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December 21, 2018

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Mr. Patrick Wruck, Commission Secretary and Manager, Regulatory Support

Dear Mr. Wruck:

Re: FortisBC Energy Inc. (FEI)

Project No. 1598970

2019 and 2020 Revenue Requirements and Rates Application for the Fort Nelson Service Area (the Application)

Response to the British Columbia Utilities Commission (BCUC) Panel Information Request (IR) No. 1

On September 4, 2018, FEI filed the Application referenced above. In accordance with BCUC Order G-235-18 setting out the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCUC Panel IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Doug Slater

Attachments

cc (email only): Registered Parties

A. ENERGY EFFICIENCY & CONSERVATION (EEC) DEFERRAL ACCOUNT

1.0 Reference: EEC Deferral Account

Exhibit B-2, BCUC IR 12.1.2; FEI 2019-2022 Demand Side Management (DSM) Expenditures Plan Proceeding, Exhibit B-1, p. 36

Accounting treatment

In response to British Columbia Utilities Commission (BCUC) IR 12.1.2, FEI states:

> The increase in the EEC deferral account balance forecast for 2019 and 2020 is due to a change in the allocation base used to allocate costs from FEI to FEFN. Prior to 2019, forecasted costs were allocated to FEFN based on the allowed FEI Rate Base expenditure limit of $15 million multiplied by the allocation factor, rounded to the nearest tenth of a percent (percentage of customers in FEFN over total customers). For the 2019 and 2020 forecasted additions, costs have been allocated to FEFN based on a total estimated FEI Rate Base and Non-Rate Base expenditure limit of $36 million, multiplied by the same allocation factor.

On page 36 of FEI's 2019-2022 DSM Expenditures Plan application, FEI states:

> Under the current approved treatment, $15 million of expenditures are forecast in the rate base DSM Deferral account each forecast year and the difference between the $15 million forecast and actual expenditure levels, up to the approved amount, are accounted for in FEI's non-rate base DSM Deferral account, attracting a weighted average cost of capital (WACC) return, in the year they are expended. The closing balance of the non-rate base DSM Deferral account is then transferred to FEI's rate base DSM Deferral account at the beginning of the following forecast year.

1.1 Please provide the following information and the specific BCUC order(s)/decision(s) approving each of the following items:

- The year that FEI Fort Nelson's (FEFN) rate base EEC deferral account was established and the year that FEI first commenced allocating DSM expenditures to FEFN;
- The amortization period for FEFN's EEC deferral account; and
- The method used to allocate FEI's forecast DSM expenditures to FEFN.

Response:

FEFN's rate base EEC deferral account was established in 2012 through BCUC Order G-44-12 (Directive 71) approving the FEU 2012-2013 Revenue Requirements and Rates. As shown in the response to BCUC IR 2.1.5, FEI first commenced recording actual direct DSM expenditures to FEFN in 2014, which included a cumulative catch up for 2012-2014 amounts. Subsequently, FEI has recorded actual direct costs to FEFN on an annual basis. On a forecast basis, FEI did not begin allocating DSM expenditures to FEFN until 2017.

The amortization period for FEFN's EEC deferral account is 10 years and was established in 2012 and approved for the 2012/2013 test period only through BCUC Order G-44-12 (Directive 66) approving the FEU 2012-2013 Revenue Requirement and Rates. Through BCUC Order G-138-14 approving the FEI 2014-2019 PBR Decision, the BCUC stated: "*The Commission Panel approves FEU's request to (i) continue the EEC accounting treatment approved for 2012–2013*".[1]

The method used to allocate FEI's forecast DSM expenditures to FEFN is the total approved funding amount for FEI multiplied by the percentage of customers in FEFN (FEFN customers divided by the total FEI and FEFN customers). As per BCUC Order G-44-12 approving the FEU 2012-2013 Revenue Requirements and Rates Application, the FEU were approved to allocate the forecast costs based on an average customer basis amongst Mainland, Vancouver Island and Whistler. FEI used the same allocation method for FEFN in its 2017-2018 Revenue Requirements and Rates Application and its 2019-2020 Revenue Requirements and Rates Application.

1.2 Please provide an explanation as to how actual DSM expenditures are currently determined/calculated for FEFN for the purposes of recording actual DSM expenditures in FEFN's EEC deferral account.

Response:

The actual DSM expenditures recorded in FEFN's EEC deferral account are the actual incentives provided to Fort Nelson customers and media advertisement costs that are specific and direct to Fort Nelson only.

