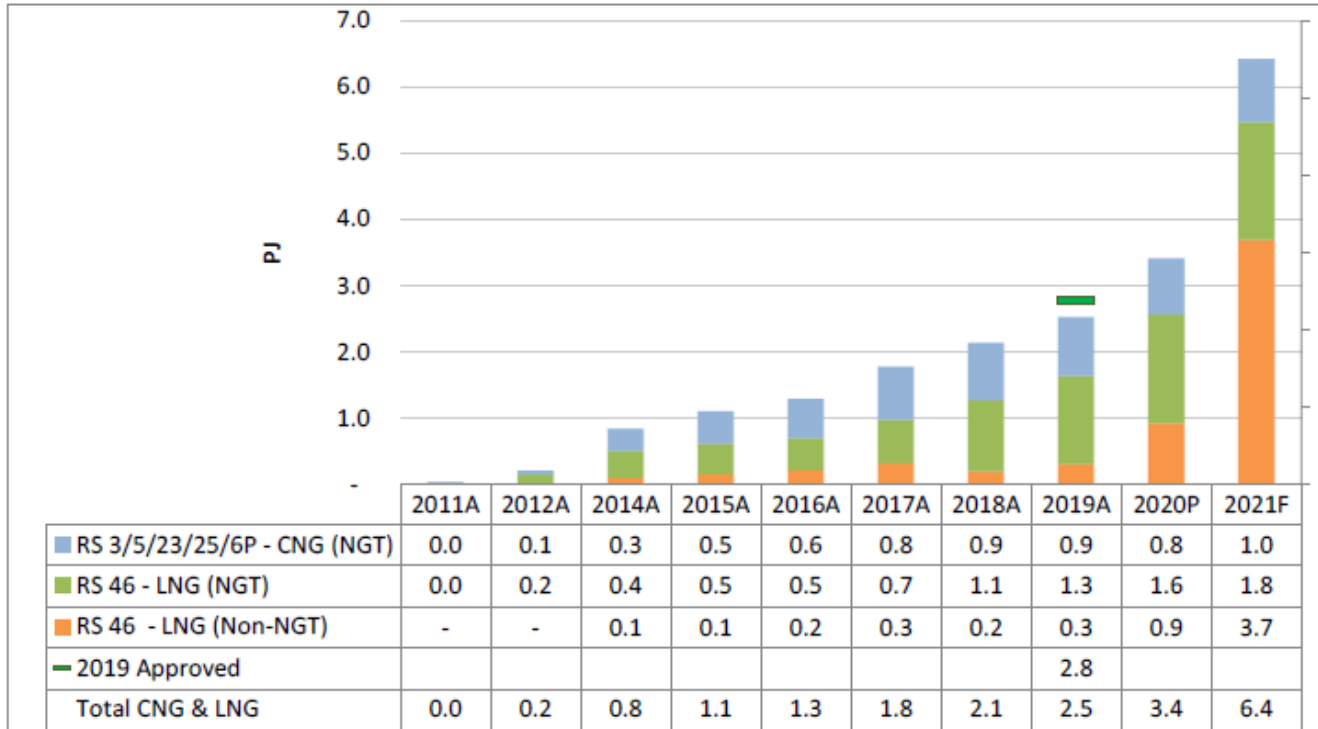
The response rate achieved in 2020 was 46.7 percent of industrial customers, representing approximately 89.3 percent of industrial volumes. There was no reply from 44.5 percent of industrial customers, who received the survey and three reminder notifications; this group represents only 9.5 percent of the industrial demand. Surveys could not be delivered to 8.8 percent of the industrial customers due to issues such as incorrect email addresses; this group represents 1.2 percent of the total industrial load. The forecast of demand for customers that either chose not to reply to the survey or could not be contacted (representing 11 percent of the total industrial demand) was set to equal 2019 Actual consumption.

