



LETTER L-19-12

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

Log No. 37988, 37036

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

VIA EMAIL

gas.regulatory.affairs@fortisbc.com

March 22, 2012

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 Filings of the 2010 FEI and FEVI Main Extension and
FEI Vertical Subdivision Reports and the Addendum to 2010 Year End Reports

Pursuant to the British Columbia Utilities Commission (Commission) Order G-152-07 and its accompanying decision on the System Extension and Customer Connection Policies Review dated December 6, 2007 (2007 Decision), Terasen Gas Inc. [(TGI) now known as FortisBC Energy Inc. (FEI)] and Terasen Gas (Vancouver Island) Inc. [now known as FortisBC Energy (Vancouver Island) Inc. (FEVI)] (collectively, the Companies) are to file with the Commission on an annual basis, within 90 days of calendar year end, a Main Extension Report. Commission Order G-6-08 dated January 10, 2008, approved the Companies' General Terms and Conditions and directed TGI (as FEI was formerly known) to include in the Main Extension Report the results of TGI's main extension (MX) tests to Vertical Subdivisions.

In accordance with Order G-152-07 and its accompanying 2007 Decision, and Order G-6-08, the Companies filed with the Commission the 2010 FEI and FEVI Year End Main Extension and FEI Vertical Subdivision reports dated June 1, 2011 (2010 MX Report).

The 2010 MX Report was reviewed by the Commission and on August 30, 2011, a Commission Letter L-67-11 was issued to the Companies. The purpose of Letter L-67-11 was to notify the Companies that the 2010 MX Report fell short of compliance requirements and to clarify for the Companies that in order to meet compliance requirements, the Companies should address and remedy deficiencies in five areas. The Letter also contains guidance to the Companies to provide meaningful and informative updates, which would enable understanding as to whether existing customers are adversely affected by MX activities. The Companies were requested to provide performance updates on the Sooke MX and the Shawnigan Lake MX, and to provide meaningful updates to all input parameters in the MX tests.

In response to Letter L-67-11, the Companies filed an Addendum to the 2010 MX Report on October 14, 2011 (Addendum). In the Addendum, the Companies request the use of the entire population versus a random sample because the Companies believe that the entire population methodology will provide more useful and informative information.

The Commission has reviewed the 2010 MX Report and the Addendum and finds that the reports do not comply with the requirements as ordered in Order G-152-07 and its accompanying 2007 Decision, Order G-6-08, and as clarified in Letter L-67-11, and are therefore not accepted for filing. The Commission concludes that the Addendum satisfactorily

addressed one of the five deficiencies identified in Letter L-67-11, namely the FEVI Geo-code. To bring MX reporting into full compliance with the reporting requirements, the Companies still have to fully address and remedy the deficiencies outlined in Letter L-67-11, which would include: (i) cost, consumption, and profitability index (PI); (ii) comparable consumption time periods with a start date and an end date; (iii) sampling methodology; and (iv) consumption “ramp-up” in the early months of service.

For instance, the Commission does not view the Companies’ “revised forecasting approach” to be appropriate. The Companies present the “revised forecasting approach” by using an assumption that unrealized attachments in Year 1 might materialize at some later point in the five year timeframe. The Commission finds that the “revised forecasting approach” is generally a formulaic re-distribution of unrealized attachments in Year 1 to the remaining four years instead of updating the attachment forecast based on a robust prediction methodology of anticipated actual results. The Commission considers that a reasonable forecasting approach should incorporate the knowledge of the current and historical years’ actual information. As further projections are made based on latest available data, the latest projections should converge to the actual results as they become known. A formulaic approach to re-distributing attachments would lead to poor projections if actual results differ from initial customer forecasts.

Additionally, the Commission finds that the Companies have not quantified or clearly explained their experience of consumption ramp-up. The “ramp-up factor” presented by the Companies that reduces Year 1 forecasts by 20 percent to account for ramp-up is not supported by clear explanations, or whether it was in the aggregate or by rate class. The Commission considers that the experience of consumption ramp-up in the early months of service could be demonstrated by providing tables that compare actual performance against original forecasts, such as using the five highest cost main extensions.

The Commission notes that the Companies have not satisfactorily provided meaningful and informative MX performance updates on the Sooke and the Shawnigan Lake MXs as requested in Letter L-67-11. The Companies have not provided updates on actual consumption or use per customer on the Sooke MX. Reporting of attachments and consumption data on the Shawnigan Lake MX appears to be inconsistent throughout the Addendum.

The Commission finds that requested updates to input parameters, such as the System Improvement (SI) charge was not updated, and that significant variations in the 2010 FEVI delivery margin are not clearly explained. The Companies should review and update input costs. The SI charge should be updated each year to reflect changes with an escalation factor. FEVI should discuss whether revenues from delivery charges will be stable over the forecast time period for the five year MX test time horizon and how they are factored into the calculation of the updated PI.

The Companies’ request to use the entire population as a sample is not accepted for this filing. The Companies are to use the random sampling methodology as directed in the 2007 Decision and as clarified in Letter L-67-11, to annually update the consumption and PI.

The Companies should file a fully compliant 2010 MX Report in the next annual MX filing.

Yours truly,

Original signed by:

Alanna Gillis

DC/cms