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October 1, 2020

British Columbia Municipal Electrical Utilities
c/o Nelson Hydro
101-310 Ward Street
Nelson, BC
V1L 5S4

Attention: Mr. Alex Love

Dear Mr. Love:

Re: FortisBC Inc. (FBC)
Project No. 1599119
Annual Review for 2020 and 2021 Rates (Application)
Response to the British Columbia Municipal Electrical Utilities (BCMEU)
Information Request (IR) No. 1

On August 19, 2020, FBC filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-211-20 setting out the Regulatory Timetable for review of the Application, FBC respectfully submits the attached response to BCMEU IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC INC.

Original signed:

Diane Roy

Attachments

cc (email only): Commission Secretary
Registered Parties

FortisBC Inc. (FBC or the Company) Annual Reivew for 2020 and 2021 Rates ~ Project No. 1599119 (Application)	Submission Date: October 1, 2020
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1 **1. Reference: Exhibit B-2, Section 1.2 Approvals Sought, page 2**

2 Lines 7 and 8 reflect the company is seeking a permanent rate increase of 6.37%
3 effective January 1, 2021.

4 FBC notes on page 33, that its PPE from BC Hydro under its BC Hydro PPA will be
5 impacted as BC Hydro has applied for a 2.7% increase effective April 1, 2021.

6 Like FBC and BC Hydro, the Wholesale Customers also serve residential, commercial:
7 industrial who are struggling in the Covid 19 environment. A 6.37% increase on our
8 costs from FBC will be difficult to explain to those end use customers.

9 1.1 Does FBC consider that it has taken all steps to seek to minimize increases such
10 that they are more in-line with inflation or the BC Hydro level of increase?
11

12 **Response:**

13 FBC always strives to minimize rate increases and has taken all appropriate steps to minimize
14 the rate increases proposed in the Application.

15 As FBC explained in the Application, it is continuing to pursue productivity improvements while
16 also managing its business needs in the face of continuing and new cost pressures. FBC's
17 focus during this MRP term is on the efficient allocation of resources within the business and
18 "doing more with what we have". Through this approach, FBC is focusing on managing costs
19 and mitigating customer rate pressures while also providing resources to maintain customer
20 service levels and support growth.

21 FBC's requested permanent 2020 rate increase of 1.00 percent is less than inflation. Further,
22 even if FBC were not proposing to use the 2018-2019 Revenue Surplus deferral account
23 balance to maintain permanent rates at the existing interim rate of 1.00 percent, the rate
24 increase that would have resulted from the approved formulas and forecasts for 2020 is 1.93
25 percent, which is also below inflation.

26 With regard to the requested 2021 rate increase of 6.37 percent, FBC acknowledges that this
27 increase is higher than inflation and is higher than BC Hydro's requested rate change in its most
28 recent revenue requirements application. However, FBC notes that the two utilities have
29 different operating environments, different sets of supply resources and different customer
30 bases. These different characteristics naturally impact the utilities' revenue requirements and
31 rate changes.

32 The BCUC has previously commented on these differences as follows:¹

¹ FBC 2012-2013 RRA Decision, p. 20 (Order G-110-12).



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1 FortisBC operates with a different set of supply resources and with a different
2 customer base in terms of geography, population density and the
3 residential/commercial/industrial mix it faces. The Commission Panel has no
4 mandate, nor does it find it appropriate, to require FortisBC to manage its utility
5 business to produce rates or programs identical to those of BC Hydro. The
6 Commission Panel believes that FortisBC’s responsibility is to provide safe and
7 reliable service in a cost-effective manner consistent with British Columbia’s
8 energy objectives. To do so, FortisBC must design and manage its system based
9 on the resources available to it and the needs of its customers. This, at times,
10 may result in rates that are greater than those of BC Hydro and potentially times
11 when they are less.

12 The two primary drivers of FBC’s proposed 2021 rate increase are: (1) an increase to the power
13 supply expense, and (2) an increase to depreciation and other capital-related costs resulting
14 from increased capital expenditures.

