



LETTER L-67-11

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

Log No. 37036

ALANNA GILLIS
ACTING COMMISSION SECRETARY
Commission.Secretary@bcuc.com
web site: <http://www.bcuc.com>

VIA EMAIL

gas.regulatory.affairs@fortisbc.com

August 30, 2011

Ms. Diane Roy
Director, Regulatory Affairs – Gas
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8

Dear Ms. Roy:

Re: FortisBC Energy Inc. and FortisBC Energy (Vancouver Island) Inc.
Compliance Filing of 2010 FEI and FEVI Year End Main Extension
and FEI Vertical Subdivision Reports

On June 1, 2011, FortisBC Energy Inc. (FEI) and FortisBC Energy (Vancouver Island) Inc. (FEVI) (collectively the Companies) filed its 2010 FEI and FEVI Year End Main Extension (MX) and FEI Vertical Subdivision reports (2010 MX Report) under Commission Order G-152-07 and its Decision dated December 6, 2007 (Decision), and Order G-6-08.

The Commission has reviewed the 2010 MX Report and acknowledges the Companies met with Commission staff during the past year to review reporting requirements and expectations in MX reporting. The Commission finds that the 2010 MX Report falls short of compliance reporting requirements and is therefore not accepted for filing. The Companies are required to report on the following as stated on page 37 of the Decision:

“... the Commission Panel directs Terasen to update all Geo-codes and MX test input parameters at the beginning of each year. To determine the appropriate Geo-code for each area, both historical costs and a forecast of future costs will be used. Terasen is to provide the Commission with schedules comparing the existing and updated Geo-codes and MX test input parameters. Given that the 2002 REUS does not include TGVI data, the REUS use per appliance should not be used to estimate TGVI consumption, and the Commission Panel directs Terasen i) to update the consumption estimates in the TGVI MX test to reflect TGVI use per appliance; and ii) to reflect in the Companies’ MX tests their experience of consumption “ramp-up” in the early months of service.

The Commission Panel directs the Companies to file with the Commission on an annual basis, within 90 days of calendar year end, a Main Extension Report including the following:

- a review of a random sampling of MX test results representing a confidence interval of +/-12 percent at a 95 percent confidence level and the five highest cost main extensions to determine if the aggregate PI [profitability index] thresholds need to be adjusted on a go forward basis in order

to achieve the aggregate PI of 1.1. The review is to include a comparison of forecast and actual costs; consumption; and PI for the first five years of main extensions in the sample;

- a concise explanation of the random sampling methodology used ; and
- a comparison of the forecast and actual cost for all service line and main extension installations.”

The Commission acknowledges that the 2010 MX Report is partially in compliance with the Decision. The nature and content of the MX report should provide useful information to the Commission and the Companies in understanding the economic viability of main extensions from the in-service year and its development through its service life. This analysis on performance would provide useful information for the Companies to manage the installed main extensions and also better plan and implement future main extensions. To bring the 2010 MX Report into full compliance with the Decision, the Companies should address the following deficiencies:

1. Pages 22-24 and 27-30 of the 2010 MX Report only provide “forecast main extension PI” and “forecast main extension PI using actual main extension costs, forecast service line and meter costs and forecast consumption.” On page 5 of the 2010 MX Report, the Companies submit that “there is no specification in the Commission Directives or the Commission’s Decision that under the MX Test, “actual” consumption data must be used when determining PI.” The Companies on page 19 of the MX Report further propose that the “appropriate time to provide actual main extension PI values with actual consumption data is at the end of five-year period,” for the following two reasons:
 - “re-forecasting attachment and consumption data for hundreds of main extensions each year would be impractical and create an undue administrative burden;” and
 - “the accuracy of any potential, revised attachment and consumption forecasts would still be variable...”

The Commission wishes to clarify the directive in the Decision regarding comparable reporting. For greater clarity, the Commission directed the Companies to file on an annual basis a Main Extension Report that includes a comparison of forecast and actual costs; forecast and actual consumption; and forecast and actual PI. The directive did not limit the contents of the information to be provided by the Companies. The Commission notes that this directive to report updated costs, consumption, and PI were followed by the Companies when they filed the 2009 MX Report for the 2008 main extensions. However, in the 2010 MX Report the Companies departed from this reporting practice to update all three items. The Commission finds the 2010 MX Report not in compliance with the reporting requirements in Order G-152-07. Additionally, the Commission considers proper PI reporting to be informative information and an ongoing embedded utility cost; not an “undue administrative burden” as stated in the Companies’ 2010 MX Report filing.

