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October 5, 2021

Residential Consumer Intervener Association
c/o Midgard Consulting Inc.
Suite 828 – 1130 W Pender Street
Vancouver, B.C.
V6E 4A4

Attention: Mr. Peter Helland, Director

Dear Mr. Helland:

**Re: FortisBC Inc. (FBC)**

**Project No. 1599231**

**Annual Review for 2022 Rates (Application)**

**Response to the Residential Consumer Intervener Association (RCIA) Information Request (IR) No. 1**

On August 6, 2021, FBC filed the Application referenced above. In accordance with the regulatory timetable established in British Columbia Utilities Commission Order G-226-21 for the review of the Application, FBC respectfully submits the attached response to RCIA 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

**Table of Contents** **Page No.**



## CHAPTER 1 – APPROVALS SOUGHT, OVERVIEW OF THE APPLICATION AND PROPOSED PROCESS

**1.0 Reference: Approvals Sought, Overview of the Application and Proposed Process**

**Exhibit B-2, Section 1.1, p. 1**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 1 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*For 2020, FBC achieved formula O&M savings in addition to meeting the embedded productivity improvement factor in the O&M formula. Total formula O&M savings before earnings sharing were approximately $1.5 million.*

1.1 Please confirm that none of the “formula O&M savings” listed, resulting in the $1.5 million value, are related to productivity achieved by FBC.

1.1.1 If not confirmed, please explain in detail.

**Response:**

The formula O&M savings of $1.5 million in 2020 were not the result of any specific productivity initiatives, but were the result of a number of factors, including the following which have been discussed in other IR responses:

- Timing of new hires and filling of vacancies, as described in the responses to ICG IR1 1.1 and CEC IR1 16.6. These are primarily temporary in nature.
- Lower bad debts expense as described in the response to BCOAPO IR1 28.3. FBC notes that bad debts are subject to fluctuations from year to year driven by economic circumstances and other factors, and therefore, despite the current trend to lower bad debts expense, FBC cannot state that these lower levels will be sustained.

**2.0 Reference: Approvals Sought, Overview of the Application and Proposed Process**

**Exhibit B-2, Section 1.1, p. 1**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 1 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*FBC will continue to pursue productivity improvements to achieve savings beyond the embedded productivity improvement factor as it seeks to manage its business needs and cost pressures resulting from its evolving and challenging operating environment.*

2.1 Please report on any productivity initiatives that have been implemented or planning to be implemented for 2021 or 2022.

**<u>Response:</u>**

As indicated in the Application, FBC continues to work on identifying specific initiatives that will provide benefits in future years and will provide an update in the 2023 Annual Review which will be filed in mid-2022.

2.2 Please list any prospective initiatives that are being evaluated to deliver productivity savings in future years.

**<u>Response:</u>**

Please refer to the response to RCIA IR1 2.1.

**3.0 Reference: Approvals Sought, Overview of the Application and Proposed Process**

**Exhibit B-2, Section 1.4.9, p. 6**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page x of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*The largest driver of FBC's 2022 revenue deficiency is the elimination of the prior years' accumulated revenue surplus of $5.420 million before tax, which equates to approximately 40.8 percent of the total forecast rate increase of 3.46 percent. Pursuant to Order G-42-21, FBC was approved to draw down the 2018-2019 Revenue Surplus deferral account to help mitigate the 2021 rate increase.*

3.1 Please confirm if there are other drivers available to achieve mitigation for 2022 revenue deficiencies.

**Response:**

To clarify, the accumulated revenue surplus of $5.420 million referenced in the above preamble was used to mitigate the 2021 rate increase, not the 2022 rate increase. The elimination of the surplus through using the surplus to mitigate last year's rate increase has contributed to (not mitigated) the rate increase for 2022. As explained in the response to BCUC IR1 1.1, excluding the impact of the elimination of the surplus on 2022 rates, the forecast 2022 rate increase would have been lower at 3.13 percent.

Regarding how FBC has included items that mitigate the 2022 revenue deficiency, an example is FBC's approach to optimizing its power supply portfolio. As explained on page 31 of the Application, FBC has reduced its 2022 Forecast of PPA expense by $4.0 million in savings to account for potential real-time opportunities to displace PPA purchases with lower cost market purchases.

Additionally, as shown in the waterfall graph in Figure 1-1 of the Application, the factors (drivers) that help to mitigate the 2022 revenue deficiency include:

- Decrease in non-formula O&M by $1.186 million, primarily due to a decrease in pension and OPEB expense;
- Decrease in deferral account amortization by approximately $3.148 million, primarily due to credit amortization related to the Flow-through deferral account; and
- Decrease in taxes by approximately $1.3 million attributable to a forecast decrease in property tax and a reduction in the taxable difference for pension and OPEB for income tax.

# CHAPTER 2 – FORMULA DRIVERS

**4.0 Reference: Formula Drivers**

**Exhibit B-2, Section 2.2, p. 7**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 7 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*As shown in Table 2-1 below, the I-Factor has been calculated utilizing actual CPI-BC and AWE-BC data. Applying the actual 2020 labour weighting of 63 percent, the calculation of the 2022 I-Factor is (1.281 percent x 37 percent) + (6.532 percent x 63 percent) = 4.589 percent.*

4.1 Please confirm that CPI-BC for 2020 was 1.281%. If not confirmed, please provide CPI-BC for 2020 together with the source and derivation of your answer.

**Response:**

Confirmed.

4.2 Please confirm that the labour component in FBC's I-factor calculation is based on an increase of 6.532% in AWE-BC. If not confirmed, please provide the increase in AWE-BC used in the I-factor calculation, together with the source and derivation of your answer.

**Response:**

Confirmed.