- 8.1 Please compare the response rate and the corresponding load that the respondents represent as a percentage of industrial volume in years 2016 to 2020 in a table format.
  - 8.1.1 Please comment on the trend on the customer survey response rate.
  - 8.1.2 Please explain the measures that FEI has taken to improve the customer survey response rate since 2016.
- 8.2 If possible, please compare the forecast and actual load among non-respondents and respondents, respectively, from 2016 to 2020 in a bar graph and table format.
  - 8.2.1 Based on the response above, please comment on the forecast accuracy among respondents and non-respondents, and explain the possible reasons for any difference between the two groups since 2016.
- 8.3 Please explain why FEI sets non-respondents' 2020 projected consumption equivalent to 2019 actual consumption.

**9.0 Reference: LOAD FORECAST**  
**Exhibit B-2, Section 3.3.4, p. 25**  
**Natural gas for transportation and Liquefied Natural Gas demand**

On page 25 of the Application, FEI provides Figure 3-11:

**Figure 3-11: Actual (A), Projected (P) and Forecast (F) Demand for CNG & LNG<sup>17</sup>**



FEI provides the following discussion of the projected 2020 and 2021 demand:

The 2020 Projected demand is approximately 0.9 PJ higher than the 2019 Actual demand of 2.5 PJs. Of this 0.9 PJ increase, approximately 0.3 PJ (or approximately 30.2 percent) is attributed to demand that serves NGT [natural gas for transportation] customers while the rest of the increase is attributed to non-NGT demand involving LNG [liquefied natural gas] exports (approximately 0.6 PJ or 69.8 percent).

For 2021, the CNG demand for NGT customers is forecasted to increase by approximately 0.11 PJ (approximately 13 percent) from the 2020 Projected level. This is primarily attributable to incremental load from existing customers and two new CNG [Compressed Natural Gas] stations to be in-service starting in mid-2020 with demand ramp up by 2021. The LNG demand for NGT customers is forecast to increase by approximately 0.14 PJ (approximately 9 percent) from the 2020 Projected level which is primarily attributed to increased volumes from BC Ferries and Seaspan due to two additional fleet vessels.

For non-NGT demand, FEI expects the 2021 Forecast will continue to increase as a result of expanded LNG exports. This is an approximately 2.7 PJ increase from the 2020 Projected level.

- 9.1 Please elaborate on the source of the load increase anticipated in 2020 and 2021 (e.g. new customers, increased demand from existing operations, increased demand from new operations)



- 9.2 To the extent possible, please provide references to support the volume and timing of the anticipated increase in CNG and LNG loads in 2020 and 2021.
- 9.3 Please discuss the level of certainty FEI has in its LNG and CNG demand forecast for 2020 and 2021.

**10.0 Reference: LOAD FORECAST  
Exhibit B-2, pp. 1, 4–5  
Sensitivity analysis**

On page 2 of the Application, FEI requests existing 2020 interim rates be made permanent, effective January 1, 2020; and requests a permanent delivery rate increase of 6.59 percent, effective January 1, 2021.

On pages 5 and 6, FEI presents Figures 1-1 and 1-2 showing the Delivery Revenue Deficiency (\$ millions) in 2020 and 2021, respectively.

10.1 In a table format, please calculate how the load forecast impacts FEI's revenue surplus/deficiency and requested rate change for 2020 and 2021, respectively, if the load forecast in the following rates classes are -10%, -5%, 0%, +5%, and +10% than the forecast presented in the Application, respectively, assuming all else equal:

- Residential;
- Commercial;
- Industrial;
- CNG and LNG load; and
- Equal adjustment to the demand across all rate classes.

10.1.1 Please explain all assumptions used to produce the above analysis, including which rate schedule(s) correspond with each of the residential, commercial, industrial, and CNG and LNG customer classes.

**C. COST OF GAS**

**11.0 Reference: COST OF GAS  
Exhibit B-2, Section 4, pp. 28-29  
Cost of gas calculation**

FEI sets out the forecast cost of gas at existing rates, by RS group in Table 4-1 on page 29 of the Application.

