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Utilities Commission

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February 8, 2021

Sent via email/efile

GRAND FORKS BYPASS AGREEMENT WITH FBC
EXHIBIT A-2

Mr. Christopher P. Weafer
Owen Bird Law Corporation
2900-595 Burrard Street
Vancouver, BC V7X 1 J5
cweafer@owenbird.com

Re: City of Grand Forks Electric Utility – Application for Approval of a Bypass Agreement with FortisBC Inc. – Staff Questions No. 1 to the City of Grand Forks Electric Utility

Dear Mr. Weafer:

Further to your December 18, 2020 filing of the above-noted application, please find British Columbia Utilities Commission Staff Questions No. 1 to the City of Grand Forks Electric Utility. Please file your responses on or before **Tuesday, February 23, 2021.**

Sincerely,

Original signed by:

Marija Tresoglavic
Acting Commission Secretary

/ae

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City of Grand Forks Electric Utility
Application to the British Columbia Utilities Commission for Approval of a
Bypass Agreement with FortisBC Inc.

STAFF QUESTIONS NO. 1 TO CITY OF GRAND FORKS ELECTRIC UTILITY

1.0 Reference: WHOLESALE POWER AGREEMENT
Exhibit B-1, pp. 1–2; Schedule C; British Columbia Utilities Commission Order G-101-08 dated June 19, 2008
Wholesale Power Agreement

Page 1 of the City of Grand Forks Electric Utility (Grand Forks or City) Application to the British Columbia Utilities Commission (BCUC) for Approval of a Bypass Agreement with FortisBC Inc. (FBC) (Application) states:

> FBC has also agreed as to the form of Bypass Agreement and Wholesale Power Agreement with Grand Forks which are attached as Schedules "B" and "C" to this letter Application… This letter and the attached material should be taken for an Application for an order from the Commission pursuant to sections 60 and 61 of the *Utilities Commission Act* for approval for the Bypass Agreement proposed.

Grand Forks elaborates on page 2 of the Application:

> As part of this Application process, Grand Forks has negotiated renewal of its Wholesale Power Agreement with FBC and the agreed upon and executed in November of 2020 is attached as Schedule "C" to this letter Application.

By Order G-101-08 dated June 19, 2008, the BCUC accepted the Agreement for the Supply of Electricity Wholesale Service between the City of Grand Forks and FortisBC, dated April 1, 2006, for a four year term from April 1, 2006 to March 31, 2010 with an option to renew for an additional five year term.

1.1 Please clarify whether Grand Forks is seeking approval of the Wholesale Power Agreement attached as Schedule C of the Application.

1.1.1 Please explain any difference between the current and previous Wholesale Power Agreement.

1.2 Please explain whether the Wholesale Power Agreement attached as Schedule C of the Application is part of the proposed Bypass Agreement filed as Schedule B to the Application between the City and FBC (Proposed Bypass Agreement).

1.2.1 If yes, please explain whether the City requires BCUC review and approval of the Wholesale Supply Agreement in conjunction with the Proposed Bypass Agreement.

2.0 Reference: CAPITAL COST ESTIMATE
Exhibit B-1, Schedule F, pp. 1–2
Updated cost estimate for Grand Forks Substation

Schedule F of the Application includes an updated cost estimate for the Grand Forks Substation. On pages 1 and 2 of Schedule F, the City presented the following capital cost estimate:

	Loc 1 (2017)	Loc 2 (2017)	Loc 2 (2020)
Property Acquisition	$77,400	$83,500	$50,000
Proj. Mgmt. and Engineering	$386,450	$386,450	$405,425
Site Preparation	$279,750	$279,750	$293,486
Ground Grid and Fencing	$88,210	$88,210	$92,541
Foundations	$120,600	$120,600	$126,521
Equipment Purchase	$1,624,300	$1,624,300	$1,825,237
Structure and Equipment Erection	$67,045	$67,045	$70,145
Test and Commission	$116,030	$116,030	$125,559
15 kV Conduit and Cable	$214,948	$329,988	$183,750
Control Cabling	$34,400	$34,400	$111,624
FortisBC Interconnect (60 kV)	$140,500	$140,500	$136,383
Contingency	$629,927	$654,157	$684,134
Total Substation (Before Tax)	**$3,779,560**	**$3,924,930**	**$4,104,805**

2.1 Please explain the decrease in cost estimate for the 15 kV conduit and cable costs from Loc 2 (2017) of $329,988 to Loc 2 (2020) of $183,750.

2.2 Please explain why total capital costs for the substation are presented before tax. In a similar level of detail, please provide the after-tax cost of constructing the City-owned substation (physical bypass facility).

3.0 Reference: OPERATING AND MAINTENANCE COSTS
Exhibit B-1, Schedule F, p. 2; Customer Analyses, pp. 4–5
Updated cost estimate for Grand Forks Substation

On page 2 of Schedule F to the Application, it states:

> Substation maintenance cost estimates were increased for inflationary increases and checked against Nelson Hydro's average costs of maintenance for its Rosemont Substation.

In the Customer Analyses on pages 4 and 5 of Schedule F, the City provides the annual maintenance and insurance costs of $24,693 and $3,540 respectively, for the base year.

3.1 Please explain why Nelson Hydro's Rosemont Substation represents a reasonable cost comparator for the Grand Forks Substation.

3.1.1 Please specify any adjustments that were made to Nelson Hydro's average costs of maintenance and insurance to reflect the expected costs for the City-owned substation. Provide supporting calculations as appropriate.

3.1.2 Please discuss other comparators or proxies that were considered, the pros and cons of each, and why they were ultimately rejected.

