Doug Slater
Director, Regulatory Affairs

Gas Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (778) 578-3874
Cell: (778) 214-3842
Fax: (604) 576-7074
Email: doug.slater@fortisbc.com
www.fortisbc.com

December 11, 2019

Commercial Energy Consumers Association of British Columbia
c/o Owen Bird Law Corporation
P.O. Box 49130
Three Bentall Centre
2900 – 595 Burrard Street
Vancouver, BC
V7X 1J5

Attention: Mr. Christopher P. Weafer

Dear Mr. Weafer:

Re: FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC)

Project No. 1598996

Application for Approval of a Multi-Year Rate Plan for 2020 through 2024 (Application)

Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 3 on 2020 Interim Rates

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On March 11, 2019, FortisBC filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-272-19 setting out the Regulatory Timetable for the review of the Application, FortisBC respectfully submits the attached response to CEC IR No. 3 on 2020 Interim Rates.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Doug Slater

Attachments

cc (email only): Commission Secretary
Registered Parties

1 **1. Reference: Exhibit B-22, page 3 and Appendix A Schedule 1**

Figure 2-1 below summarizes FBC's 2020 interim revenue requirements, which results in a revenue deficiency based on existing rates of $8.065 million, equivalent to a rate increase of 2.16 percent[3]. Appendix A, Schedule 1 provides a detailed breakdown of the major categories presented in Figure 2-1 below. The components of the revenue deficiency are

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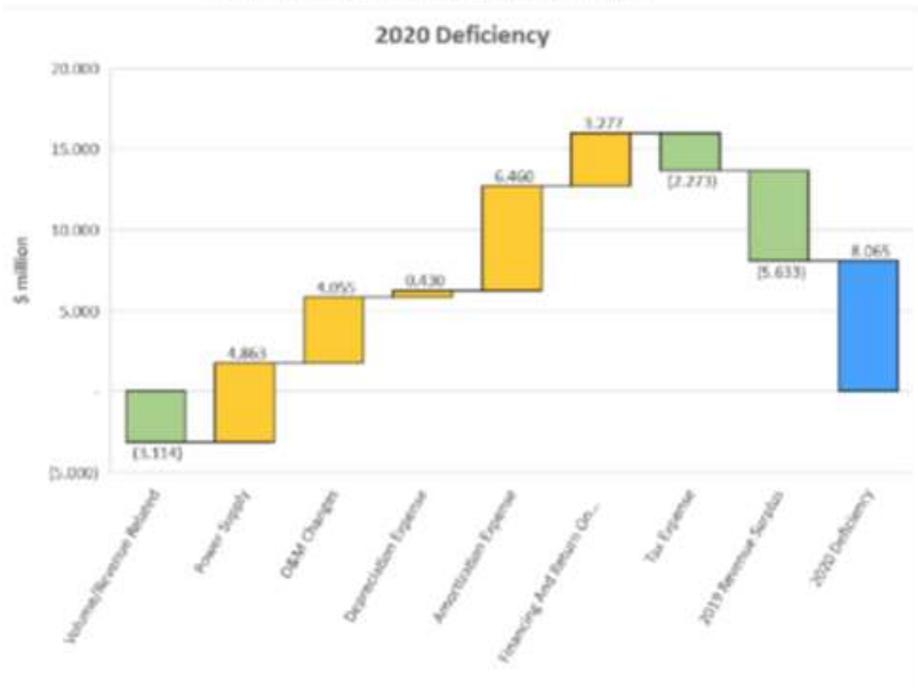
Figure 2-1: 2020 Revenue Deficiency ($ millions)



3

FBC is requesting an interim rate increase of 1.00 percent, effective January 1, 2020.

FBC retains a net revenue surplus[4] consisting of a revenue deficiency (debit) of $0.896 million in respect of 2018 revenue requirements plus a revenue surplus (credit) of $5.633 million in respect of 2019 revenue requirements. The net credit of $4.737 million before tax ($3.458 million after tax[5]), by itself, would provide a rate decrease of approximately 1.25 percent at existing rates. FBC is not requesting approval to amortize the revenue surplus, either in whole or in part, in this Application. FBC will request approval for disposition of

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some or all of the revenue surplus, as the case may be, in the Annual Review for 2020 Rates.