11.1 Please provide a breakdown of the calculated cost of gas amount presented in Table 4-1, including the assumed load, corresponding cost of gas rates, and Unaccounted for Gas (UAF), for each rate class in a functional excel spreadsheet.

**12.0 Reference: COST OF GAS  
Exhibit B-2, Appendix B, p. 4, Schedule 1; FEI 2019 Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account Status Report dated April 30, 2019, Tab 3 Page 1  
Core market administration expense costs – Information Systems**

FEI filed its 2019 Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account Status Report (2019 Status Report) on April 30, 2019. In this report, FEI shows that Information Technology cost was 21% higher than forecast and explains that “[c]omputer costs higher due to Gas Supply related Energy Trading & Risk Management (ETRM) System costs.”

In Schedule 1 of Appendix B of the Application, FEI shows the actual costs for 2016 through 2019, 2020 projected, and the budget request for 2021. FEI also shows Information Systems (IS) cost was 12% higher than forecast in 2020.

On page 4 of Appendix B of the Application, FEI explains that:

... 2020 and 2021 continue to be transition years related to the replacement of the current Entegrate deal capture system with a new Energy Trading and Risk Management (ETRM) system. During the transition period, software maintenance and support costs will be incurred on both systems until the new system is fully functional and the Entegrate system can be retired.

- 12.1 Please provide a breakdown on the IS line item into the following categories for each of 2016 to 2019 Actuals, 2020 projected, and for 2021 budget request: i) the current Entegrate deal capture system; ii) the ETRM system; and iii) others.
- 12.2 Using the 2016 to 2019 Actuals, 2020 projected, and 2021 budget request figures for the IS line item presented in Schedule 1 of Appendix B, please calculate the year to year difference (%) in IS cost from 2016 to 2021.
- 12.3 Please elaborate on the timing and key milestones of the ETRM system transition, including when costs from ETRM were first recovered as an Core Market Administration Expense (CMAE) under the IS line item and when the costs from the current Entegrate system are expected to drop off in the future.
- 12.4 Please expand Schedule 1 to include a comparison of the actuals and forecasted IS cost in years 2016 through 2019, as well as the percentage difference between actuals and forecast for each year, respectively.
- 12.5 Please explain any unforeseen circumstances that resulted in the actual IS costs exceeding forecast in 2019 and 2020, respectively.

#### **D. OTHER REVENUE**

**13.0 Reference: SOUTHERN CROSSING PIPELINE THIRD PARTY REVENUE  
Exhibit B-2, Section 5.3, Table 5-6, pp. 34-36  
Southern Crossing Pipeline revenue**

Table 5-6 of the Application projects Southern Crossing Pipeline (SCP) revenue to decrease from \$17.072 million in 2019 to \$10.877 million in 2020 and \$14.053 million in 2021.

On pages 35 and 36 of the Application, FEI states:

As noted above and explained in the 2020/2021 ACP, FEI will not be renewing the NW Natural SCP Agreement. With the expiration of the NW Natural contract for SCP east to west capacity on October 31, 2020, FEI will increase its holding of SCP east to west capacity to the full amount of 105 MMcf/d starting November 1, 2020. This capacity will provide more flexibility for future load growth, supply restrictions, or other marketplace constraints. Therefore, effective November 1, 2020, the cost of the 105 MMcf/d of SCP east to west capacity contracted by FEI within its midstream portfolio needs to be charged to the Midstream.

- 13.1 Please discuss the revenue requirement impact as a result of the SCP revenue forecast to decrease from \$17.072 million in 2019 to \$10.877 million in 2020 and \$14.053 million in 2021.