2. Consumption results on pages 22-24 and 27-30 of the 2010 MX Report are provided based on different time periods, limiting the ability to compare forecast and actual information. The Commission finds this information not informative. Proper comparisons on an annual basis are to contain information over comparable 12-month periods for each individual reporting year of the main extension. Comparisons of non-comparable periods would defeat the intent of the reporting requirement.
3. The Companies on page 16 of the 2010 MX Report state that they are “diverging from the sampling methodology followed in 2008 and 2009 whereby main extension data was presented specific to the year in question” and that now, by “reporting on the results of all the annual main extensions, the Companies are ensuring the information presented to the Commission is as comprehensive and accurate as possible.” The Commission has not approved a departure from the random sampling

methodology. The Companies have not demonstrated the change in methodology would provide more useful information than a random sampling methodology that includes informative consumption and PI updates which provide helpful ongoing performance information.

4. Consumption ramp-up data is not included on page 13 of the 2010 MX Report. The Companies are required to reflect in the 2010 MX Report “their experience of consumption “ramp-up” in the early months of service” in their MX tests. The Commission expects for the ramp-up period forecasts to be compared with actuals for attachments and for consumption by rate class. The ramp-up information should be reported for main extensions in their first year of completion of installation. This demonstration of the required information would provide a good measurement of actual performance against forecast and also an indication of the lag between completion of the installation and achievement of normal usage patterns. Large differences observed in the ramp-up should be fully explained and development updates should be provided in subsequent reports.
5. The Companies are required to “provide the Commission with schedules comparing the existing and updated Geo-codes” for each appropriate area. Table 6 on page 15 of the 2010 MX Report provides most Geo-code updates as required, except that Vancouver Island has no pricing data for 2010. The Companies explain on page 24 in reference to Table 9: 2010 Top 5 Cost Main Extension that “All FEI and FEVI projects were done with geo code estimates, excluding Rosstown Road.” This statement is not consistent with Table 6 where there is no geo-code for Vancouver Island in 2010.

The Companies are to fully address and remedy the deficiencies in the 2010 MX Report as outlined above.

Additionally, the Commission expects MX performance updates on Sooke MX and Shawnigan Lake MX. The Sooke Project Annual Report dated November 26, 2008 indicated that “forecast additions will be achieved over the next few years.” In the Shawnigan Lake MX Report dated November 2, 2010, FEVI believes that “forecast attachments will be realized over the next few years” and states that future updates are “to be included with the annual main extension report.” The Shawnigan Lake MX Report did not include actual consumption. Subsequently, the 2010 MX Report provides little or no information on an update for these two main extensions. The Commission considers detailed updates of these two main extensions which appear to be unfavourable are important for the Commission to be informed. The Companies should provide meaningful and informative updates, including actual customer attachments and actual use data by rate class, and by each year, that are now available for Sooke MX and Shawnigan Lake MX.

Section 24 of the *Utilities Commission Act* states that the Commission must make examinations and conduct inquiries necessary to keep itself informed. To mitigate the need for information requests, the Commission encourages the Companies to provide more meaningful reporting of performance which the 2010 MX Report is lacking. The MX report should be complete and accurate while meeting the objectives of the Commission. The Companies should provide reasonable updates to all input parameters. Not changing an input cost such as the system improvement cost is unreasonable given expected inflation each year. All updates in costs should be accompanied by an explanation on how it was updated and the methodology employed. The 2010 MX Report should include informative explanations of differences, appropriate considerations specific to each utility, and rate class information that enable the Commission to clearly understand changes, assess performance, and the appropriateness of the MX test. For instance, in Table 3 on page 11 of the MX Report for FEVI, meaningful reporting should clearly explain significant variations in delivery charges from the previous year and discuss whether these revenues will be stable over the forecast time period and appropriate for the MX test time horizon. In addition, the Commission considers provision of supporting appendices that show the detailed and supporting calculations of the updated PI to be valuable information in MX reporting.

Accordingly, the Commission requests the Companies to:

1. Re-file within 45 days of the date of this Letter a fully compliant and informative 2010 MX Report in accordance with Commission Order G-152-07 and its Decision, Order G-6-08, and as clarified in this Letter L-67-11.
2. File within 45 days of the date of this Letter meaningful and informative main extension performance updates on Sooke MX and Shawnigan Lake MX.

Yours truly,

Alanna Gillis

/il