4.3 Please confirm that a 6.532% increase is not representative of the change in labour costs that FBC will experience in 2022(?). If not confirmed, please provide FBC's forecast change in labour costs, together with the source and derivation of your answer.

**Response:**

While FBC acknowledges that the current AWE trend may not be reflective of the wage increases specifically being experienced by FBC, FBC expects that over time the higher AWE trend will reverse as the labour impacts from the COVID-19 pandemic lessen, and that the near term increases observed in the AWE will be offset in subsequent years.

As shown in the summary below of 2016 to 2022 CPI and AWE data, both CPI and AWE can fluctuate on a yearly basis. These yearly changes may be different than what FBC actually experiences in a given year. For AWE, excluding 2021 and 2022, the AWE cumulative average yearly increases from 2016 to 2020 (i.e., about 2 percent average) are generally consistent with a 2 percent average wage increase.

| Description | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Average |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| CPI | 0.980% | 1.627% | 1.979% | 2.345% | 2.692% | 1.596% | 1.281% | 1.786% |
| AWE | 2.050% | 1.250% | 1.473% | 2.646% | 2.881% | 5.745% | 6.532% | 3.225% |

The 2022 BC-AWE used in the Application is based on the latest data from Statistics Canada and remains a valid and objective measure of the economy-wide labour inflation in BC. FBC believes that there is no evidentiary basis on which to deviate from the approved method for calculating the inflation factor for 2022.

Further, the I-Factor used for determining FBC's index-based O&M funding consists of both the AWE for labour and the CPI for non-labour. While the AWE may seem high, the CPI used for the 2022 formula O&M may be low and not necessarily reflecting the inflationary pressures FBC faces in 2022 for its non-labour expenditures. A recent news release from Statistics Canada (reproduced below) reports the August 2021 CPI at about 4 percent, indicative of potential inflationary increases in the near term and possibly into 2022[1]. In contrast, the calculated CPI for 2022 in the Application is 1.281 percent.

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[1] Link to Statistics Canada news release https://www150.statcan.gc.ca/n1/daily-quotidien/210915/dq210915a-eng.htm?HPA=1&indid=3665-1&indgeo=0

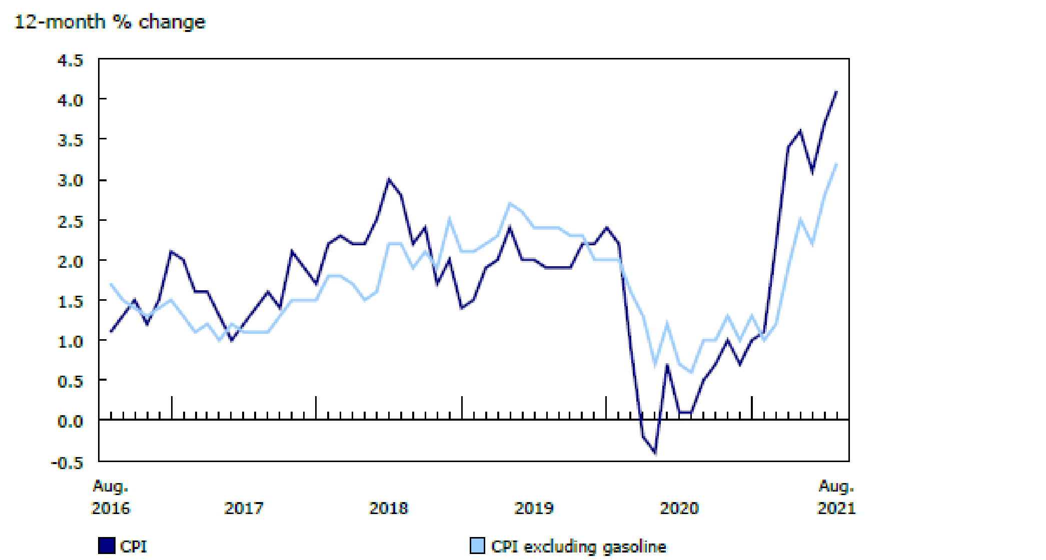
# Consumer Price Index, August 2021

***Released at 8:30 a.m. Eastern time in The Daily, Wednesday, September 15, 2021***

The Consumer Price Index (CPI) rose 4.1% on a year-over-year basis in August, the fastest pace since March 2003, up from a 3.7% gain in July. The increase in prices mainly stems from an accumulation of recent price pressures and from lower price levels in 2020. Excluding gasoline, the CPI rose 3.2% year over year.

The monthly CPI rose 0.2% in August, down from a 0.6% increase in July. On a seasonally adjusted monthly basis, the CPI rose 0.4%.

**Chart 1**
**12-month change in the Consumer Price Index (CPI) and CPI excluding gasoline**




Source(s): Table 18-10-0004-01.

While, as discussed below, changes to the approved MRP are not within the scope of annual reviews, FBC considers that an adjustment to the AWE is not warranted and would not be appropriate. The AWE is only one component of the overall MRP, and FBC considers it unreasonable to make adjustments to one specific component of the MRP without consideration of the other components. The determination of the calculation of the Net Inflation Factor was based on the evidence at the time of the MRP proceeding. Depending on the actual circumstances in each year of the MRP, it is expected that FBC's actual operating results may not completely align with each element of the approved MRP.

If earnings under the MRP are either unreasonably high or unreasonably low, there is an approved off-ramp[2] which would trigger a full review of the MRP. As noted in the response to BCUC IR1 2.3, FBC's actual ROE in the first year of the MRP was very close to its approved ROE. As such, the off-ramp is not triggered.

[2] MRP Decision, p. 101.

4.4 In consideration of the responses to the prior questions, please confirm that the formula-driven inflation value produced in this filing is an outlier result that does not represent the actual inflationary O&M cost pressures FBC is facing.