- 13.2 Given the significance in the reduction in SCP revenue, please provide reference to where the change in the treatment of the cost of SCP was discussed in FEI's MRP Application. If it was not discussed in the MRP Application, please discuss why.
- 13.3 Please provide a sensitivity analysis for the impact to rates if SCP third party revenues is +/- 5 percent, and +/- 10 percent, of the current forecast.
- 13.4 Please explain the reasons FEI needs the additional capacity for future load growth, including where the future load growth is coming from, and the likelihood it will materialize.
  - 13.4.1 Please discuss if FEI believes the revenue from future load growth will eventually replace the revenues from the NW Natural contract. When does FEI foresee this happening?
  - 13.4.2 Please discuss how FEI plans to mitigate the loss in revenues from the NW Natural contract should the future load growth or supply restrictions not materialize.

On page 36 of the Application, FEI states:

FEI reviewed the valuation of the SCP capacity to be used in the transfer of costs to the MCRA. FEI considered various approaches to the valuation including Avoided Cost, Market Based, and Cost of Service (COS) approaches. Under the Avoided Cost and Market Based approaches there is uncertainty due to market factors such as new projects increasing regional demand, future pipeline expansions, flow dynamics, future Enbridge tolls and Enbridge system reliability. Given this uncertainty and considering that FEI owns the SCP assets, FEI valued the SCP capacity based on the cost of service of the SCP pipeline. Most regulated pipelines determine tolls through a comparable process.

- 13.5 Please explain in detail the criteria that were used to determine that the COS approach was better than the other alternatives.
- 13.6 Please explain what impact the other valuation approaches would have had on FEI's Other Revenue, and the resulting impact on delivery rates for 2020 and 2021.
- 13.7 Please provide a list of the regulated pipelines that determine tolls through a comparable process.

**14.0 Reference: SCP THIRD PARTY REVENUE  
Exhibit B-2, Section 5.3.3, p. 37  
Net other mitigation revenue**

On page 37 of the Application, FEI states that "[t]he significant decrease in the 2020 Projected mitigation revenue for the SCP west to east capacity compared to the 2019 Approved amount is due to changing market conditions." Then on page 38, FEI states that "[t]hese market conditions will continue to change over time and mitigation revenues have decreased significantly since 2019".

- 14.1 Please explain what is driving the market price differentials to narrow. Are there any other opportunities that FEI is aware of to contract the capacity?
- 14.2 Please discuss if FEI reconsidered renewing its firm service contract with NW Natural, given that the market price differentials have narrowed significantly. Why or why not?

**E. O&M EXPENSE FORECAST OUTSIDE THE FORMULA**

**15.0 Reference: O&M EXPENSE FORECAST OUTSIDE THE FORMULA  
Exhibit B-2, Section 6.3.1, pp. 43-44  
Pension and Other Post-Employment Benefits expense**

On page 43 of the Application, FEI explains the \$10.710 million increase in projected 2020 pension Other Post-Employment Benefits (OPEB) expense in part as:

- An approximately \$10.3 million increase in amortization of actuarial losses and increases in current service costs and interest costs due to decline in discount rates. The discount rates, which are determined with reference to the market rate of interest on high quality debt instruments at a point in time, decreased from 3.5 percent, which was used to determine 2019 Approved expense, to 3.0 percent, which is used to determine 2020 Projected expense;

15.1 Please provide the reference point in time that was used to determine the discount rates for 2020 projected expense.

15.1.1 Please explain if FEI has an update to these discount rates, given the recovery in capital markets since the beginning of the pandemic.

15.2 Please provide a sensitivity analysis that shows what the impact of a 0.1 percent change in discount rates has on projected 2020 expense compared to 2019 actual expense.

On page 44 of the Application, FEI further states:

The 2021 pension and OPEB expense is forecasted to be \$2.917 million higher than 2020 Projected expense primarily due to two factors. First there is a forecasted further decline in discount rates in mid-2020 due to the volatility in capital debt markets. Second, while there has been a recovery in the value of pension plan assets since the beginning of the pandemic in 2020, it is still expected that the estimated annual asset return for 2020 will remain lower than expected and this expectation has been incorporated into the determination of the 2021 pension and OPEB expense.