To date, FEI has not allocated a share of the actual non-incentives expenditure for administration, communication, research and evaluation to FEFN even though FEFN customers

[1] Page 280

have access to the entire Conservation and Energy Management (C&EM)[2] funding portfolio that includes both incentives and non-incentives.

FEI believes it is appropriate to recover FEFN's share of the non-incentive costs incurred by FEI in developing and implementing the entire program from FEFN customers. As such, FEI will begin allocating the DSM non-incentives expenditure to FEFN starting with the 2018 Annual Report based on FEFN's customers as a percentage of FEI's customers as discussed in the response to BCUC Panel IR 1.1.1.

1.3 Please explain why the change in allocation methodology described in FEI's response to BCUC IR 12.1.1 (and provided in the above preamble) is not requested as part of the approvals sought in the Application.

Response:

FEI is continuing to allocate DSM costs from FEI to FEFN based on percentage of customers (the allocation method has not changed). As indicated in the response to BCUC IR 1.12.1.2, FEI is instead proposing to implement an adjustment to the amounts included in the allocation base to reflect that FEFN customers have access to the entire C&EM funding portfolio that includes both incentives and non-incentives.

1.4 In consideration of the approach to the accounting treatment of FEI's DSM expenditures (i.e. separation between rate base and non-rate base deferral accounts), would such an approach be appropriate for FEFN? Why or why not?

Response:

Although the quantum of dollars for FEFN is much smaller, the treatment for DSM expenditures approved for FEI would also be appropriate for FEFN, as it would make it more likely that only actual expenditures would be recovered in rates. Alignment between FEI and FEFN accounting treatment also creates administrative efficiencies.

FEFN has provided the table below to illustrate what the 2019 and 2020 forecasts would have been had the two deferral accounts method been used to prepare the Appendix A financial

[2] Previously named Energy Efficiency and Conservation (EEC).

schedules in the Application. As is evident from the table, while the revised method would have resulted in no change to amortization in either year, it would have resulted in a lower average mid-year rate base amount in both 2019 and 2020 and, by extension, a lower average return on rate base in those years.

Rate Base EEC Deferral ($000s)	**As filed**	**Revised amounts**	**Explanation**
2018 Ending Balance	$ 109	$ 109	
2019 Opening Balance Transfer from Non-rate base	-	-	
2019 Additions	86	36	Revised calculated as $15M x .239%
2019 Taxes	(23)	(10)	Revised calculated as $36 thousand x 27%
2019 Amortization Expense	(12)	(12)	
2019 Ending Balance	160	123	
2019 Ending Balance	160	123	
2020 Opening Balance Transfer from non-rate base	-	37	
2020 Additions	86	36	Revised calculated as $15M x .239%
2020 Taxes	(23)	(10)	Revised calculated as $36 thousand x 27%
2020 Amortization Expense	(19)	(19)	
2020 Ending Balance	204	167	

Non-Rate Base EEC Incentive Deferral ($000s)	**As filed**	**Revised amounts**	**Explanation**
2018 Ending Balance	$ -	$ -	
2019 Opening Balance Transfer to rate base	-	-	
2019 Additions	-	50	Revised calculated as ($36M-$15M) x .239%
2019 Taxes	-	(14)	Revised calculated as $50 thousand x 27%
2019 Amortization Expense	-	-	
2019 Ending Balance	-	37	
2019 Ending Balance	-	37	
2020 Opening Balance Transfer to rate base	-	(37)	
2020 Additions	-	50	Revised calculated as ($36M-$15M) x .239%
2020 Taxes	-	(14)	Revised calculated as $50 thousand x 27%
2020 Amortization Expense	-	-	
2020 Ending Balance	-	37	

1.5 What are the forecast vs actual DSM expenditures for FEFN for 2016 and 2017 (Actual) and 2018 (Projected)?

Response:

The forecast and actual FEFN DSM expenditures for 2014 through 2018 are provided in the table below. FEI has extended this table back to 2014 to show the amounts charged to the account since inception. As discussed in response to BCUC Panel IR 1.1.2, the 2018 Projected amount includes both the projected incentives paid to FEFN customers in 2018 and an allocation of the projected non-incentive expenditures to FEFN using the average customer basis. FEI will include the allocation of these 2018 DSM non-incentive expenditures to FEFN in the 2018 Annual Report, as well as an adjustment for 2017 to equal the totals shown in the two years 2017/2018 in the table below.