The request for an interim increase of 1.00 percent instead of the 2.16 percent calculated in the Financial Schedules recognizes that some or all of the net revenue surplus will be available for mitigation of the 2020 permanent rates.

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[4] Orders G-131-18 and G-246-18 approved FBC to hold the 2018 revenue deficiency and 2019 revenue surplus in a deferral account to be returned to customers at a future date. The amount held in the Revenue Surplus deferral account attracts a return at FBC's after tax weighted average cost of debt.

[5] Appendix A, Schedule 12.1, Line 6.

1	VOLUME/REVENUE RELATED				
2	Customer Growth and Volume	(2.759)			
3	Change in Other Revenue	(0.355)	(3.114)		-
4					
5	POWER SUPPLY				
6	Power Purchases (net of customer growth and volume)	4.050			
7	Wheeling	0.202			
8	Water Fees	0.611	4.863		-
9					
10	O&M CHANGES				
11	Resetting Base O&M	(0.000)			
12	Shared Services Study	0.338			
13	Corporate Services Study	(0.308)			
14	Other Gross O&M	4.741			
15	Capitalized Overhead Change	(0.716)	4.055		-
16					
17	DEPRECIATION EXPENSE				
18	Depreciation Rate Change (Depreciation Study)	2.742			
19	Amortization Accounting Transition	(6.403)			
20	Depreciation from Net Additions	4.091	0.430		
21		0.430			
22	AMORTIZATION EXPENSE				
23	CIAC Depreciation Rate Change (Depreciation Study)	0.189			
24	CIAC from Net Additions	(0.216)			
25	Deferral Accounts	6.487	6.460		
26					
27	FINANCING AND RETURN ON EQUITY				
28	Financing Rate Changes	(0.842)			
29	Financing Ratio Changes	(1.703)			
30	Resetting Rate Base	1.096			
31	Cash Working Capital - Lead/Lag Study	(0.058)			
32	CPCN Projects (Corra Linn, UBO, Grand Forks Terminal)	1.394			
33	Other Rate Base Growth	3.391	3.277		
34					
35	TAX EXPENSE				
36	Property and Other Taxes Changes	0.361			
37	Other Income Taxes Changes	(2.634)	(2.273)		
38					
39	2019 Revenue Surplus		(5.633)		
40					
41	Revenue Deficiency (Surplus)		$ 8.065	Schedule 16, Line 6, Column 4	
42					
43	Revenue at Existing Rates		373.293	Schedule 16, Line 5, Column 3	
44	Rate Change		2.16%		

1.1 Please identify where the CEC can locate the calculation of the 2019 Revenue Surplus of $5.633 million for FBC, and the equivalent 2019 figure for FEI in this proceeding.

Response:

The calculation of FBC's 2019 revenue surplus is found in Schedule 1 of its 2019 Compliance Filing to Order G-246-18 as reproduced below. Schedule 1 shows the 2019 revenue deficiency/surplus by individual line item (i.e. the difference for each line item between the forecast values and those embedded in the prior year's rates). $5.633 million is the amount required to bring the final revenue deficiency/surplus to $0 at line 33 and maintain 2019 rates at 2018 levels. By Order G-74-19, the BCUC approved the level of 2019 rates (and by extension the amount of the revenue surplus) when it stated "the BCUC has reviewed the Compliance Filing and considers that approval of permanent rates for 2019 for all customer classes is warranted."

Similarly, Schedule 1 for the 2020 interim rates, shown in the preamble, compares the changes by component between 2019 and 2020 revenue requirements, $5.633 million and $0 million, respectively, for the revenue surplus component.