15.3 Please explain if FEI has an update to the estimated annual asset return for 2020, given the recovery of capital markets since the beginning of the pandemic.

**16.0 Reference: O&M EXPENSE FORECAST OUTSIDE THE FORMULA  
Exhibit B-2, Section 6.3.2, p. 44  
Insurance expense**

On page 44 of the Application, FEI explains the projected insurance expense increases as a result of “various insurers reducing their capacity and increasing restrictions and retentions.”

16.1 Please explain in detail what is meant by “reducing their capacity and increasing restrictions and retentions.”

16.2 Please explain how many different insurers FEI works with. Has FEI sought out any alternatives to the current insurers? If not, please explain.

**17.0 Reference: O&M EXPENSE FORECAST OUTSIDE THE FORMULA**  
**Exhibit B-2, Section 6.3.3, p. 45, Table 6-7**  
**Integrity digs**

Table 6-7 of the Application provides the forecast number of integrity digs for 2020 and 2021, as well as the forecasted cost per dig, compared to the actual number of digs and cost per dig for 2017, 2018, and 2019.

17.1 Please provide the forecasted number of integrity digs for 2019 and explain any variances to the actual number of digs for 2019.

On page 45, FEI states that “[c]osts associated with integrity digs are primarily outside of FEI’s control, and there can be considerable uncertainty related to scope, cost, timing and volume of expected digs.”

17.2 Please explain in detail why the cost per dig is increasing from \$26,000 in 2019, to \$30,000 in 2020 and \$31,000 in 2021.

17.3 Please explain what measures FEI has in place to ensure that the uncertainty related to scope, cost, timing and volume is mitigated.

17.4 Please explain if FEI has analyzed any learnings from the Enbridge pipeline explosion that occurred in 2018, and how it has applied that knowledge to future integrity digs or other safety measures.

**F. CAPITAL**

**18.0 Reference: CAPITAL**  
**Exhibit B-2, Section 7.1, p. 53**  
**Regular capital expenditures: Variance in 2019 net capital expenditures**

On page 53 of the Application, FEI provides Table 7-1:

**Table 7-1: Regular Capital Expenditures (\$ millions)**

<u>Line</u>		Approved	Actual	Projected	Forecast	
<u>No.</u>	<u>Description</u>	2019	2019	2020	2021	<u>Reference</u>
1	Formula Growth Capex	40.143	88.454	68.199	62.657	Table 7-2, Line 5
2	Formulaic CIAC			2.452	2.253	Section 11, Schedule 9, Line 2
3	Formula/Forecast Sustainment & Other Capex	122.928	151.476	161.300	162.860	Section 11, Schedule 4, Lines 15 + 16
4	Flow through Capex	25.210	8.080	10.398	27.012	Section 11, Schedule 4, Sum of Lines 11 through 14
5	Total Gross Regular Capex	188.281	248.010	242.349	254.782	Sum of Lines 1 through 4
6	Less: Formula CIAC	(5.812)	(5.700)	(2.452)	(2.253)	- Line 2
7	Less: Forecast CIAC	-	-	(4.767)	(3.752)	Section 11, Schedule 9, - Line 6/1000 - Line 6
8	Net Regular Capex	182.469	242.310	235.130	248.777	Sum of Lines 5 through 7

The Table shows 2019 actual net regular capital expenditures were \$242.310M, compared to 2019 forecast of \$182.469M.

18.1 Please provide a detailed explanation, by category, of the variances between the 2019 approved forecast and 2019 actuals. In your response, please describe any capital projects that were advanced, delayed or cancelled, and any other relevant information.