As is evident from the table below, FEI did not include a forecast of FEFN DSM expenditures in either of FEFN's 2014 Deferral Account Treatment Application or FEFN's 2015-2016 Revenue Requirement Application. This oversight resulted in FEFN delivery rates that were lower than would have otherwise been the case if the forecasted allocations had been included.

FEFN notes that actual costs were trued-up in the subsequent revenue requirement filings and therefore the amortization expenses based on the actual costs have been used to establish the subsequent filings of revenue requirements. For example, the 2014 actual/projected costs at that time were included in the opening balance of the FEFN EEC deferral account when setting the 2015/2016 rates, and subsequently, the 2015 actual and 2016 actual/projected costs at that time were included in the opening balance of the FEFN EEC deferral account when setting 2017/2018 rates.

($000s)	2014	2015	2016	2017	2018
Actual/Projected	25.0	10.6	38.0	32.9	31.0
Forecast	0.0	0.0	0.0	30.0	30.0

Note: 2017 and 2018 amounts include the allocation of the non-incentive expenditures to FEFN.

1.6 What are the forecast DSM expenditures for 2019 and 2020 for FEFN based on the DSM expenditures applied for in FEI's 2019-2022 DSM Expenditures Plan proceeding?

Response:

The forecast DSM expenditures for 2019 and 2020 for FEFN, based on the DSM expenditures applied for in FEI's 2019-2022 DSM Expenditures Plan proceeding and using the same 0.2390 percent allocation factor discussed in the response to BCUC IR 1.12.1.2, are $159 thousand in 2019 and $173 thousand in 2020 as shown in the table below:

Additions ($000s)	Amount for allocation	Allocation factor	Total Addition
2019 Forecast	66,350	0.2390%	159
2020 Forecast	72,585	0.2390%	173

FEFN will update the 2019 and 2020 forecast additions to the EEC deferral account in its Compliance Filing once FEI receives a decision on the 2019-2022 DSM Expenditures Plan application and FEFN receives a decision in this Application.

1.7 What is the rate impact for FEFN for 2019 and 2020 of FEI's proposed method (i.e. allocation to FEFN based on the total estimated FEI rate base and non-rate base expenditure limit) compared to the previous allocation method? Please provide supporting calculations and descriptions.

Response:

The table below shows the delivery rate impact for FEFN is 0.3 percent and 0.6 percent for 2019 and 2020, respectively, if the net addition to FEFN's EEC Deferral Account is changed from $30 thousand, using the previous allocation method as shown in response to BCUC IR 1.12.1.2, to $86 thousand as proposed in the Application. For an average FEFN residential customer using 125 GJ per year, this is equivalent to an increase of approximately $2 in 2019 and $4 in 2020, compared to 2018 rates. The working excel spreadsheet providing the supporting calculations is provided in Attachment 1.7.

	2019	2020
EEC Deferral Additions - Original Method	30	30
EEC Deferral Additions - Proposed (As-filed) Method	86	86
Incremental from Original Method	**56**	**56**
Increaase in Revenue Requirement ($000s)	**7**	**15**
% Delivery Rate Impact (From Original to Proposed)	**0.3%**	**0.6%**
Average Annual Rate Impact, Residential RS 1 ($)	**$ 1.79**	**$ 4.07**

1.8 Please explain and quantify (where possible) the implications for ratepayers and for FEI if FEI over or under spends on DSM compared to what was forecast and allocated to FEFN under FEI's proposed new allocation method.

Response:

Based on the existing methodology, where FEI has the two EEC deferral accounts and FEFN has the single EEC deferral account, there is limited to no annual forecast risk for FEI customers whereas FEFN customers are subject to, over the two-year rate setting period, forecast risk from differences between actual and approved expenditures. The change to the allocation base in the FEFN Application does not change this dynamic.

If FEFN were to adopt FEI's method of using a rate base EEC deferral account to forecast a prescribed amount of additions, with the residual forecast included in a non-rate base EEC deferral account, the impacts of variances in actual costs would be similar for FEI and FEFN customers. Assuming the forecast amounts to both the FEFN rate base and non-rate base deferral accounts were based on the percentage of Fort Nelson customers then, similar to FEI, any variances in actual costs would fall to the non-rate base EEC deferral account and get transferred to the rate base EEC deferral account the following year. This ensures both FEI and FEFN customers will pay for the rate base impact of the prescribed amount in the rate base in the current year.