15 First, the increase in power supply expense is primarily driven by the 5.5 percent increase in
16 power purchase expense (PPE). As explained in Section 4 of the Application, this increase is
17 driven by a forecast BC Hydro rate increase of 2.7 percent as of April 1, 2021 and an expected
18 higher purchased volume of the higher cost energy supplied by BC Hydro. FBC has and will
19 continue to pursue multiple PPE optimization strategies to reduce PPE costs. These strategies
20 are presented in FBC’s Annual Electric Contracting Plan (AECF) and include, for example,
21 entering into long-term market purchases in order to reduce energy nomination under the PPA
22 with BC Hydro, as well as post-nomination strategies.

23 FBC undertakes significant efforts to execute mitigation strategies in order to achieve savings
24 for customers. As part of the forecast PPE for 2021, FBC has included expected savings of \$2
25 million to account for potential real-time opportunities to displace PPA purchases with lower cost
26 market purchases. Any additional savings that are achieved in 2021 will be captured in the
27 Flow-through deferral account and will be returned to customers in subsequent years; thus
28 serving to mitigate potential future rate increases.

29 Second, with regard to the increase in capital expenditures, as explained in response to ICG
30 IR1 1.8, all of the projects having an impact on 2021 rates were either approved as part of the
31 MRP Decision or through CPCN applications. The expenditures are required in order to serve
32 new and increasing customer loads and to maintain FBC’s system so that FBC is able to
33 continue to provide safe and reliable service to customers.

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37 1.2 Does FBC consider it has similar objectives as BC Hydro to keep electricity
38 “affordable” in British Columbia?

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1

2 **Response:**

3 FBC is cognizant of the importance of maintaining affordable electricity in British Columbia.
4 Between 2014 and 2019, FBC’s rate increases have trended downward, averaging just slightly
5 higher than inflation.² FBC had no rate increases in 2018 and 2019 and is requesting an
6 increase of less than inflation in 2020.

7 In its response to BCMEU IR1 1.1, FBC explains its approach to minimizing rate increases and
8 describes the factors driving the increase in 2021.

9 Beyond FBC’s efforts to minimize rate increases, where possible the Company has also taken
10 steps to support customers during the COVID-19 pandemic and other major events. In August
11 of 2020, the BCUC approved FBC’s application to amend its terms and conditions of service to
12 provide evacuation relief to customers³. Additionally, recognizing the need to provide relief to
13 customers as COVID-19’s impact increased, FBC sought approval from the BCUC for customer
14 relief measures, including bill payment deferrals and bill credits.

15 Also among the measures that FBC employs to assist customers in managing their bills are its
16 DSM programs. The steps that FBC is taking to continue offering DSM programs to its
17 customers during the COVID-19 pandemic are explained in the response to BCSEA IR1 1.1.

18 FBC will continue to seek ways to support its customers and reduce rate pressures. At the
19 same time, FBC must continue to invest in its electric system in order to maintain safe and
20 reliable service. Beyond the COVID-19 pandemic, customers and FBC are facing serious
21 challenges from major events such as mudslides, wildfires, windstorms and snowstorms. In
22 order to meet these challenges, FBC must invest in system operations, integrity and security.

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26 1.3 Please provide a comparison of FBC’s to BC Hydro’s rates by rate class.

27

28 **Response:**

29 Table 1 below provides a comparison of the average annual bills under FBC and BC Hydro’s
30 respective residential, commercial and industrial rate classes. The average bills have been
31 calculated using the average consumption of an FBC customer in each rate class at current
32 rates (as shown in Table 2 below) and rounded to the nearest dollar.

33

² MRP Application, page B-43.

³ Order G-216-20.

1

Table 1: Comparison of FBC and BC Hydro Average Annual Bills

Rate Class	Average Consumption Assumptions	FBC Average Annual Bill	BC Hydro Average Annual Bill
Residential	2,200 kWh Bimonthly	\$1,760	\$1,548
Commercial	35,000 kWh monthly 85 kW monthly	\$36,333	\$45,809
Industrial	575,000 kWh monthly 1,500 kVA	\$566,757	\$590,063

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Table 2: Current FBC and BC Hydro Rates (Residential, Commercial and Industrial)