**19.0 Reference: CAPITAL**  
**Exhibit B-2, Section 7.3, p. 59**  
**2020 and 2021 plant additions**

On page 59 of the Application, FEI provides Table 7-8:

**Table 7-8: Reconciliation of 2020 and 2021 Capital Expenditures to Plant Additions (\$ millions)**

<u>Line</u>		<u>Projected</u>	<u>Forecast</u>	
<u>No.</u>	<u>Description</u>	<u>2020</u>	<u>2021</u>	<u>Reference</u>
1	Formula Growth Capex	70.651	64.910	Section 11, Schedule 4, Line 8
2	Forecast Sustainment & Other Capex	161.300	162.860	Section 11, Schedule 4, Lines 15 + 16
3	Flow through Capex	10.398	27.012	Section 11, Schedule 4, Sum of Lines 11 through 14
4	Total Gross Regular Capex	242.349	254.782	Sum of Lines 1 through 3
5	Capitalized Overheads	50.306	52.703	Section 11, Schedule 5, Line 18
6	AFUDC	3.648	3.654	Section 11, Schedule 5, Line 19
7	Change in Work in Progress	(3.880)	(17.300)	Section 11, Schedule 5, Line 21
8	Total Regular Additions to Plant	<u>292.423</u>	<u>293.839</u>	
9				
10	<u>Special Projects and CPCN Capex</u>			
11	LMIPSU	28.630	16.170	Section 11, Schedule 5, Line 7
12	IGU	45.846	60.630	Section 11, Schedule 5, Line 8
13	Tilbury Expansion Project	8.062	4.147	Section 11, Schedule 5, Line 9
14	Special Projects and CPCN AFUDC	2.930	2.301	Section 11, Schedule 5, Line 25
15	Change in Special Projects and CPCN Work in Progress	242.427	(2.380)	Section 11, Schedule 5, Line 27
16	Total Special Projects and CPCN Additions to Plant	<u>327.895</u>	<u>80.868</u>	
17				
18	Total Plant Additions	<u>620.318</u>	<u>374.707</u>	

On line 15 of Table 7-8, FEI states Projected 2020 “Change in Special Projects and CPCN Work in Progress” of \$242.427M.

19.1 Please provide a breakdown of the expenses contained in this line item.

**G. DEFERRED CHARGES**

**20.0 Reference: DEFERRED CHARGES**  
**Exhibit B-2, Section 11, Schedules 11, 11.1, 12**  
**Unamortized deferred charges and amortization (rate base and non-rate base)**

20.1 In the same format as is provided in Schedules 11, 11.1 and 12 in Section 11 of the Application, please provide the previous years’ information on unamortized deferred charges by starting with the actual 2018 ending deferral account balances and including the actual 2019 deferral account additions and the actual 2019 amortization.

**21.0 Reference: DEFERRED CHARGES**  
**Exhibit B-2, Section 7.5.1.2, pp. 64-67 and Table 7-10**  
**2022 Long-Term Gas Resource Plan Application Deferral Account**

On pages 64-67 of the Application, FEI is seeking a deferral account to capture the costs of external resources required for the 2022 Long-Term Gas Resource Plan Application Deferral Account (LTGRP). FEI estimates that the total costs of the LTGRP application will be \$0.850 million incurred in 2020, and a further \$0.430 million incurred in 2021.

21.1 For each category in Table 7-10, please provide an explanation of how the total estimated

expenditures were calculated.

21.2 Please provide an estimate of the \$0.430 million for 2021 costs, broken down by category, in the same format of Table 7-10.

21.2.1 For each category, please provide an explanation of how the total estimated expenditures were calculated.

On page 67, FEI states:

Consistent with past practice, FEI is also requesting approval to capture regulatory application and proceeding costs such as legal fees, intervener and participant funding costs, BCUC costs, required public notification costs, and miscellaneous administrative costs related to the LTGRP Application within the same deferral account. FEI estimates total regulatory and proceeding costs associated with the LTGRP application will be \$0.350 million....

21.3 Please confirm that the \$0.350 million in total regulatory and proceeding costs are not included in the costs shown in Table 7-10. If not confirmed, please explain which categories contain these costs.

21.3.1 Please provide an explanation for how the \$0.350 million in total regulatory and proceeding costs for the LTGRP application were calculated.