4.4.1 If confirmed, should the inflation formula be adjusted this year on a one-time basis to reflect the apparently decoupling of the BC Labour Index and FBC's incurred O&M costs?

4.4.2 If not confirmed, please provide supporting documentation (e.g., FBC labour costs, union settlements, etc.) to demonstrate the actual O&M cost inflation being experienced by FBC.

**Response:**

Please refer to the response to RCIA IR1 4.3.

As noted in that response, adjusting elements of the approved MRP is not within the scope of this proceeding. FBC provides the following paragraphs from page 14 of the BCUC's recent Decision and Order G-42-21, dated February 12, 2021:

> The Panel is satisfied that the I-Factor should remain as approved in the MRP Decision. In our view, adjusting the I-Factor, or the BC-AWE which is a component of the I-Factor calculation, in response to the COVID-19 pandemic would be a premature reaction to a global event which has not yet ended. There is little doubt that the pandemic will have a financial impact on FBC. The extent of the impact, however, remains to be seen and there is no evidentiary basis on which to attempt to adjust the 2021 BC-AWE at this time.
>
> Fundamentally, however, and from a bigger picture, adjusting elements of the formula O&M is outside the scope of any Annual Review. The purpose of the Annual Review is not to unravel or revisit the MRP Decision, rather, as the BCUC stated in that decision, the "Annual Review process is designed to provide the BCUC, interveners and interested parties the opportunity to review the performance of [FBC] over the prior year."

# CHAPTER 3 – LOAD FORECAST AND REVENUE AT EXISTING RATES

**5.0 Reference: Load Forecast and Revenue at Existing Rates**

**Exhibit B-2, Section 3.2, p. 11**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 11 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*The load forecast for residential customers is based on forecasts for the number of customers and UPC rates. Specifically, the average UPC is estimated and is then multiplied by the corresponding forecast of the number of customers to derive the residential load forecast. The commercial load forecast is based on a regression against the Conference Board of Canada (CBOC) Gross Domestic Product (GDP) forecast, while the lighting and irrigation forecasts use the prior year's actual loads. Wholesale and industrial forecasts are primarily based on customer-specific survey results.*

5.1 Has FBC undertaken any customer surveys or similar outreach programs with customers in the commercial class to validate the correlation between the CBOC GDP forecast results and the load trends in FBC service areas?

5.1.1 If yes, please provide the associated documentation and show quantified results.

**Response:**

No, FBC has not undertaken any customer surveys or outreach programs with customers in the commercial class to validate the correlation between the CBOC GDP forecast results and the load trends in FBC service areas. The correlation between GDP and commercial load is very strong as shown in Appendix A-3, Section 1.2.2. The $R^2$ for the regression is 99 percent which implies that 99 percent of the year-over-year change in commercial demand can be explained by changes in the Provincial GDP.

The surveys that FBC undertakes for the wholesale and industrial class forecasts are forward-looking. Forward-looking forecasts, even if undertaken for the commercial class, would not be used as an indicator of a correlation between actual load and GDP.

In the past six years, the commercial class has had an average commercial load variance of 2.7 percent from forecast, which can be seen in Appendix A2, Section 6.2 of the Application. FBC also notes that in the past three years FBC has had an average commercial load variance of only 1.1 percent. These low deviations from forecast, together with the robust regression parameters, validate the correlation between the CBOC GDP forecast and the historical load trend.

**6.0 Reference: Load Forecast and Revenue at Existing Rates**

**Exhibit B-2, Section 3.3, p. 12**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 12 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*FBC forecasts the [Demand Side Management ("DSM") savings that are incremental to the DSM savings that are already embedded in historical loads up to and including 2020. The DSM savings forecast is deducted from the before- savings forecast for all customer classes. All forecast values in the sections below are shown after being reduced by DSM savings unless explicitly stated otherwise. The forecast incremental DSM savings for 2022 are summarized in Table 3-1 below and are the forecast savings incremental to the savings embedded in the historical loads.*

6.1 Do the forecast incremental 2022 DSM in the Commercial, Wholesale, and Industrial classes contribute to the forecast load reductions in these classes, as discussed in Sections 3.4.2, 3.4.3, and 3.4.4, respectively?

**Response:**

Confirmed. All loads shown in Sections 3.4.2, 3.4.3 and 3.4.4 are after-savings; therefore, the loads have been reduced by the incremental DSM savings.

**7.0 Reference: Load Forecast and Revenue at Existing Rates**

**Exhibit B-2, Section 3.4.3, p. 18**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 18 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*Consistent with past practice, the wholesale class is forecast using survey information from each of the individual wholesale customers, as the individual wholesale customers are best able to forecast their future load growth. For 2022, all of the wholesale customers responded with their load forecast projections. As shown in Figure 3-6 below, after-savings wholesale load is forecast to decrease by 1 GWh in 2022F from 2021S and decrease by 24 GWh in 2022F from 2021 Approved.*

7.1 What factors have changed to drive the 24 GWh reduction in forecast 2022 loads as compared with the approved 2021 loads?

**Response:**

FBC has not been made aware of any specific factors that changed to cause the wholesale load to decline by 24 GWh in 2022F. The FBC survey allows responders to provide optional comments about their forecast, but no comments were received this year regarding the decline in consumption.

Each wholesale customer services a different mix of residential, commercial and industrial customers. FBC assumes that each wholesale customer is impacted by a unique combination of factors and that those factors are intrinsic to the forecast they provide to FBC. Changes in load would be impacted by economic factors impacting wholesale customers' own customer and load growth, in addition to many other drivers, such as improvements to building envelopes and adoption of LED lighting.