	FBC		BC Hydro	
Residential ¹	Basic Charge (Bimonthly)	\$34.56	Basic Charge (per day)	\$0.2069
	Block 1 Energy Charge (<1,600 kWh)	\$0.10799	Block 1 Energy Charge (<1,350 kWh)	\$0.0935
	Block 2 Energy Charge	\$0.1432	Block 2 Energy Charge	\$0.1403
Commercial ²	Basic Charge (Monthly)	\$41.92	Basic Charge (per day)	\$0.2646
	Block 1 Energy Charge (<8,000 kWh)	\$0.07497	Energy Charge	\$0.0958
	Block 2 Energy Charge	\$0.07084		
	Demand Charge (>40 kW)	\$10.52	Demand Charge (kW)	\$5.37
Industrial ³	Basic Charge (Monthly)	\$954.49	Basic Charge (per day)	\$0.2646
	Energy Charges (kWh)	\$0.05627	Energy Charge (kWh)	\$0.0600
	Demand Charge (kVA)	\$9.28	Demand Charge (kW)	\$12.22

4

Notes:

¹ FBC Rate Schedule 1 and BC Hydro Rate Schedule 1101, 1121.

² FBC Rate Schedule 21 and BC Hydro Rate Schedule 1500, 1501, 1510, 1511.

³ FBC Rate Schedule 30 and BC Hydro Rate Schedule 1600, 1601, 1610, 1611.

9

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11 1.4 Of the 6.37% rate increase, please clarify which portion is related to depreciation
 12 and amortization expense and which portion is related to PPE.

13

Response:

15 As shown in the rate change summary below, depreciation expense (0.84 percent), amortization
 16 expense (2.10 percent) and power purchases expense (2.09 percent) are included in the overall
 17 6.37 percent rate increase requested.

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FORTISBC INC.
**SUMMARY OF RATE CHANGE
 FOR THE YEAR ENDING DECEMBER 31, 2021
 (\$000,000s)**

Line No.	Particulars (1)	2021 Forecast (2)	(3)	Rate impact (4)
1	VOLUME/REVENUE RELATED			
2	Customer Growth and Volume	(7.388)		
3	Change in Other Revenue	<u>(1.576)</u>	(8.964)	-2.42%
4				
5	POWER SUPPLY			
6	Power Purchases (net of customer growth and volume)	7.648		
7	Wheeling	0.016		
8	Water Fees	<u>0.077</u>	7.742	2.09%
9				
10	O&M CHANGES			
11	Gross O&M Change	3.219		
12	Capitalized Overhead Change	<u>(0.483)</u>	2.736	0.74%
13				
14	DEPRECIATION EXPENSE			
15	Depreciation from Net Additions	<u>3.123</u>	3.123	0.84%
16				
17	AMORTIZATION EXPENSE			
18	CIAC from Net Additions	(0.223)		
19	Deferral Accounts	<u>7.982</u>	7.759	2.10%
20				
21	FINANCING AND RETURN ON EQUITY			
22	Financing Rate Changes	(0.049)		
23	Financing Ratio Changes	(0.005)		
24	Rate Base Growth	<u>4.400</u>	4.346	1.18%
25				
26	TAX EXPENSE			
27	Property and Other Taxes Changes	1.249		
28	Other Income Taxes Changes	<u>3.636</u>	4.885	1.32%
29				
30	2020 Revenue Deficiency		3.326	0.90%
31	2021 Revenue Deficiency		(1.410)	-0.38%
32				
33	Revenue Deficiency (Surplus)		<u>\$ 23.543</u>	
34				
35	Revenue at Existing Rates		<u>369.643</u>	6.37%



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1.5 What if any other measures were considered by FBC to mitigate/reduce a 6.37% rate increase in 2020 given the global economic and health crisis being experienced?

Response:

The question refers to a rate increase of 6.37 percent in 2020. FBC clarifies that the permanent rate increase requested for 2020 is 1.00 percent, which was put in place January 1, 2020. The 6.37 percent rate increase requested in this Application is for 2021 rates and would be effective January 1, 2021.

For a detailed discussion of 2021 rate drivers and mitigation measures, please refer to FBC's responses to BCMEU IR1 1.1 and 1.4. Additionally, for a discussion of FBC's measures taken during the COVID-19 pandemic, please refer to FBC's response to BCMEU IR1 1.2.

Beyond the measures already identified in the IR responses listed above, FBC has identified one other measure, which would be to defer a portion of the 2021 rate increase to a future year or years through the establishment of a rate mitigation deferral account. While FBC is not opposed to such an option, FBC does not consider it to be in the best interest of its customers over the long-term.

