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VIA EMAIL

gas.regulatory.affairs@fortisbc.com

September 24, 2012

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

Dear Ms. Roy:

Re: An Application by FortisBC Energy Inc.
for Approval of a Capital Expenditure Schedule and Rate Design and Rates
Established in an Operating and Maintenance Agreement between FortisBC Energy Inc.
and the Strata Corporation of Tsawwassen Springs Development
to Provide Thermal Energy Service

Further to your August 30, 2012 Compliance Filing in the above-noted proceeding, please find enclosed Commission Order G-131-12 approving the revised rate design and rate.

Yours truly,

Erica Hamilton

/elm

Enclosure

cc: Registered Interveners-2012-13 Revenue Requirements
(FEU-2012-13RR-RI)

Registered Interveners-AES Inquiry
(FEI-AES-RI)

Registered Interveners- FEI CPCN Application for Thermal Energy Service to Delta School District 37
(FEI-SD37-TES-RI)

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-131-12**

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by FortisBC Energy Inc.
for Approval of a Capital Expenditure Schedule and Rate Design and Rates
Established in an Operating and Maintenance Agreement between FortisBC Energy Inc.
and the Strata Corporation of Tsawwassen Springs Development
to Provide Thermal Energy Service

BEFORE: D.M. Morton, Commissioner
R.D. Revel, Commissioner

September 24, 2012

O R D E R

WHEREAS:

- A. On March 1, 2012, FortisBC Energy Inc. (FEI) filed an application (Application) with the British Columbia Utilities Commission (Commission) for Approval of a Capital Expenditure Schedule for four Loop Field Systems (LFS) and Rate Design and Rates as established in an Operating and Maintenance Agreement (Service Agreement) between FEI and the Strata Corporation of Tsawwassen Springs Development to provide Thermal Energy Services (TES);
- B. On July 19, 2012, the Commission issued Order G-100-12 (the "Order"), approving the capital expenditures estimated at \$1.184M for the LFS, but denying the approval of the rate design and rates for the project;
- C. In the Order, the Commission directed FEI to file, within 45 days of the Order, a revised rate design and rates, taking into account the following factors as further explained in the Reasons for Decision attached to that Order:
 - a. The use of the existing Thermal Energy Services Deferral Account (TESDA) to record project variances is denied;
 - b. FEI shall propose a just and reasonable allocation of the existing TESDA balance to this project for inclusion in the cost of service for this project for approval by the Commission;
 - c. The use of FEI's 2011 embedded cost of debt rate is denied;

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- d. The proposed return on equity risk premium for this project will be approved only if FEI's shareholders and not ratepayers absorb the risk of project variances;
 - e. FEI is to assign, on an interim basis pending the outcome of the Alternative Energy Solutions (AES) Inquiry, the Tsawwassen Springs project to a regulated affiliate, such as FortisBC Alternative Energy Services Inc. and provide proof of the assignment to the Commission;
 - f. FEI shall propose a reasonable estimate of the cost of this hearing and an allocation of these costs between the Tsawwassen Springs Strata Corporation and the AES program overhead that is recorded and tracked in the TESDA for approval by the Commission;
 - g. FEI shall provide a justifiable estimate for negative salvage value covering the expenditure and propose treatment of these costs;
 - h. FEI is directed to remove any amounts related to the cost of provision of service to date from the TESDA and propose a treatment of those costs that is not unfair and unjust to any existing thermal energy customer, including the Tsawwassen Springs Strata Corporation;
 - i. FEI is directed to provide an explanation or proposal for how the thermal energy provided by FEI can be measured and how the measurements can be communicated to the Strata Corporation.
- D. On August 30, 2012, FEI on behalf of FAES filed responses to each factor listed above and necessary revisions to the rate design and rates. In summary, FEI assigns the Project (the assets and agreements) from FEI to FortisBC Alternative Energy Services Inc. (FAES), and FAES's shareholder will accept the risks of variances in the cost of service from what has been included in the revised financial schedules with the rates remaining the same as per the Application. Specific changes from the Application include:
- a. The TESDA will not be used to record variances in the cost of service for this Project. FAES's shareholder, as opposed to other TES customers or FEI ratepayers, will accept the risks of variances in the cost of service, relative to the revised financial schedules;
 - b. FAES will maintain the annual TESDA allocation described on page 14 of the Application with any variances as a result of a future TESDA allocation application being the responsibility of FAES's shareholder;
 - c. The financial schedules have been updated to reflect a debt rate of 5.01 percent that is consistent with the methodology used in the Delta School District Decision but updated for the most recent benchmark bond yields;
 - d. With FAES's shareholder absorbing the risk of project variances, the return on risk premium of 50 basis points or 10 percent remains as per the Application;

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- e. FEI has assigned the project and related agreements to FAES;
 - f. FAES has allocated \$30 thousand in regulatory costs to this Project and only any costs incurred over and above \$30 thousand will be recorded in the TESDA;
 - g. FAES estimates a negative salvage provision of zero dollars for this project;
 - h. FAES will remove amounts from the TESDA for this Project equalling \$21,600 as foregone revenues and \$75,850 for TES staff time dedicated to this Project;
 - i. FAES does not propose to install a thermal metering system given the cost of the installation but proposes to provide the Strata with an annual report outlining the operating performance of the LFS over the course of the year.
- E. The Commission has reviewed the Compliance Filing and accepts the levelized rate proposed in the Application and updated in the Compliance Filing.

NOW THEREFORE pursuant to sections 59-61 of the Act, the Commission approves for FortisBC Alternative Energy Services Inc. the revised rate design and the rate as proposed in the Application and updated in the Compliance filing.

DATED at the City of Vancouver, in the Province of British Columbia, this 24th day of September 2012.

BY ORDER

Original signed by:

D.M. Morton
Commissioner