**8.0 Reference: Load Forecast and Revenue at Existing Rates**

**Exhibit B-2, Section 3.4.4, p. 19**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 19 of the FortisBC Inc. (FBC) - Annual Review for 2022 Rates (Application), Fortis BC Inc. states:

*As shown in Figure 3-7 below, after-savings industrial load is forecast to decrease by 3 GWh in 2022F when compared to 2021S and by 67 GWh in 2022F compared to 2021 Approved. The lower forecast in 2021S and 2022F compared to 2021 Approved is primarily due to cannabis loads not materializing in 2021 as planned. FBC's 2021 Approved included 68 GWh of additional cannabis load; however, at this time, none of those customers have taken service in the industrial class. As a result, those loads have been removed from the current forecast.*

8.1 Please confirm that FBC had forecast approximately 67 GWh of load associated with cannabis growing that has not materialized.

8.1.1 If not confirmed, please show the contribution to different industrial load types to the 67 GWh forecast decrease in 2022 relative to 2021 Approved.

**Response:**

FBC forecast 68 GWh (not 67 GWh) of industrial load associated with cannabis in the 2021 Annual Review that did not materialize as planned; 67 GWh is the industrial load decrease between 2022 Forecast and 2021 Approved. The 67 GWh reduction in 2022 compared to 2021 Approved includes the net impacts from the cannabis loads along with changes due to updated industrial surveys and updated GDP forecast projections.

Please refer to the response to BCUC IR1 7.3 for further information regarding the cannabis loads.

**9.0 Reference: Load Forecast and Revenue at Existing Rates**

**Exhibit B-2, Section 3.4.7, p. 23**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 22 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*As shown in Figure 3-10 below, after-savings load losses are forecast to remain constant in 2022F because the gross load is forecast to be relatively stable in 2021S and 2022F. FBC has separated company use in the graph below, which is forecast at 13 GWh per year in 2022F, consistent with 2021S.*

9.1 Please quantify and explain what changed since FBC's prior forecast was prepared to drive the 9 GWh loss reduction in 2020 and the 18 GWh loss reduction in 2021?

**Response:**

The 2020 Actual and 2021 Seed year total losses were forecast to be 288.4 GWh and 285.2 GWh, respectively, which is the sum of losses and company use from Figure 3-10. The "Prior Forecast" losses shown in Figure 3-10 include both losses and company use from the 2020 Approved and 2021 Approved forecasts. As a result, the forecast for 2020 Approved of 285.2 GWh, for example, cannot be compared to the 2020 Actual losses of 276.4 GWh because company use is not included in the 276.4 GWh.

The variance in total losses from 2020 Actual to 2020 Approved is 3.7 GWh while the variance between the 2021 Seed and 2021 Approved forecast is (5.1) GWh. Please refer to the table below for the calculations.

**Table 1: Total Losses Variance for 2020 and 2021**

| Total Losses (GWh) | 2020 | 2021 |
|---|---|---|
| Losses | 276.4 | 272.2 |
| Company Use | 12.0 | 13.0 |
| Total Losses (Actual) | 288.4 | - |
| Total Losses (Seed) | - | 285.2 |
| Approved Forecast | 284.7 | 290.3 |
| Variance | 3.7 | (5.1) |

Losses are a function of the net load; therefore, if the net load increases over forecast, as it did in 2020, then the losses increase. Alternatively, losses decrease if the net load decreases, which is the case for the 2021 Seed forecast where losses decreased due to decreases in the commercial, wholesale and industrial loads.

**10.0 Reference: Load Forecast and Revenue at Existing Rates**

**Exhibit B-2, Section 3.4.8, p. 24 - 25**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 24 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*The peak demand forecast is produced using the ten-year average of historical peaks. The historical peak data is escalated by the gross load growth rate before it is averaged to account for the growth of demand on the FBC system. Normalized after-savings historical winter and summer peaks are shown below along with 2021S and 2022F. The peaks shown below are seasonal, where the winter peak can fall in either November or December of the current year or January and February of the following year, while the summer peak falls in June, July or August of the current year.*

10.1 What are the primary causes of the 16 MW reduction in winter peak loads from 2020 to 2021, and the 31 MW reduction in winter peak loads from 2021 Approved to 2022 Forecast?

**Response:**

The primary causes for peak forecast reductions or increases are reductions or increases in the gross load forecast. The peak forecast decreases when the gross load forecast decreases because less energy is forecast to be used on the FBC system. If the gross load is forecast to increase, then the peak increases due to more energy on the FBC system.

The peak forecast is calculated using ten years of historical peak data multiplied by the gross load growth rate. The 2021 gross load is forecast to decrease by 21 GWh compared to 2020 actual as shown in Table 1 below.

**Table 1: Normalized After-Savings Load (GWh)**

| Rate Class | 2020 Actual | 2021 Seed | Change |
|---|---|---|---|
| Residential | 1,347 | 1,295 | (52) |
| Commercial | 922 | 933 | 11 |
| Wholesale | 569 | 561 | (8) |
| Industrial | 441 | 473 | 32 |
| Lighting | 11 | 11 | (0) |
| Irrigation | 37 | 37 | (0) |
| Net | 3,328 | 3,310 | (18) |
| Loss & Company Use | 288 | 285 | (3) |
| Gross | 3,616 | 3,595 | (21) |

The 2021 gross load is forecast to be lower due to anticipated lower loads in the residential and wholesale classes in the 2021 forecast, which are somewhat offset by increases in the commercial and industrial classes. The reduction is primarily driven by the decreased residential load forecast in 2021 due to a declining UPC trend over the past ten years. FBC acknowledges that the residential load in 2020 was larger than in recent years. While this is likely due to impacts of the COVID-19 pandemic, including increased working from home, FBC cannot isolate the amount of load that was driven by COVID-19 pandemic impacts. Therefore, FBC needs more data to ascertain if this is a trend in the data or an outlier due to the pandemic.