Deferring a portion of the rate increase in 2021 to future years would only serve to delay the full impact of the rate increase and potentially put additional rate pressures on rates in 2022 or beyond. In its response to BCMEU IR1 1.7, FBC indicates that rate increases may average approximately 3.5 percent over the period 2022 to 2024. While this estimate of future rate increases was provided for indicative purposes only and required FBC to make a variety of assumptions, it indicates that it would not be beneficial to customers to defer a portion of the 2021 rate increase.

1.6 FBC indicates its PPE expense in 2020 is much less than anticipated. Are there identified savings in 2020 for PPE which can be utilized to mitigate the 2021 rate impact?

Response:

The 2020 savings in power purchase expense (PPE) described in the Application have been used to mitigate 2020 rates. The 2020 Projected PPE includes six months of actual expenses

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1 and reflects lower purchases from the BC Hydro PPA due to decreased gross load and lower-
2 cost wholesale market purchases. FBC expects that any further reductions or increases in PPE
3 during 2020 will primarily be the result of variances in load from 2020 Projected, and would be
4 largely offset by variances in sales revenue. Therefore, FBC does not expect any material net
5 savings that would affect 2021 rates.

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9 1.7 The Wholesale Customers consider it important to planning to have a three year
10 rate forecast to manage our utilities prudently. FBC has typically provided a three
11 year rate forecast. Please provide FBC's most current forecast of rate increases
12 for 2022 - 2024.

13

14 **Response:**

15 FBC is unable to predict future rate increases with confidence at this time. On a preliminary
16 basis, the Company believes that rate increases may average approximately 3.5 percent over
17 the 2022-2024 period, based on the following assumptions:

- 18 • Gross load unchanged from the 2021 forecast. FBC has assumed that any continued
19 decline in residential UPC will be offset by customer growth and growth in other
20 customer classes;
- 21 • Power purchase expense assumed to increase at 2.0 percent to reflect contract
22 escalation;
- 23 • O&M formula escalation assumed to increase at 2.0 percent;
- 24 • Forecast 2022-2024 capital expenditures as approved through the MRP Decision;
- 25 • The four Major Projects (UBO Old Units Refurbishment, Corra Linn Spillgates, Grand
26 Forks Terminal Station and Playmor Substation projects) completed and in service
27 before January 1, 2023;
- 28 • No changes to interest rates or ROE from 2021; and
- 29 • Any impacts from flow-through amounts (which would affect the timing of rate changes)
30 or earnings sharing have not been forecast.

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34 1.8 Can FBC provide a comparative rate to BC hydro's rate.

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1 **Response:**

2 Please refer to the response to BCMEU IR1 1.1 for a discussion of the differing characteristics
3 of FBC and BC Hydro.

4 Please also refer to the response to BCMEU IR1 1.3 for a comparison by rate class of FBC's
5 and BC Hydro's rates.

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1 **2. Reference: Exhibit B-2, Load Forecast and Revenue at Existing Rates, page 12**

2 2.1 Please explain where the savings from the loss lower than forecast PPE in 2020
3 has been accounted for?

4
5 **Response:**

6 Having sought and received clarification from BCMEU, FBC understands this question to mean,
7 “Please explain where the lower than forecast PPE in 2020 has been accounted for”.

8 Both the 2020 Projected sales load and the 2020 Projected PPE include six months of actuals.
9 FBC’s response to BCUC IR1 8.1 shows that the net load for the first six months of 2020 was
10 14.4 GWh lower than the values calculated using the load forecast methods described in the
11 Application. Therefore, any savings from lower actual PPE in the first six months of 2020 have
12 been incorporated into the Projected 2020 amount and embedded in the calculation of 2020
13 rates. Any further variances between Projected 2020 PPE and Actual 2020 PPE (for the last six
14 months of the year) will be captured in the Flow-through deferral account to be returned to or
15 recovered from customers in a future year, together with the variance in revenue.

16

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19 FBC notes at footnote 5 at page 12 that:

20 “For the 2020P load, FBC replaced the first six months of projected normalized
21 load with actual load.”

22 2.2 Why was this done and what are the impacts?

23

24 **Response:**

25 FBC considers the inclusion of actuals in forecasting 2020 rates to be the most appropriate
26 approach given that these amounts are known and because FBC is requesting a permanent
27 rate increase. This approach avoids retrospectively forecasting a different amount and most
28 accurately reflects the expected cost of service for 2020.