**22.0 Reference: DEFERRED CHARGES  
Exhibit B-2, Section 7.5.2.3, p.73  
2020 Revenue Requirement proceeding deferral account**

On page 73 of the Application, FEI is proposing to amortize the 2020 Revenue Requirement proceeding deferral account over five years commencing January 1, 2020, which represent the period covered by the MRP application.

22.1 Please provide a detailed breakdown of the actual costs recorded in the 2020 Revenue Requirement proceeding deferral account, and compare to the original estimated costs, providing explanations for any variances over 10 percent.

**H. FINANCING AND RETURN ON EQUITY**

**23.0 Reference: FINANCING AND RETURN ON EQUITY  
Exhibit B-2, Section 8.3.1, p. 75  
Long-term debt**

On page 75 of the Application, FEI states it issued long-term debt of \$200 million at rate of 2.82 percent in August 2019, and then another \$200 million at a rate of 2.54 percent in July 2020. FEI then states:

FEI plans to issue additional long-term debt of approximately \$200 million in 2021 to finance FEI's capital expenditure program and repay existing indebtedness. The 2021 issuance is reflected in the financial schedules in July 2021 at a rate of 3.30 percent.

Please explain why the rate for debt issued in 2021 is higher than 2019 and 2020, and explain how the impact of the COVID-19 pandemic on market rates is reflected in the higher rate of 3.30 percent.

**I. TAXES**

**24.0 Reference: TAXES  
Exhibit B-2, Section 9.2, pp. 79-80  
Property taxes**

On page 79 of the Application, property tax expense in 2021 is projected to increase 5.7 percent from 2020. FEI states the increase is due to construction activities, market value increases, and changes in tax policies of local taxing authorities. On page 80, FEI states that forecast changes in the assessed values of FEI's property are based on the increases that BC Assessment was proposing at the time the forecast was developed.

24.1 Please explain when the forecast was developed and discuss the potential impact of the COVID-19 pandemic on the forecast increases.

**J. RATE RIDERS**

**25.0 Reference: RATE RIDERS  
Exhibit B-2, Section 10.2.2, p. 89; FEI Annual Review for 2019 Delivery Rates, Section 11, Schedule 11  
Revenue Stabilization Adjustment Mechanism**

On page 89 of the Application, FEI states that the projected balance in the Revenue Stabilization Adjustment Mechanism (RSAM) account at the end of 2020 is a debit of \$17.667 million. In the FEI Annual Review for 2019 Delivery Rates (2019 Annual Review), the projected balance at the end of 2018 was a credit of \$8.9 million.

25.1 Please provide a continuity schedule, in the same format as section 11, schedule 11, showing the change from the 2018 ending balance to the projected 2020 ending balance.

25.1.1 Please explain in detail the driver(s) behind the change in the account balance from a credit of \$8.9 million to a debit of \$17.667 million.

**K. ACCOUNTING AND EXOGENOUS FACTORS**

**26.0 Reference: EXOGENOUS (Z) FACTORS  
Exhibit B-2, Section 12.2.1, p. 162  
COVID-19 pandemic**

On page 162 of the Application, FEI states:

Due to the uncertainty, FEI is not seeking approval of exogenous factor treatment for incremental impacts related to COVID-19 at this time. Instead, over the coming months, FEI will evaluate the COVID-19 incremental costs and related savings. If the incremental costs and savings are determined to be significant, FEI proposes to include the amounts in the previously approved COVID-19 Customer Recovery Fund Deferral Account. The amounts will then be reviewed in 2021 when actual 2020 amounts and forecasts for future years can be ascertained, and an appropriate recovery method can be determined.

26.1 Please confirm that FEI did not seek approval to record the incremental costs and savings to the COVID-19 Customer Recovery Fund Deferral Account in the original FEI COVID-19 Customer Recovery Fund Deferral Account Application.



