



August 27, 2020

FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8

Attention: James Wong
Director, Finance and Planning

Dear Mr. Wong;

Pursuit to your request, I have reviewed the issue of amortization of the losses associated with metering equipment, caused by both normal retirements as associated with the implementation of your Gas AMI program. While the completion of the AMI program will accelerate the level of losses over the short term, the underlying principle is for fairness and providing for a fair opportunity of recovery of the utility's investment. It is my understanding that the balance of historic losses in the Fortis BC Energy Inc. ("FortisBC") accumulated depreciation accounts for meter installation and meter costs are approximately \$73 million as of December 31, 2019, comprised of \$47 million in meter installation costs and \$26 million in meter costs.

The recent FortisBC depreciation study incorporated the use of the Remaining Life in the calculation of the depreciation rates. Consistent with the Remaining Life philosophy, the existing meter losses could be transferred from the accumulated depreciation accounts to a deferral account and amortized over the composite remaining life of the assets remaining in service as of each depreciation date. This would recover the existing losses effectively over the same time period that would have occurred as if there was no Gas AMI project.

In the current circumstances, based on the recently completed depreciation study, this would result in a 8 to 9 year amortization for the balances in the deferral account related to account 478.10 - Meters, and 11 years for Account 474-00, Meter and Regulator Installations -Meters

Except from Schedule 1 of FEI 2017 Depreciation Study (page 5-3)

FortisBC Energy Inc.

SCHEDULE 1. ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DECEMBER 31, 2017
DEPRECIATION RELATED TO RECOVERY OF ORIGINAL COST OF INVESTMENT

Account	Account Description (1)	Survivor Curve (2)	Net Salvage Percent (3)	Original Cost as of Dec. 31, 2017 (4)	Book Depreciation Reserve (5)	Future Accruals (6)	Calculated Annual Accrual Amount (7)	Calculated Annual Accrual Rate (8)	Composite Remaining Life (9)
DISTRIBUTION PLANT									
472.00	Structures	38-R1.5	-	25,234,840	9,193,108	16,041,731	541,556	2.15	28.49
473.00	Services	47-R2	-	1,160,659,173	291,133,465	869,525,709	25,328,595	2.18	34.49
474.00	Meter/Regulator Installations	20-S0/23-SQ	-	188,387,340	82,496,856	105,890,484	14,031,510	7.45	**
474.02	New Meter Installations	22-SQ	-	132,111,279	16,651,984	115,459,295	5,248,150	4.55	19.46
475.00	Systems - Mains	65-R2.5	-	1,427,597,191	476,829,560	950,767,631	19,294,827	1.35	48.47
476.00	NGV Fuel Equipment	7-L0	-	613,588	2,149,456	-	1,535,868	-	4.43
477.10	Measuring and Regulating	33-R2	-	143,051,691	51,810,876	91,240,815	3,592,458	2.51	23.95
477.20	Telemetry	20-R3	-	14,930,538	6,075,041	8,855,497	535,339	3.59	13.34
478.10	Meters	18-R4	-	256,174,679	133,905,431	122,269,248	15,513,812	6.06	8.20
478.20	Instruments	35-R5	-	13,401,830	6,024,709	7,377,121	390,904	2.92	19.01
TOTAL DISTRIBUTION PLANT				3,362,162,148	1,076,270,486	2,285,891,662	84,477,151	2.51	

Note: the composite remaining life for 474-00 ** is estimated by Concentric to be approximately 11 years.

However, given the changes in the metering technology to a digital platform as compared to an analog metering device, use of the new technology remaining life is not consistent with the analog nature of the retired assets. Furthermore, differing amortization periods for the meters versus the meter installation account results in an inconsistency.

My review of alternative amortization approaches focused on the achievement of the previously noted principles; namely fairness to toll-payers and providing for a fair opportunity for the recovery of the invested capital. Additionally, a constant amortization period for both of the metering related accounts will provide for a consistent approach for recovery.

An investment weighted composite remaining life for both metering related accounts provides for an indication of a 9.9-year amortization period. As such based on this continued use of the Remaining life basis, a 10-year amortization of the historically incurred gains/loss is reasonable. I also note that a 10-year amortization of losses incurred due to AMI programs have been based either on a period of 10-years¹, or over the composite remaining life of the metering account.² Based on these two methods, a 10-year amortization for the combined historic losses in the two metering related accounts is reasonable and recommended for FortisBC.

When considering the amortization period that should be used for future losses associated with the retirement of metering equipment, I note that shorter life of the new meters as compared to the historic meters is anticipated due to digital nature of the meters, which, and the introduction of more stringent Measurement Canada sampling requirements. I understand that it is estimated that the completion of the AMI project will result in approximately \$90 million of losses. The equipment being retired over the next few years is of the same technology as the historic retirement of analog equipment. As such, it is reasonable to consider a shorter period for the amortization of any losses related to new metering equipment, in order to achieve consistency with the two previously discussed principles are considered. In other words, it is reasonable that the losses associated with all of the analog equipment be fully amortized by approximately the same date. As such, I recommend that a 5-year amortization period be established for the amortization of losses resulting from retirement activity related to meters as the result of the start of the Gas AMI program. Future

¹ For Example, as approved by the Alberta Utilities Commission for FortisAlberta in AUC Proceeding 1607159

² For example, as approved by the Alberta Utilities Commission for ATCO Gas in AUC Decision 24188-D02-2020

depreciation studies should review this amortization period for consistency to the relevant depreciation principles.

In summary, I recommend that the deferral account related to historic retirements through to December 31, 2019 be amortized over a 10-year period and the losses incurred on the metering accounts retired meter replaced as the result of Gas AMI program be amortized over a 5-year period

If you have any questions on the above recommendations, please contact me for further discussion.

Respectfully submitted,



Larry E Kennedy | Senior Vice President



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