29 Forecasting a different amount than actual for the first six months of 2020 would have resulted
30 in a variance between actuals and forecast for that time period to be recorded in the Flow-
31 through deferral account, which would have to be returned to or recovered from customers in a
32 future year. Instead, FBC has removed those potential variances and included them in
33 determining the current year’s revenue requirements. Ultimately, both methods result in the
34 same amount recovered from or returned to customers over time, but FBC’s chosen method
35 does not result in a notional variance included in future rates.

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1 **3. Reference: Power Supply, page 29, Table 4-1**

2 3.1 What was the approved forecast 2020 Power Supply Cost?

3

4 **Response:**

5 FBC is requesting approval of its 2020 rates in this Application; the 2020 Power Supply Cost is
6 a component of the revenue requirement. As provided on page 29 of the Application, the
7 Projected 2020 Power Supply Cost is \$155.347 million. If approved by the BCUC, this amount
8 will be the approved forecast 2020 Power Supply Cost.

9 FBC had put forward a 2020 forecast Power Supply Cost of \$165.626 million in its application
10 for 2020 interim rates, which was approved by the BCUC on an interim basis.

11

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1 **4. Reference: Appendix A1, Statistics Canada and COBC Reports**

2 The report is the Spring Forecast completed April 6, 2020. This is less than one month
3 into the Covid 19 crisis.

4 4.1 Has FBC looked at any more recent forecasts from the province or COBC? If so,
5 has there been any material change in the forecasts?
6

7 **Response:**

8 The most recent GDP forecast from the CBOC is from August 2020 and is shown in the
9 following table in comparison to the April 2020 forecast that FBC used in its load forecast:

CBOC Publication	2020 GDP	2021 GDP
Provincial Outlook August 2020	-5.5%	6.7%
Preliminary Economic Forecast April 2020	-3.2%	6.4%

10

11 GDP is used to forecast the commercial class. If the new projections were incorporated into the
12 commercial forecast, there would be a 6 GWh decrease in load in 2020P and an 11 GWh
13 decrease in load in 2021F. The negative variance in 2021 is caused by the GDP forecast
14 change in 2020, even though the 2021 GDP update is slightly higher than the original forecast.

15 The 6 GWh and 11 GWh decreases represent 0.2 percent ($6 \div 3,562$) and 0.3 percent ($11 \div$
16 $3,646$) of 2020 Projected and 2021 Forecast gross load, respectively. Due to the small
17 magnitude of the change in load and associated revenue, and the offsetting effect of power
18 purchase expense, FBC does not propose to update its forecasts and revenue requirements.

19 FBC also uses the CBOC forecast of GDP by sector to escalate loads for industrial customers
20 who do not provide individual load forecasts; however, the sector forecasts were not included in
21 the August 2020 Provincial Outlook. Since these customers are projected to account for only 8
22 percent of industrial load in 2021 (please refer to the response to BCUC IR1 7.1) or 1.3 percent
23 of total sales load, any impact from an updated forecast on total load and revenue requirements
24 would also be very small.

25

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1 **5. Reference: page 156 - 157, SQI Interconnection Utilization**

2 The Wholesale Customers would note that this is the worst performance in the last 6
3 years.

4 5.1 Has FBC got a protocol for dealing with outages with Wholesale Customers? If
5 so, please provide.

6
7 **Response:**

8 Planned or unplanned outages to Wholesale Customers typically involve direct communication
9 between the respective control centres and/or management to discuss the cause, duration and
10 load restoration plan. Recently, FBC has been working with the Wholesale Customers to add
11 language to the Joint Operating Orders to clarify the protocol for unplanned outages.

12
13

14
15 5.2 Does FBC identify how many outages are captured within the statistic provided?
16

17 **Response:**

18 No, the statistic does not directly capture how many outages have occurred. The
19 Interconnection Utilization statistic is a measure of the percentage of time that any
20 interconnection is available for service. The number of outages for each interconnection is
21 captured separately but is not reflected in the Interconnection Utilization data.

22 As stated in the response to BCUC IR1 26.13, the 2020 year-to-date results are largely due to
23 challenges faced at the City of Nelson's Coffee Creek interconnection. All of the remaining
24 interconnections are performing at or near historical levels.