FORTISBC INC. Compliance Filing G-246-18 March 15, 2019

Section 11
Schedule 1

SUMMARY OF RATE CHANGE
FOR THE YEAR ENDING DECEMBER 31, 2019
($000,000s)

Line No.	Particulars	2019 Forecast		Cross Reference
	(1)	(2)	(3)	(4)
1	**VOLUME/REVENUE RELATED**			
2	Customer Growth and Volume	(14.194)		
3	Change in Other Revenue	(0.852)	(15.046)	
4				
5	**POWER SUPPLY**			
6	Power Purchases (net of customer growth and volume)	11.994		
7	Wheeling	0.064		
8	Water Fees	0.257	12.315	
9				
10	**O&M CHANGES**			
11	Gross O&M Change	0.610		
12	Capitalized Overhead Change	(0.091)	0.519	
13				
14	**DEPRECIATION EXPENSE**			
15	Depreciation from Net Additions	1.857	1.857	
16				
17	**AMORTIZATION EXPENSE**			
18	CIAC from Net Additions	(0.259)		
19	Deferrals	(5.791)	(6.051)	
20				
21	**FINANCING AND RETURN ON EQUITY**			
22	Financing Rate Changes	0.258		
23	Financing Ratio Changes	0.010		
24	Rate Base Growth	1.387	1.655	
25				
26	**TAX EXPENSE**			
27	Property and Other Taxes Changes	0.029		
28	Other Income Taxes Changes	(1.806)	(1.777)	
29				
30	2018 Revenue Deficiency		0.896	
31	2019 Revenue Surplus		5.633	
32				
33	Revenue Deficiency (Surplus)		$ -	Schedule 16, Line 6, Column 4
34				
35	Revenue at Existing Rates		370.534	Schedule 16, Line 5, Column 3
36	Rate Change		0.00%	

1.2 Please rationalize the Exhibit B-1, 2018-2019 (page B-44) net balance in the 2018-2019 revenue surplus deferral account of $4.840 million with the $4.737 million figure cited above, or identify where the updated figure can be located.

Response:

The difference between the two figures is due to the finalization of the 2019 revenue surplus amount, which changed from $5.736 million to $5.633 million in the 2019 Compliance Filing discussed above. Please refer to the response to BCOAPO IR 3.177.1 for further discussion.

1.3 The CEC notes that the 2019 Revenue Surplus of $5.633 million is included in the revenue requirement calculation at line 30 resulting in a rate change of 2.16%. The CEC's understanding is that utilization of the $5.633 million surplus would leave a balance of $0.896 debit for use in the future. Please explain and rationalize with the statement that the request for an interim increase of 1% instead of 2.16% recognizes that some or all of the net revenue surplus will be available for mitigation of the 2020 permanent rates.

Response:

To clarify, FBC considers that the balance available for rate mitigation is the combination of the debit and credit balance for a net surplus of $4.737 million (before tax).

Please also refer to the response to BCSEA IR 3.45.1 for additional discussion of how FBC intends to manage the available revenue surplus.

1.4 Why is the equivalent figure for 2019 not included in the FEI Schedule 1?

Response:

FEI had revenue surpluses in 2017 and 2018, but did not defer either a revenue surplus or a revenue deficiency in 2019. Therefore the equivalent value for FEI in Schedule 1 for 2020 would be $0.

2. Reference: Exhibit B-22, pages 4 and 5, and Appendix A Schedule 1

The request for an interim increase of 1.00 percent instead of the 2.16 percent calculated in the Financial Schedules recognizes that some or all of the net revenue surplus will be available for mitigation of the 2020 permanent rates.

2.1 *Cost Items Determined by Formula*

Under the proposed MRP framework, the only cost items set by formula for FBC are Base O&M Expense. FBC's Total O&M expense for 2020 is comprised of an inflation-indexed component and forecast components. The inflation-indexed component is described in Section C2 of the MRP Application, while the forecast O&M components are described in Section C4.4.

In the sections below, FBC provides the calculations of the inflation factor and the total O&M forecast.