The 2022 gross load is forecast to be 73 GWh lower than the 2021 Approved forecast, as shown in Table 2 below.

**Table 2: Normalized After-Savings Load (GWh)**

| Rate Class | 2021 Approved | 2022 Forecast | Change |
|---|---|---|---|
| Residential | 1,255 | 1,283 | 28 |
| Commercial | 952 | 946 | (7) |
| Wholesale | 584 | 560 | (24) |
| Industrial | 537 | 470 | (66) |
| Lighting | 10 | 10 | 0 |
| Irrigation | 36 | 37 | 1 |
| Net | 3,374 | 3,306 | (68) |
| Loss & Company Use | 290 | 285 | (5) |
| Gross | 3,664 | 3,591 | (73) |

The 2022 Forecast gross load is lower due to the industrial, wholesale and commercial classes which are somewhat offset by an increase in the residential load. The main driver for the decrease in the industrial load is due to cannabis load being removed from the 2022 industrial load forecast. The wholesale load decrease is based on survey responses received from individual wholesale customers.

10.1.1 Please quantify and explain the impacts on revenue (by customer class) associated with these winter peak demand reductions.

**Response:**

There are no direct impacts on revenue associated with the reductions in system peak demand. Revenue calculations for the purpose of this Application do not include overall system peak demand but instead are based on forecast energy, customer counts, tariff rates and demand forecasts for specific customers.

10.1.2 Please quantify and explain the impacts on the cost of power supply associated with these winter peak demand reductions, with reference to FBC's winter power supply capacity constraints.

**Response:**

If the 2021 Projected winter peak demand of 715 MW increased to 731 MW (equal to the 2020 normalized actual winter peak demand), and if the 2022 Forecast winter peak demand of 717 MW increased to 748 MW (equal to the 2021 Approved winter peak demand), power supply costs would remain unchanged. FBC has surplus capacity available during these periods, and would not need to increase capacity purchases under any of its existing contracts above what was included in the 2021 Projected or the 2022 Forecast to accommodate for such changes.

10.2 What are the primary causes of the 60 MW reduction in summer peak loads from 2020 to 2021?

**Response:**

Please refer to the response to RCIA IR1 10.1.

10.2.1 Please quantify and explain the impacts on revenue (by customer class) and cost of power supply associated with these summer peak demand reductions.

**Response:**

Please refer to the response to RCIA1 10.1.1 which explains there are no direct impacts on revenue associated with reductions in system peak demand.

If the 2021 Projected summer peak demand of 606 MW increased to 666 MW (equal to the 2020 normalized actual summer peak demand), power supply costs would increase by $0.928 million. If the 2022 Forecast summer peak demand of 609 MW increased to 627 MW (equal to the 2021 Approved summer peak demand), power supply costs would increase by $0.573 million. The increase in power supply costs are the result of additional monthly capacity purchases under the BC Hydro PPA required to meet the incremental summer peak demand.

## CHAPTER 5 – OTHER REVENUE

**11.0 Reference: Other Revenue**
**Exhibit B-2, Section 5.3, p. 36**
**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 36 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*There are no variances projected in 2021 compared to 2021 Approved based on progress billings to date. The 2022 Forecast is lower than 2021 Approved due to the expiry of revenues received from a three-year asset refurbishment project for a third party that began in 2020, based on customer requirements.*

11.1 Does FBC foresee any similar third-party projects being initiated in the near future?

**Response:**

No, FBC does not foresee any similar third-party projects being initiated in the near future. Major projects such as these occur at periodic intervals during an asset's life cycle based on engineering recommendations and considering the age and condition of the assets. However, the timing of when major refurbishments such as the current project occur are also at the discretion of the plant owners.

11.2 Please explain what, if any, action is being taken to re-deploy all FBC staff who participated in the third-party asset refurbishment project?

**Response:**

FBC made use of temporary employees to perform certain parts of the asset refurbishment project, and large components of incremental work were carried out by contractors. Once the project is complete, the temporary employees will be released and the same level of contractors will not be required. Further, existing permanent FBC staff will be re-deployed to the more routine, sustaining work that occurs annually.

## CHAPTER 6 – O&M EXPENSE

**12.0 Reference: O&M Expense**

**Exhibit B-2, Section 6.3.5, p. 44-45**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 44 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*FBC forecasts that it will incur $0.100 million in 2021 and $0.765 million in 2022 in incremental O&M costs related to MRS Assessment Report No. 13 (AR13). As explained in Section 12.2.1, the incremental costs in 2021 and 2022 for MRS compliance qualify for exogenous factor treatment.*

12.1 The forecasted incremental $0.100 million O&M expenditure in 2021, attributable to MRS changes, falls below the $0.150 million materiality threshold for exogenous factors, as described in Section 12.2.1. Please explain why this amount is included as a separate line item in the 2021 O&M expenses.

**Response:**

Please refer to the response to BCUC IR1 24.1.

# CHAPTER 7 – RATE BASE

**13.0 Reference: Rate Base**

**Exhibit B-2, Section 7.1, p. 46**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

*On page 46 of the FortisBC Inc. (FBC) - Annual Review for 2022 Rates(Application), Fortis BC Inc. states:*

*FBC's 2022 Rate Base includes the full-year impacts of the 2021 closing projected plant balances as well as the impact of the following amounts:*

- *Mid-year impact of plant additions, net of CIAC additions, resulting from regular capital expenditures of $81.819 million;*
- *Mid-year impact of plant depreciation, net of CIAC amortization, of $49.445 million; and*
- *Full-year impact of $32.362 million for the portions of the Corra Linn Dam Spillway Gate Replacement Project, the UBO Old Units Refurbishment Project, and the Grand Forks Terminal Station Reliability Project added to plant in 2022, as discussed in Section 7.3 below.*

13.1 Please explain what is meant by the "Full-year impact of $32.362 million for the portions of the Corra Linn Dam Spillway Gate Replacement Project", the "UBO Old Units Refurbishment Project", and the "Grand Forks Terminal Station Reliability Project added to plant in 2022".

