

FortisBC Inc.
2005 Revenue Requirements Application,
2005-2024 System Development Plan and 2005 Resource Plan

40.0 Reference: Main Application, Volume 1, Tab 8, page 7

Q40.1 When did FortisBC move to centralized distribution system monitoring and control and why?

A40.1 The Company started to centralize certain distribution monitoring and control functions in early 2003 with the establishment of an additional operating position to staff that function for regular working days. For the reason for this decision please see response to BCUC Q 61.1

Q40.2 Do the increased costs due to the move to centralized distribution system monitoring and control represent:

- **A one-time cost or**
- **An ongoing cost requirement.**

Please explain.

A40.2 The increased costs owing to the centralized distribution system monitoring are primarily on-going annual costs for the reasons as explained in the response to BCUC Q61.2

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41.0 Reference: Main Application, Volume 1, Tab 8, page 8

Q41.1 Please provide a breakdown for the years 2002 through 2005 of the Transmission and Distribution Expense into the various categories discussed in the application:

- **Line Maintenance**
- **Vegetation Management**
- **Substation Maintenance.**
- **T&D Rental Charges (broken down between TeckCominco and Brilliant Terminal Station)**

A41.1

	Operating & Maintenance Expense (\$000)							
	1998	1999	2000	2001	2002	2003	2004F	2005F
Line Maintenance	1,856	2,185	1,940	2,299	1,137	836	1,744	2,244
Vegetation Management ¹			1,333	1,741	1,296	1,405	1,687	1,459
Substation Maintenance	1,418	1,527	1,613	1,347	1,781	1,719	1,164	1,440
Rental Charges								
TeckCominco	239	239	239	239	239	239	46	46
Brilliant Terminal Station	0	0	0	0	0	0 ²	3,169	3,272

¹ The direct costs associated with Vegetation Management for 1998 and 1999 are not readily available.

² The Brilliant Terminal Station 2003 expense in the amount of \$1 million was captured in a deferral account and recovered through amortization expense.

For a further explanation of historical costs, please see BCUC 59.0.

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42.0 Reference: Main Application, Volume 1, Tab 8, page 11

Q42.1 Please provide a more detailed breakdown of Customer Service expense for the 4 years shown in Table 8.2.4 (e.g., billing and account management, call centre, collections and key customer management).

A42.1 The categories described in Volume 1, Tab 8, page 11, lines 1-4 represent the types of functions within the Customer Service organization. For a more detailed breakdown, actual and forecasted costs are tracked instead by the following sub-categories within Customer Service:

- Supervision & Administration
- Meter Reading
- Customer Billing
- Credit and Collections
- Customer Assistance
- Energy Management Promotion

Details of the cost breakdowns relating to these categories for 2002 to 2005 can be found in the table below:

OPERATING & MAINTENANCE EXPENSES, 2002 - 2005

	2002	2003	2004 F	2005 F
CUSTOMER SERVICE				
Supervision & Administration	613	445	597	551
Meter Reading	407	899	1,358	1,405
Customer Billing	631	803	384	640
Credit and Collections	1,217	656	1,460	856
Customer Assistance	1,759	857	931	2,147
Energy Management Promotion	84	101	97	-
	<u>4,711</u>	<u>3,761</u>	<u>4,827</u>	<u>5,599</u>

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43.0 Reference: Main Application, Volume 1, Tab 8, page 12

Q43.1 Please outline the reasons for the significant increase in actual Administration and General expense between 2003 and 2004.

A43.1 Tables 8.2.1, 8.2.2, 8.2.3, 8.2.4 and 8.2.5 in Tab 8 of the 2005 Revenue Requirements Application all contain forecast information for the years 2004 and 2005.

The primary reasons for the \$3.5 million increase in administration and general expenses from 2003 to forecast 2004 are as follows:

	<u>(\$000's)</u>
Shared asset lease costs primarily for office space used in Alberta for performing BC functions	950
Trail Office Lease Payments Increase	217
Insurance expense increase	113
Transportation Equipment lease increases to replace aging units.	430
Established In-House Legal Department	245
Established Dedicated Local Management Team	217
Increased Information Technology Support Costs	1,314
Severance Costs charged to General & Admin	1,420
Elimination of many external communication initiatives	(959)
Other Decreases (including vacancies arising from severed employees)	<u>(398)</u>
Total	<u>3,549</u>

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44.0 Reference: Main Application, Volume 1, Tab 8, page 13

Q44.1 Please reconcile the values shown in Table 8.2.6 for capitalized overhead for the years 2002 and 2003 with the actual values reported in G-38-04, Appendix A, page 10.