Table 2-2: O&M Expense

Line No.	Particulars		$000s Unless Otherwise Stated	Reference
1	2019 Base Unit Cost O&M ($/ customer)	$	416.00	
2	I-Factor		2.792%	Appendix A, Schedule 3, Line 7
3	2020 Unit Cost O&M ($/customer)	$	427.61	Line 1 x (1 + Line 2)
4	2020 Average Customer Forecast		143,015	Appendix A, Schedule 18, Column 6, Line 8
5	2020 Inflation-Indexed OM	$	61,155	
6	Forecast O&M		2,817	Appendix A, Schedule 20, Column 3, Line 16
7	Total Gross O&M		63,972	
8	Capitalized Overhead at 15%		(9,596)	Appendix A, Schedule 20, Column 4, Line 20
9	Net O&M Expense	$	54,376	

40				
41	Revenue Deficiency (Surplus)	$	8,065	Schedule 16, Line 6, Column 4
42				
43	Revenue at Existing Rates		373,293	Schedule 16, Line 5, Column 3
44	Rate Change		2.16%	

2.1 Please confirm that the 2.16% increase in revenue requirement calculated in Schedule 1 does not contemplate the inclusion of an X factor in the MRP.

Response:

Confirmed.

2.1.1 If the approved MRP included an X factor similar to that in the current PBR, please provide quantification as to how that would impact the revenue requirement.

Response:

The inclusion of an X-Factor of 1.03 percent as in the 2014-2019 PBR plan would reduce the 2020 revenue requirement by $0.520 million, equivalent to a rate reduction of 0.14 percent, as calculated in the following table.

Line No.	Particulars	$000s Unless Otherwise Stated	Reference
1	2019 Base Unit Cost O&M ($/ customer)	$ 416.00	
2	I-Factor	2.792%	Appendix A, Schedule 3, Line 7
3	X-Factor	-1.030%	
4	Net Inflation Factor	1.762%	Line 2 + Line 3
5	2020 Unit Cost O&M ($/customer)	$ 423.33	Line 1 x (1 + Line 4)
6	2020 Average Customer Forecast	143,015	Appendix A, Schedule 18, Column 6, Line 8
7	2020 Inflation-Indexed OM	$ 60,543	
8	Forecast O&M	2,817	Appendix A, Schedule 20, Column 3, Line 16
9	Total Gross O&M	63,360	
10	Capitalized Overhead at 15%	(9,504)	
11	Net O&M Expense	$ 53,856	
12			
13	Net O&M Expense without X-Factor	54,376	Appendix A, Schedule 20, Column 4, Line 21
14	Difference	(520)	
15	Revenue at Existing Rates	$ 373,293	Appendix A, Schedule 16, Column 3, Line 5
16	Change to Interim Rates	-0.14%	

2.1.2 If the approved MRP for 2020 was an extension of the existing PBR, please provide quantification as to how that would impact the revenue requirement.

Response:

For the purposes of this analysis, FBC assumed that formula capital and O&M expense would not be rebased and, consistent with the interim rates request, the remaining components of the MRP Application (such as the depreciation, overheads, and lead/lag studies) are approved.

FBC estimates that an extension of the 2014-2019 PBR Plan (with no rebasing) would reduce 2020 revenue requirements by approximately $2.4 million, and the resulting rate increase to 1.52 percent. The affected components of the revenue requirement are shown in the table below.

Particulars	Revenue Deficiency ($ millions)	Rate Change
October 29, 2019 Interim Rates Filing	$ 8.065	2.16%
Change to Formula O&M Expense	(2.341)	-0.63%
Change to Formula Capital Expenditures	(0.052)	0.01%
Response to CEC IR 3.2.1.2	$ 5.672	1.52%

As seen in the table above, applying the Current PBR Plan formula to FBC's 2020 capital expenditures does not have a significant impact on 2020 rates. This is because the impact of reducing 2020 capital expenditures by approximately $45 million is offset by the corresponding loss of income tax benefits derived from the Capital Cost Allowance on current year expenditures. As a result, FBC's requested 2020 interim rate increase would not change, and would remain at 1 percent under this scenario. Please refer to the response to BCSEA IR 3.45.1 explaining FBC's rationale for its interim rate request.

2.1.3 If the approved RRA for 2020 was based on a Cost of Service, please provide an approximation of how that would impact the revenue requirement for 2020.