**Response:**

Consistent with FBC's past practice for the treatment of major projects approved by the BCUC, including CPCNs, once the assets are placed into service and become used and useful, the associated capital costs will enter rate base on January 1 of the following year as opening balance adjustments. As a result, the rate base will have the full year impact of the capital costs. For example, FBC currently forecasts $32.362 million of capital costs associated with major projects (i.e., Corra Linn, UBO, and GFT) to be in-service in 2021; therefore, the $32.362 million will be added to FBC's rate base on January 1, 2022, resulting in the 2022 rates having the full year impact of the $32.362 million in FBC's rate base. Conversely, capital costs not associated with major projects, such as FBC's growth, sustainment, and other capital are forecast to occur evenly throughout the year they are incurred and are therefore shown on a mid-year basis for purposes of forecasting rate base.

Major projects such as CPCNs typically have higher capital costs, longer duration, and the possibility of higher variances in costs as well as schedules than regular capital projects.

Therefore, the benefit of having major capital costs enter rate base January 1 of the year following in-service is that it better ensures, for rate-making purposes, that only the actual costs will be included in rates for recovery from customers. This avoids forecasting major capital costs into rates and then potentially having significant variances between forecast and actuals.

13.2 Please confirm that the capital rate base additions associated with "the portions of the Corra Linn Dam Spillway Gate Replacement Project", the "UBO Old Units Refurbishment Project", and the "Grand Forks Terminal Station Reliability Project added to plant in 2022" put into service in 2022 will follow FBC's normal mid-year capitalization methodology.

13.2.1 Please confirm that the rate base for the purpose of calculating FBC's 2022 Return on Equity will use the average of the year-

opening and year-closing accounts for each of the assets put into (or back into) service in 2022.

13.2.2 If not confirmed, please explain how these additions will be treated and justify the departure from normal practice.

**Response:**

Not confirmed. Please refer to the response to RCIA IR1 13.1.

**14.0 Reference: Rate Base**

**Exhibit B-2, Section 7.2.1, p. 47**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 47 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*The level of forecast capital expenditures approved for 2022 by the MRP Decision is shown in Table 7-2 below.*

14.1 Please provide the following information for the individual FBC projects and programs with forecast annual expenditures of $1 million or greater that comprise the overall approved annual capital expenditure totals set out in the FortisBC Energy Inc./FBC MRP application:

1. Approved annual spending in each MRP test year;
2. Actual spending in 2020;
3. Forecast spending in 2021 and 2022;
4. Project status updates; and
5. Explanations of any significant cost or scope variances.

**Response:**

FBC's 2020-2024 forecast of regular capital expenditures (i.e., growth, sustainment, and other) were examined extensively during the MRP proceeding, and the 2020 through 2022 forecasts were approved as part of the MRP Decision and Order G-166-20 (page 131). Consistent with the MRP framework for formula O&M and regular forecast capital expenditures, FBC manages its overall spending on O&M and capital and does not report on the detailed variances between formula/forecast and actual expenditures in the annual reviews. Any variances between actual and approved regular capital expenditures (i.e., variances in the cost of service resulting from the variance in capital expenditures) will be subject to the 50/50 earnings sharing mechanism. Therefore, FBC does not review individual projects included within its regular capital as part of the annual reviews. Such an approach is inefficient and contrary to the purpose of the MRP.

As directed in the MRP Decision (page 131), FBC will provide updated regular capital expenditure forecasts for 2023 and 2024 as part of the 2023 Annual Review. These updated forecasts will be subject to review by the BCUC and interveners.

The table below shows the approved annual spending on regular capital in each MRP year as well as the actual spending in 2020 and the projected spending in 2021. The 2021 projected amounts are updated to reflect the current projection of regular capital for 2021 as also shown in the responses to ICG IR1 12.1 and 12.2. At this time, FBC's forecast of 2022 spending is equal to that approved in the MRP Decision.

| Line | Description | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| 1 | **Approved ($000s)** | | | |
| 2 | Growth Capital | $ 27,029 | $ 23,042 | $ 24,339 |
| 3 | Sustainment Capital | 50,743 | 50,098 | 43,110 |
| 4 | Other Capital | 15,752 | 14,712 | 14,756 |
| 5 | Total Forecast Capital | $ 93,524 | $ 87,852 | $ 82,205 |
| 6 | | | | |
| 7 | **Actual/Projected ($000s)** | | | |
| 8 | Growth Capital | $ 28,799 | $ 29,148 | |
| 9 | Sustainment Capital | 47,325 | 50,910 | |
| 10 | Other Capital | 16,036 | 14,086 | |
| 11 | Total Forecast Capital | $ 92,160 | $ 94,144 | |

**15.0 Reference: Rate Base**

**Exhibit B-2, Section 7.2.2, p. 47-48**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 47-48 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*As discussed in Section 6.3.4, on July 14, 2021, the BCUC issued Order G-215- 21 finding that FBC's EV DCFC stations are prescribed undertakings under section 5 of the GGRR and approving the inclusion of EV DCFC station prescribed undertaking assets in FBC's rate base. However, the BCUC did not provide determinations on certain related approvals sought by FBC, including approval of a straight-line 10 percent depreciation rate for FBC's EV DCFC stations and approval to include related revenues and expenses associated with the EV DCFC stations in FBC's regulated accounts; as such, the revenue requirement impacts of the decision are not clear at this time. FBC will provide an Evidentiary Update if required once FBC has clarity on this matter.*

15.1 In the absence of approved depreciation rates for EV DCFC assets, please provide FBC's cumulative gross capital expenditures on EV DCFC stations attributable to the Clean Growth initiative, by year.