FEI has provided a numerical example below to illustrate how amounts would be recorded using the following assumptions:

- Approved total EEC funding portfolio of $36 million per year;
- FEI + FEFN approved amount forecasted in rate base capped at $15 million. FEFN cap is determined using percentage of customer method (currently 0.239%) which will be approximately $36 thousand;
- FEI + FEFN approved amount forecasted in non-rate base is $21 million, which is the residual of the funding amount ($36 million) less the amount forecasted in rate base ($15 million). FEFN is allocated 0.239% of this residual based on the percentage of customer which resulted to be approximately $50 thousand;
- FEFN actual non-incentive costs is an allocation of the FEI + FEFN actual non-incentive costs using the percentage of customer method;
- FEFN actual incentive costs paid to FEFN customers are allocated directly to FEFN ;
- Total actual costs incurred each year are as follows:
    - $20 million in non-incentive costs, of which approximately $48 thousand is allocated to FEFN using the percentage of customer method (0.239 percent);
    - $15 million in incentive costs, of which $5 thousand is for FEFN customers; and
- Tax rate is 27 percent.

		Year 1		Year 2	
Line	**FEI ($000s)**	**Forecast**	**Actual**	**Forecast**	**Actual**
1	**Rate Base EEC Deferral**				
2	Opening Balance	$ -	$ -	$ 10,924	$ 10,924
3	Opening Balance Transfer from Non-rate base	-	-	15,293	14,588
4	Additions	14,964	14,964	14,964	14,964
5	Taxes	(4,040)	(4,040)	(4,040)	(4,040)
6	Amortization Expense	-	-	(2,622)	(2,622)
7	Ending Balance	10,924	10,924	34,519	33,814
8					
9	**Non-Rate Base EEC Deferral**				
10	Opening Balance	$ -	$ -	$ 15,293	$ 14,588
11	Opening Balance Transfer to rate base	-	-	(15,293)	(14,588)
12	Additions	20,950	19,983	20,950	19,983
13	Taxes	(5,656)	(5,395)	(5,656)	(5,395)
14	Amortization Expense	-	-	-	-
15	Ending Balance	15,293	14,588	15,293	14,588
16					
17		**Year 1**		**Year 2**	
18	**FEFN ($000s)**	**Forecast**	**Actual**	**Forecast**	**Actual**
19	**Rate Base EEC Deferral**				
20	Opening Balance	$ -	$ -	$ 26	$ 26
21	Opening Balance Transfer from Non-rate base	-	-	37	12
22	Additions	36	36	36	36
23	Taxes	(10)	(10)	(10)	(10)
24	Amortization Expense	-	-	(6)	(6)
25	Ending Balance	26	26	83	58
26					
27	**Non-Rate Base EEC Deferral**				
28	Opening Balance	$ -	$ -	$ 37	$ 12
29	Opening Balance Transfer to rate base	-	-	(37)	(12)
30	Additions	50	17	50	17
31	Taxes	(14)	(5)	(14)	(5)
32	Amortization Expense	-	-	-	-
33	Ending Balance	37	12	37	12
34					
35		**Year 1**		**Year 2**	
36	**Total FEI + FEFN ($000s)**	**Forecast**	**Actual**	**Forecast**	**Actual**
37	**Rate Base EEC Deferral**				
38	Opening Balance	$ -	$ -	$ 10,950	$ 10,950
39	Opening Balance Transfer from Non-rate base	-	-	15,330	14,600
40	Additions	15,000	15,000	15,000	15,000
41	Taxes	(4,050)	(4,050)	(4,050)	(4,050)
42	Amortization Expense	-	-	(2,628)	(2,628)
43	Ending Balance	10,950	10,950	34,602	33,872
44					
45	**Non-Rate Base EEC Deferral**				
46	Opening Balance	$ -	$ -	$ 15,330	$ 14,600
47	Opening Balance Transfer to rate base	-	-	(15,330)	(14,600)
48	Additions	21,000	20,000	21,000	20,000
49	Taxes	(5,670)	(5,400)	(5,670)	(5,400)
50	Amortization Expense	-	-	-	-
51	Ending Balance	15,330	14,600	15,330	14,600

FEI makes the following observations from the results in the table above:

- The FEI + FEFN annual ending balance variance of $730 thousand between actuals and approved (Line 51) is expected and is the result of $36 million in forecast approved funding less $35 million in actual costs incurred, net of tax;
- The total approved costs for FEFN of $86 thousand (Line 22 approved + Line 30 approved) is calculated as the entire funding portfolio of $36 million x 0.239%. Further, the rate base cap of $36 thousand (Line 22) was derived from the $15 million FEI rate base cap x 0.239%; and
- The total actual costs for FEFN of $53 thousand (Line 22 actual + Line 30 actual) can be derived from $20 million non-incentive costs x 0.239% = $48 thousand plus $5 thousand in direct incentive costs. The first $36 thousand is applied against the rate base account to equal the approved cap amount, with the residual recorded in the non-rate base account.