Response:

As FortisBC stated in response to BCUC IR 2.261.3, it has no reason to believe its 2020 rates would be different under cost of service.

3. Reference: Exhibit B-22, page 7

Table 2-3: Forecast O&M Expense[10], ($000s)

Line No.	Description	Approved 2019	Forecast 2020	Change
1	Pension/OPEB (O&M Portion)	$ 1.692	$ 1.025	$ (0.667)
2	Insurance Premiums	1.283	1.596	0.313
3	Advanced Metering Infrastructure Project	(1.161)	-	1.161
4	Mandatory Reliability Standards Incremental O&M	0.940	-	(0.940)
5	Upper Bonnington Old Unit Annual Inspections	(0.042)	(0.041)	0.001
6	Employer Health Tax	0.576	-	(0.576)
7	MSP Reduction	(0.168)	-	0.168
8	BCUC Levies	-	0.237	0.237
9	Forecast O&M	$ 3.120	$ 2.817	$ (0.303)

Including FBC's capitalized overhead rate of 15 percent, FBC's forecast net O&M expense is 2020 is $54.376 million as shown in Table 2-2.

3.1 Please describe what is included in the 'BCUC Levies' of $0.237 million as a Flow Through Cost.

<u>Response:</u>

The BCUC Levies forecast of $0.237 million represents the FBC portion of the BCUC's expenses arising from the administration of the *Utilities Commission Act* that are collected from public utilities on a quarterly basis pursuant to BC Regulation 283/88 dated July 29, 1988. The forecast is based on the BCUC expenses from the previous fiscal year F2019/20 as established by Order G-138-19A of $233 thousand, plus inflation. FBC will update the forecast for any known changes in its Annual Review for 2020 Rates.

4. Reference: Exhibit B-22, page 8

2.2.3 Cost of Energy (Schedule 19)

Power Supply expense, as shown in Appendix A, Schedule 19, is forecast to increase in 2020 by $4.863 million, primarily due to an increased gross load and to increased purchases under the Company's power purchase agreement with BC Hydro.

Line No.	Particulars (1)	2019 Approved (2)	2020 Forecast (3)	Change (4)	Cross Reference (5)
1	**POWER PURCHASES**				
2	Gross Load (GWh)	3,602	3,727	125	
3					
4	**Power Purchase Expense**				
5	Brilliant	$ 41,865	$ 41,540	$ (325)	
6	BC Hydro PPA	52,174	53,849	1,675	
7	Waneta Expansion	40,221	39,986	(235)	
8	Market and Contracted Producers	10,637	13,579	2,942	
9	Independent Power Producers	76	86	10	
10	Self-Generators	93	75	(18)	
11	Balancing Pool	-	-	-	
12					
13	Total	$ 145,065	$ 149,115	$ 4,050	
14					
15	**WHEELING**				
16	**Wheeling Nomination (MW months)**				
17	Okanagan Point of Interconnection	2,400	2,400	-	
18	Creston	471	438	(33)	
19					
20	**Wheeling Expense**				
21	Okanagan Point of Interconnect	$ 4,514	$ 4,610	$ 96	
22	Creston	577	548	(29)	
23	Other	144	279	135	
24	Total	$ 5,235	$ 5,437	$ 202	
25					
26	**WATER FEES**				
27	Plant Entitlement Use in previous year (GWh)	1,574	1,624	50	
28					
29	Water Fees	$ 10,465	$ 11,076	$ 611	
30					
31	Total	$ 160,765	$ 165,628	$ 4,863	

4.1 Please breakdown Market and Contracted Producers.

Response:

Please refer to the table below for a breakdown of Market and Contracted Producers. Consistent with the response to BCOAPO IR 3.183.1, FBC has also included a projection for 2019.