**Response:**

Please see the table below for FBC's cumulative gross and net capital expenditures on EV DCFC stations. The 2021 capital expenditures represent the total amount capitalized year-to-date in 2021. As stated in the preamble, none of these capital expenditures have been included in FBC's rate base or revenue requirements pending the BCUC's final determinations.

| | Actual 2018 | Actual 2019 | Actual 2020 | Actual 2021 YTD | Cumulative |
|---|---|---|---|---|---|
| EV Stations Kiosks & Charger Connectors | 598,989 | 1,272,028 | 1,073,447 | 355,492 | 3,299,956 |
| Poles, Towers & Fixtures | - | 115,162 | 28,019 | - | 143,181 |
| Conductors & Devices | - | 185,756 | 45,192 | - | 230,949 |
| Line Transformers | - | 70,595 | 17,173 | - | 87,768 |
| **EV DCFC Capitalized Cost** | **$ 598,989** | **$ 1,643,541** | **$ 1,163,831** | **$ 355,492** | **$ 3,761,853** |
| CIAC | (422,651) | (415,001) | (950,328) | (381,212) | **(2,169,191)** |
| Net Capital Expenditures | **$ 176,338** | **$ 1,228,540** | **$ 213,504** | **$ (25,720)** | **$ 1,592,662** |

## CHAPTER 11 – FINANCIAL SCHEDULES

**16.0 Reference: Financial Schedules**

**Exhibit B-2, Section 11 Schedule 26, p. 100**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 100 of the FortisBC Inc. (FBC) - *Annual Review for 2022 Rates (Application*), Fortis BC Inc. identifies an Earned Return Change of $3.501 million.

16.1 Please explain what drove the $3.501 million excess return. Is this outside of the profit-sharing threshold?

**Response:**

The $3.501 million shown in Schedule 26 of the financial schedules is not excess return.

Rather, $3.501 million is the change in the $100.288 million forecast 2022 debt and equity return, compared to the $96.787 million forecast 2021 debt and equity return. A summary of the drivers of the forecast change is shown on Schedule 1, Lines 22 through 24 of the financial schedules.

## CHAPTER 12 – ACCOUNTING MATTERS

**17.0 Reference: Rate Base**

**Exhibit B-2, Section 12.2, p. 102**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 102 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates* (Application), Fortis BC Inc. states:

*FBC has identified one new exogenous factor related to MRS Assessment Report No. 13 that affects 2021, 2022 and future years. FBC is also currently evaluating the impact on its O&M and capital costs from ongoing wildfires in its service area and, similar to the Z-factor treatment approved for the costs of repair associated with wildfires in 2015,30 if the wildfires result in costs exceeding the materiality threshold, FBC will be updating its Application to include these costs.*

17.1 Please confirm that FBC incurs wildfire-related O&M costs in many (or most) test years.

17.1.1 If confirmed, what is FBC's proposed average baseline wildfire cost threshold against which any incremental exogenous factor costs will be evaluated?

**Response:**

Confirmed. Please refer to Appendix A of the Evidentiary Update filed concurrently with these IR responses.

17.2 Please provide calculations showing the historical data used to determine the average wildfire O&M cost.

**Response:**

Please refer to Appendix A of the Evidentiary Update filed concurrently with these IR responses.

**18.0 Reference: Rate Base**

**Exhibit B-2, Section 12.4.1, p. 112**

**Multi-Year Rate Plan for 2020 Through 2024: Annual Review for 2022 Rates**

On page 112 of the *FortisBC Inc. (FBC) - Annual Review for 2022 Rates (Application*), Fortis BC Inc. identifies Figures 12-2 and 12-3.

18.1 Please provide legible copies of Figure 12-2 and Figure 12-3.

**<u>Response:</u>**

Please refer to Attachment 18.1 for Figures 12-2 and 12-3.