A44.1 The capitalized overhead amounts shown in Table 8.2.6 are incorrect for 2002 and 2003. The correct values are \$2,195 million and \$2,815 million respectively.

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45.0 Reference: Main Application, Volume 1, Tab 8, page 19-20

Q45.1 Please explain why raising capital on a “stand alone” basis provides FortisBC with access to debt at more reasonable terms given the concerns (page 20, lines 3-5) expressed regarding FortisBC’s financial risks.

A45.1 As described in the response to BCUC IR 1 Q4.0, in the period leading up to the sale of the Company to Fortis, lenders linked the credit of the Company directly with Aquila due to strong concerns about Aquila’s financial viability. At that point, as far as raising debt was concerned, lenders did not view the Company as a stand alone regulated utility. After the sale of the Company to Fortis, lenders are able to assess the Company’s credit on its own stand alone merits. Lenders may still have concerns about FortisBC’s financial risks, but the concerns are now limited to concerns about FortisBC itself and not a distressed parent.

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46.0 Reference: Main Application, Volume 1, Tab 8, page 26

Q46.1 Please indicate where, in Tab 6, the inclusion of AFUDC in the overall value of assets in-service is captured.

A46.1 AFUDC has been allocated to the specific assets and included in the individual plant values shown in Tab 6, where applicable.

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47.0 Reference: Main Application, Volume 1, Tab 8, page 29

Q47.1 Why are there no “final adjustments” 2003 Incentive Payments included in the Application for the items listed in Table 8.4.2?

A47.1 The 2003 incentive was not reproduced in the Application because the final values are those approved in the 2004 Negotiated Settlement Agreement. The timing of the 2004 process permitted Actual results to be presented for approval at that time.

Q47.2 Why is the cost target for Brushing and Substation Maintenance set at \$2.1 M, when the budgeted amount per G-30-04 (page 5) was \$2.15 M?

A47.2 The correct target cost is \$2.15 million. The impact on the preliminary incentive adjustment is \$25,000. The final incentive adjustment will be calculated and reflect actual costs for 2004 and this correction and the target cost will be made at that time.

Q47.3 Please confirm if the difference between the current estimate for 2004 income tax shown in Table 8.4.2 (\$7,981) and the value calculated in Table 8.3.4A (\$7,979) is strictly due to rounding?

A47.3 Yes, the difference is due to rounding.

Q47.4 Since both items have the same major underlying cost driver (e.g., capital expenditures), provide an explanation as to why for 2004:

- **Actual capitalized overheads increased relative to target, while**
- **Actual AFUDC decreased relative to target.**

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A47.4 The primary reason that the actual AFUDC is lower than target is that the actual capital expenditures are lower than the target expenditures. The target AFUDC is not adjusted down for the lower actual expenditures.

There are two primary reasons that the actual Capitalized overhead is higher than target. The first is that the target is reduced by the actual total capital dollars spent. This reduction in target is linear and expressed as a percentage of total capital expenditures.

For example, if the total capital expenditure is down 50 percent the target for capitalized overhead would be reduced by 50 percent. The second reason is that capitalized overheads are not applied on a total dollar spent basis for Transmission and Distribution projects. Rather they are calculated on total direct labour only. Therefore the target and the actual may move at different effective rates.

Please refer to the response to BCUC IR1 Q78.1

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48.0 Reference: Main Application, Volume 1, Tab 8, pages 29-30 and Tab 7.3, page 14

Q48.1 Why is there no 2003 Final Power Purchase Incentive Adjustment?

A48.1 Please refer to the response to BCOAPO IR1 Q47.1 above.

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49.0 Reference: Main Application, Volume 1, Tab 9, page 4 (line 3)

Q49.1 Please provide a schedule reconciling the \$121.6 M in capital expenditures for 2005 reported on this page with the forecast expenditures for 2005 shown in Tab 6, Table 6.2E.

A49.1 The following table provides a reconciliation as requested.

	(\$000's)
2005 Capital Expenditures per Volume 1, Tab 6, pg 7, table 6.2E	124,948
2005 Contributions in Aid of Construction	<u>(4,562)</u>
Net Capital Expenditures	120,386
Add Demand Side Management Expenditures	<u>1,181</u>
Total Net Capital Expenditures (including DSM) per Volume 1, Tab 9, pg 4, line 3	<u><u>121,567</u></u>