Line No.	Particulars	2019 Approved	2019 Projected	2020 Forecast	Change (4-2)	Cross Reference
	(1)	(2)	(3)	(4)	(5)	(6)
1	**MARKET AND CONTRACTED PRODUCERS**					
2	BRX Energy	$ 1,965	$ 1,965	$ 1,965	$ -	
3	BRX Capacity	1,258	1,261	1,220	(38)	
4	Market Purchases	-	3,936	-	-	
5	Market Energy Block Purchases	7,414	7,614	10,394	2,981	
6	Operating Reserve	-	5	-	-	
7	Surplus Energy Revenue	-	(614)	-	-	
8						
9	Total	$ 10,637	$ 14,168	$ 13,579	$ 2,943	

4.2 Please provide the rationale for the significant increase in Market and Contracted Producers.

Response:

FBC enters into future energy block purchases to displace BC Hydro PPA purchases. The 2019 Approved expense was based on the contracts entered into as of June 2018; however, these purchases were not yet complete for 2019. Therefore, the 2019 Approved column only includes 85 percent of the final contracted energy block amounts for 2019. Conversely, the 2020 forecast includes substantially all of the 2020 energy blocks and this higher volume, combined with higher market prices in 2020 as compared to 2019, results in a higher 2020 forecast amount for Market and Contracted Producers.

5. Reference: Exhibit B-22, page 10

> **2.3.2 2019 Projected Flow-Through Account**
>
> FBC forecasts a net variance of $4.856 million credit for 2020 in flow-through items. The variance is primarily the result of lower power purchase expense, interest expense and income taxes, offset in part by lower sales revenue and higher depreciation expense. A true-up of $1.121 million credit to the 2018 Projected Flow-through account results in a return to customers of $5.977 million (after tax) in 2020. The 2019 Projected Flow-through and 2018 true-up can be found in Appendix B, Table 1.
>
> Similarly, an adjustment to include the difference between the projected and final actual amounts for 2019 subject to flow-through treatment will be recorded in the deferral account in 2020 and amortized in 2021 rates.

5.1 Please explain why the power purchase expense was lower than forecast.

Response:

Power purchase expense is expected to be $5.043 million lower than forecast mainly due to increased purchases of market energy to displace higher priced BC Hydro PPA purchases. These savings are partially offset by an expected increase in load of 46 GWh. Please see the response to BCOAPO IR 3.183.1 for a table showing the line items.

5.2 Please explain why the interest expense was lower than forecast.

Response:

The primary reason for the lower 2019 FBC interest expense compared to forecast is due to a lower short-term debt interest rate. The approved short-term interest rate in the 2019 FBC compliance filing was 4.12 percent, whereas the current year-end forecast for the 2019 short-term interest rate is 2.70 percent.

The 2019 approved rate of 4.12 percent was developed in mid-2018 using the available economic forecasts at the time, which included assumptions that the Bank of Canada would continue to increase interest rates several times during 2018 and 2019. However, there was only one such rate hike, which contributed to a lower interest rate compared to the approved rate in the 2019 FBC compliance filing.

Additionally, FBC worked diligently with lenders and credit rating agencies to assess the feasibility of, and then develop, a Commercial Paper program that would result in interest savings for customers. Following the success of this initiative, FBC began issuing Commercial

Paper on its operating credit facilities in early 2019, which resulted in interest expense savings for the benefit of customers. Commercial Paper bears a lower interest rate compared to the interest rate on Bankers' Acceptances, which FBC historically used for its short-term borrowings and which was assumed in the forecast interest rate in FBC's 2019 compliance filing.

5.3 Please explain why the income taxes were lower than forecast.

Response:

The primary driver of the lower 2019 FBC income tax expense forecast is higher tax temporary deductions on FBC's capital additions, due to the Capital Cost Allowance (CCA) rules that were enacted by the Federal Government in June 2019. This favourable variance is partially offset by the tax impact of the other cost of service items that receive flow-through treatment as outlined in Appendix B, Table 1 of the 2020 FBC Interim Rate Filing.

5.4 Please explain why the sales revenues were lower than forecast.

Response:

Despite an increase in load over 2019 Approved levels, FBC is projecting lower sales revenue overall due to load decreases in higher revenue generating rate classes. The overall increase in load is mostly attributed to the industrial class, which has a lower rate compared to other rate classes.

5.5 Please explain why depreciation expense was higher than forecast.

Response:

Please refer to the response to BCOAPO IR 3.181.1.