# Attachment 18.1

# Figure 12-2



**FORTISBC INC.**

**ACCUMULATED DEPRECIATION CONTINUITY SCHEDULE**
**FOR THE YEAR ENDING DECEMBER 31, 2020**
**($000s)**

| Line No. | Account | Particulars | Gross Plant for Depreciation | Depreciation Rate | 12/31/19 | Opening Balance Adjustment | Amortization Accounting Transition[1] | Depreciation Expense | Retirements | Cost of Removal | Adjustments | 12/31/20 | Cross Reference |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) |
| 1 | | **General Plant** | | | | | | | | | | | |
| 2 | 389 | Land | $ 11,105 | 0.00% | $ 34 | $ 0 | $ - | $ - | $ - | $ - | $ - | $ 34 | |
| 3 | 390 | Structures - Frame & Iron | - | 0.56% | - | - | - | - | - | - | - | - | |
| 4 | 390.1 | Structures - Masonry | 44,853 | 2.53% | 9,610 | 14 | - | 1,135 | - | - | - | 10,758 | |
| 5 | 390.2 | Operation Building | 15,552 | 1.63% | 6,285 | 9 | - | 254 | - | - | - | 6,548 | |
| 6 | 390.1 | Leasehold Improvements | 2,872 | 1.63% | 2,559 | 4 | - | 47 | - | - | - | 2,610 | |
| 7 | 391 | Office Furniture & Equipment | 5,360 | 4.42% | 4,441 | 6 | (2,841) | 237 | (315) | - | - | 1,528 | |
| 8 | 391.1 | Computer Equipment | 13,285 | 21.60% | 26,861 | 38 | (20,932) | 2,870 | (2,385) | - | - | 6,450 | |
| 9 | 391.2 | Computer Software | 40,108 | 8.96% | 58,084 | 82 | (39,126) | 3,594 | (4,750) | - | - | 17,884 | |
| 10 | 391.2 | AMI Software | 9,590 | 10.00% | 4,346 | 6 | - | 959 | - | - | - | 5,311 | |
| 11 | 392.1 | Light Duty Vehicles | 4,437 | 3.81% | 3,170 | 4 | - | 169 | (184) | 45 | - | 3,204 | |
| 12 | 392.1 | Heavy Duty Vehicles | 25,077 | 6.50% | 5,811 | 8 | - | 1,630 | (1,042) | 105 | - | 6,513 | |
| 13 | 394 | Tools and Work Equipment | 9,067 | 4.11% | 10,131 | 14 | (5,187) | 373 | (759) | - | - | 4,572 | |
| 14 | 397 | Communication Structures & Equipment | 14,230 | 3.44% | 13,616 | 19 | (3,188) | 490 | (3,913) | 62 | - | 7,086 | |
| 15 | 397.1 | Fibre | 11,766 | 6.97% | 8,799 | 12 | (2,535) | 820 | (1,448) | - | - | 5,650 | |
| 16 | 397.2 | AMI Communications Structure & Equipment | 4,970 | 6.67% | 1,397 | 2 | - | 331 | - | - | - | 1,730 | |
| 17 | | | $ 212,273 | | $ 155,143 | $ 219 | $ (73,808) | $ 12,907 | $ (14,795) | $ 212 | $ - | $ 79,878 | |
| 18 | | | | | | | | | | | | | |
| 19 | 108 | Total Accumulated Depreciation | $ 2,084,774 | | $ 664,986 | $ 937 | $ (73,808) | $ 60,666 | $ (18,951) | $ 7,438 | $ - | $ 641,268 | |
| 20 | | | | | | | | | | | | | |
| 21 | | | | | | | | | | | | | |
| 22 | | [1]Explanation | | | | | | | | | | | |
| 23 | | | | | | | | | | | | | |
| 24 | | Cross Reference | Schedule 6.1 Line 19 Columns 3+4+5+6 | | | | | | | | | | |

Figure 12-3

**FORTISBC INC.**

FBC Annual Review for 2020 and 2021 Rates
Evidentiary Update, October 28, 2020

Section 11 - 2021

**ACCUMULATED DEPRECIATION CONTINUITY SCHEDULE**
**FOR THE YEAR ENDING DECEMBER 31, 2021**
**($000s)**

Schedule 7.1

| Line No. | Account | Particulars | Gross Plant for Depreciation | Depreciation Rate | 12/31/20 | Opening Bal. Adjustment | Depreciation Expense | Retirements | Cost of Removal | Adjustments | 12/31/21 | Cross Reference |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| 1 | | **General Plant** | | | | | | | | | | |
| 2 | 389 | Land | $ 11,105 | 0.00% | $ 34 | $ - | $ - | $ - | $ - | $ - | $ 34 | |
| 3 | 390 | Structures - Frame & Iron | - | 0.56% | - | - | - | - | - | - | - | |
| 4 | 390.1 | Structures - Masonry | 46,537 | 2.53% | 10,758 | - | 1,177 | - | - | - | 11,935 | |
| 5 | 390.2 | Operation Building | 17,235 | 1.63% | 6,548 | - | 281 | - | - | - | 6,829 | |
| 6 | 390.1 | Leasehold Improvements | 2,872 | 1.63% | 2,610 | - | 47 | - | - | - | 2,656 | |
| 7 | 391 | Office Furniture & Equipment | 5,269 | 4.42% | 1,528 | - | 233 | (243) | - | - | 1,518 | |
| 8 | 391.1 | Computer Equipment | 14,420 | 21.60% | 6,450 | - | 3,115 | (4,825) | - | - | 4,740 | |
| 9 | 391.2 | Computer Software | 40,464 | 8.96% | 17,884 | - | 3,626 | (4,188) | - | - | 17,322 | |
| 10 | 391.2 | AMI Software | 10,954 | 10.00% | 5,311 | - | 1,095 | - | - | - | 6,406 | |
| 11 | 392.1 | Light Duty Vehicles | 5,144 | 3.81% | 3,204 | - | 196 | (184) | 45 | - | 3,261 | |
| 12 | 392.1 | Heavy Duty Vehicles | 26,115 | 6.50% | 6,513 | - | 1,697 | (1,042) | 105 | - | 7,274 | |
| 13 | 394 | Tools and Work Equipment | 9,087 | 4.11% | 4,572 | - | 373 | (860) | - | - | 4,086 | |
| 14 | 397 | Communication Structures & Equipment | 12,317 | 3.44% | 7,086 | - | 424 | (1,708) | 62 | - | 5,864 | |
| 15 | 397.1 | Fibre | 10,318 | 6.97% | 5,650 | - | 719 | (3) | - | - | 6,366 | |
| 16 | 397.2 | AMI Communications Structure & Equipment | 4,970 | 6.67% | 1,730 | - | 331 | - | - | - | 2,061 | |
| 17 | | | $ 216,806 | | $ 79,878 | $ - | $ 13,315 | $ (13,051) | $ 212 | $ - | $ 80,354 | |
| 18 | | | | | | | | | | | | |
| 19 | 108 | Total Accumulated Depreciation | $ 2,203,257 | | $ 641,268 | $ - | $ 63,791 | $ (17,208) | $ 12,182 | $ - | $ 700,033 | |
| 20 | | | | | | | | | | | | |
| 21 | | Cross Reference | Schedule 6.1 | | | | | | | | | |
| 22 | | | Line 19 | | | | | | | | | |
| 23 | | | Columns 3+4+5 | | | | | | | | | |