3.2 Please explain if the annual maintenance and insurance costs are before or after tax.

3.2.1 If the annual maintenance and insurance costs are before tax, please provide the after-tax costs.

4.0 Reference: COST OF BYPASS
Exhibit B-1, Schedule B, Draft Form of Bypass Agreement (Proposed Bypass Agreement), Section 2, p. 1; Schedule F, pp. 2–3; Customer Analyses, pp. 4–5; FBC's Electric Tariff for Service in the West Kootenay and Okanagan Aras General Terms and Conditions and Rate Schedules (Electric Tariff), Rate Schedule 40, p. 40.2
Cost of Bypass

In the Customer Analyses on pages 4 and 5 of Schedule F, the City provides two cash flow analyses, the first analysis using an interest rate of 1.56 percent, and the second analysis using an interest rate of 2.38 percent.

The Second Revision of page R-40.2 of FBC's Electric Tariff provides the Delivery Voltage Discount and states:

> A discount of 0.812¢ per kW.h will be applied to the Energy Charge and a discount of $2.79 per kVA will be applied to the Power Supply Charge if the Customer supplies the transformation from the transmission line voltage to the primary distribution voltage.

4.1 Please provide the supporting calculations for the basic, energy, power supply, and wires charge under Rate Schedule 40 (Wholesale Service – Primary) (RS40) with and without the Delivery Voltage Discount for 2017 to 2021. Reference the charges eligible for the discount and include the actual kVa and kWh used to determine the demand-based charges and the energy charges, respectively.

4.2 Please explain why the total 2019 charges under RS40 were used as the base year for the cash flow analysis.

4.3 Please confirm, or otherwise explain, that the 'Financing Comparison' in the cash flow analyses is not used to determine the reasonableness of the Bypass Rate Rider and operations and maintenance (O&M) Rider.

4.3.1 If not confirmed, please (i) explain why the capital costs and interest rate used in the 'Financing Comparison' are not the same as that used in the cash flow analyses; (ii) provide the supporting calculations for the 'Financing Comparison', including the net present value calculations; and (iii) explain why the 10, 15 and 20 year financing alternatives all have a 50 year term.

Page 2 of Schedule F states:

> Interest rates from MFA have decreased from 3.23 % (2017) to a blended rate of 1.67% (2020) - used in the August 03, 2020 analysis,
>
> To accurately reflect an actual debt draw from MFA this September 04, 2020 analysis uses todays MFA rates for either a 10 year (1.56%) or 20 year (2.38%) term, - see cash flow analysis attached,

On page 3 of Schedule F, the City provides the Municipal Financial Authority's indicative market rates for the period of five through 30 years.

Section 2 of the Proposed Bypass Agreement in Schedule B of the Application states "[t]his Agreement shall have a term of two hundred forty (240) months or twenty (20) years from the Effective Date (the "Initial Term"), unless terminated earlier by the Customer on the conditions specified herein."

4.4 Please provide an analysis of the after-tax cost of constructing, operating and maintaining the bypass facility, and any other facilities required by the City to operate the bypass facility, over

the 20-year term of the Proposed Bypass Agreement. Please specify, with rationale, the assumptions used in the analysis including, but not limited to:

(i) Financial assumptions including capital requirements, operating and maintenance expenses, taxes, including property tax, depreciation and capital cost allowance rates, inflation rates and amortization period; and

(ii) The City's capital structure assumptions, including debt-to-equity ratio, cost of debt and required return on equity.

4.5 Please discuss if the discount rate applied in the 20-year term cash flow analysis is equivalent to the City's required rate of return for new investments. If not, please provide the basis for the discount rate applied and explain why the chosen discount rate is appropriate.

4.6 Please discuss how the City's load is expected to change over the 20 year term of the Proposed Bypass Agreement and how this change in load impacts the cash flow analysis prepared in Staff Question 4.4.

5.0 Reference: BYPASS RATE AGREEMENT BETWEEN THE CITY AND FBC
Exhibit B-1, Schedule B, Section 7, p. 3; Schedule D, Copy of the BCUC Letter Decision L-10-03 dated March 25, 2003, p. 2
Rate Riders

Section 7 of the Proposed Bypass Agreement at Schedule B of the Application provides the relevant charges including a Bypass Rate Rider of $21,695 per month and an O&M Rider of $2,352.75 per month.

On page 2 of letter L-10-03 dated March 25, 2003, filed as Schedule D to the Application, the BCUC stated:

> The Bypass Rate should equal Pope & Talbot's cost of bypass all told and be payable to Aquila over the expected life of the proposed bypass facility, financed at Pope & Talbot's weighted average cost of capital.

5.1 In the City's perspective, please discuss whether the rate riders are intended to fully recover the annual charges of the City's cost to construct and operate a City-owned substation over a 20-year term per the Proposed Bypass Agreement.

5.1.1 If not, please explain why not, and whether the rate riders should be designed to fully recover the costs to construct and operate a physical bypass facility.

5.1.2 If yes, please clearly indicate where each of the assumptions listed in Staff Question 4.4 have been addressed in the cash flow analyses filed in Schedule F to the Application.

5.2 Based on the analysis completed in Staff Question 4.4, please recalculate the Bypass Rate Rider and O&M Rider.

5.2.1 Please comment on the appropriateness of using the analysis from Staff Question 4.4 as the basis to calculate the Bypass Rate Rider and O&M Rider.

5.2.2 Please explain whether the City sees the need to revise the proposed rate riders filed in the Proposed Bypass Agreement.

5.2.2.1 If yes, will the City be refiling the Proposed Bypass Agreement with the revised rate riders calculated above.

5.2.2.2 If not, please explain why not.