- 26.1.1 If confirmed, please explain why FEI is now asking to include these incremental costs and savings, when it did not ask for their inclusion in the original application.
- 26.2 Please provide the incremental costs and savings incurred to-date, broken down by category. Please also provide a forecast, if possible, for the remainder of 2020, and 2021.

**27.0 Reference: ACCOUNTING AND EXOGENOUS FACTORS  
Exhibit B-2, Section 12.4.1.3, p. 170  
Flow-through deferral account**

On page 162 of the Application, FEI states:

Similar to the discussion in Section 10.1 on FEI's 2020 Projected earnings sharing amount, FEI is not projecting a flow-through balance for 2020. This is because FEI has included actual amounts up until June 30, 2020 within its Projected 2020 revenue requirement throughout this Application and is not projecting any further variances for the remainder of the year from the amounts included in this Application. Therefore there are no amounts to include within the 2020 Flow-through projection.

- 27.1 Please provide a table showing the projected flow-through deferral account balances embedded in rates for each of the previous 5 years, as projected in each of the previous Annual Reviews. For example, in the Compliance Filing for the FEI 2019 Annual Review, the projected 2018 flow-through deferral account balance embedded in 2019 rates was a credit of \$24.478 million.
- 27.2 Please discuss if the actual amounts that are included in this Application are different from what FEI was originally forecasting for the months of January to June 2020.
- 27.3 Please explain in detail why FEI is not projecting any further variances for the remainder of the year, given that July to December do not include actual amounts.

Further on page 162, FEI states:

An adjustment to include the difference between the projected amount of zero and final actual amounts for 2020 subject to flow-through will be recorded in the deferral account in 2021 and amortized in 2022 rates.

- 27.4 Please discuss if including a projected amount for 2020 would allow the increase in 2021 rates to be lower than the current projected increase of 6.59 percent.
- 27.4.1 Would recording the adjustment solely in 2021 and amortizing in 2022 rates cause the change between 2021 and 2022 rates to be unnecessarily lumpy, rather than if FEI included a projected amount in 2021 rates?

**L. PERFORMANE BASED RATEMAKING ELEMENTS**

**28.0 Reference: PERFORMANCE BASED RATEMAKING ELEMENTS  
Exhibit B-2, Section 14.3, Table 14-1, p. 184; 2019 Annual Review, Exhibit B-3, BCUC IR 22.1  
2019 Flow-through deferral account**

In response to BCUC IR 22.1 in the 2019 Annual Review, FEI provided a table similar to Table 14-1 in the current Application which showed the approved and actual 2017 amounts recorded in the flow-through deferral account.

- 28.1 Please provide the same table as was provided in response to BCUC IR 22.1 in the FEI 2019

Annual Review, but showing the breakdown of the approved and actual 2018 amounts recorded in the flow-through deferral account.

On page 184 of the application, FEI states that, with regards to the 2019 flow-through deferral account:

The final amount to be distributed to customers in 2020 is a credit of \$36.392 million (after tax) and is comprised of the following:

A net variance between approved and actual of \$22.243 million (credit) in flow-through items for 2019. The variance is primarily the result of higher delivery margin revenue, lower income taxes and lower depreciation expense, partially offset by higher flow-through O&M expenses;

A true-up to actual of \$11.617 million (credit) to the projected ending 2018 Flow-through account balance, resulting from higher delivery margin revenue and lower depreciation expense. The \$11.617 million credit is the difference between the projected ending 2018 flow-through deferral account balance embedded in 2019 delivery rates of \$24.478 million (credit) and the actual ending 2018 deferral account balance of \$36.095 million (credit);

...

- 28.2 Please explain in detail, by rate-class, the variances resulting from higher delivery margin revenue.
- 28.3 Please explain what is driving the variances in lower income taxes and depreciation expense.
- 28.4 Please quantify the impact that the credit of \$36.392 million has on 2020 delivery rates. What would the 2020 rate increase over 2019 rates have been if this credit did not exist?