In conclusion, both FEI and FEFN customers would be held whole as cost variances in any year would be included in rates in future years.

B. CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY (CPCN) FOR PROPHET RIVER FIRST NATION (PRFN) EXTENSION

2.0 Reference: CPCN for PRFN

Exhibit B-2, BCUC IR 15.1

Asset purchase agreement

In response to BCUC IR 15.1, FEI states:

> Negotiations on the Asset Purchase Agreement have been completed with the PRFN; however, the Agreement has not yet been executed. FEI has not yet received a copy of the executed agreement.

2.1 Please provide an update on the status of the Asset Purchase Agreement, specifically whether or not the agreement has been executed since responding to IR No. 1. If the agreement has been executed, please provide it as part this response.

Response:

The Asset Purchase Agreement has been executed by the PRFN who in turn have sent it to Indigenous Services Canada with a request that Canada execute the agreement. The signed signatory pages of the Asset Purchase Agreement that FEI received from PRFN are included as Attachment 2.1. FEI confirms that the Asset Purchase Agreement signed by PRFN and sent to Indigenous Service Canada is the same agreement included in the response to BCUC IR 1.15.1.1. FEI intends to execute the agreement once it has been executed by Canada.

Attachment 1.7

REFER TO LIVE SPREADSHEET MODEL

Provided in electronic format only

(accessible by opening the Attachments Tab in Adobe)

Attachment 2.1

24. ENTIRE AGREEMENT

This Agreement embodies the entire agreement between the parties and supersedes all prior communications, negotiations and agreements, written or oral, relating to the Assets. This Agreement contains all the representations, warranties, covenants, agreements, conditions and understandings between the parties with respect to the Assets and there are no other representations, warranties, covenants, agreements, conditions or understandings with respect to the Assets that are not contained herein.

25. FURTHER ASSURANCES

From time to time after the Closing Date, each party will, at the request and cost of any other party, execute and deliver such additional conveyances, transfers and other assurances as may be reasonably required to effectively transfer the Assets to the Purchaser and to otherwise carry out the intent of this Agreement or any documents, instruments and agreements required to be delivered by it pursuant to this Agreement.

26. WAIVER

No waiver of any of the provisions of this Agreement will be deemed to constitute a wavier of any other provision, nor will such waiver be binding unless executed in writing by the party to be bound by the waiver.

27. AMENDMENTS

The parties are not bound by any amendment, variation or waiver of any provision of this Agreement unless it is in writing and signed by their representatives.

28. SEVERABILITY

If any provision of this Agreement will be determined by any court of competent jurisdiction to be illegal, invalid or unenforceable, that provision will be severed from this Agreement and the remaining provisions will continue in full force and effect.

29. COUNTERPARTS

This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which will be construed together and constitute one and the same instrument. Delivery of an executed pdf counterpart of this Agreement by electronic transmission will be as effective as delivery of an originally executed counterpart hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first written above.

EXECUTED BY FORTISBC ENERGY INC. in the presence of:	))))	**FORTISBC ENERGY INC.**, by its authorized signatory

(Witness' signature)	)	(signature)
(print name of Witness)	)	(print name)
	)	(print title)
	)	I have the authority to bind the corporation.

EXECUTED BY THE PROPHET RIVER INDIAN BAND in the presence of:	)	**PROPHET RIVER INDIAN BAND** represented by its Council
(Witness' signature)	)	Chief
Richard J. Chipesia (print name of Witness)	)	Jacqueline Reno Councillor
	)	Councillor
	)	Councillor
	)	Councillor
	)	Councillor
	)	We have the authority to bind the Prophet River Indian Band

EXECUTED BY CANADA in the presence of:	)	**HER MAJESTY THE QUEEN IN RIGHT OF CANADA**, as represented by the Minister of Indian Affairs and Northern Development

______________________________	)	______________________________
(Witness' signature)	)	(signature)
	)	
______________________________	)	______________________________
(print name of Witness)	)	(print name)
	)	
	)	For the Minister of Indian Affairs and Northern
	)	Development
	)	

SCHEDULE "A"

SKETCH OF ASSETS