November 9, 2017

VIA E-FILING

BCPIAC
Public Interest Advocacy Centre

Reply to: Leigha Worth
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Ph: 604-687-3034
Our File: 7657

Patrick Wruck
Commission Secretary
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Wruck:

Re: FortisBC Energy Inc. ("FEI")
Annual Review 2018 Delivery Rates ~ Project No.1598919

Please be advised that we continue to represent the following organizations in this regulatory process: the British Columbia Old Age Pensioners' Organization, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and the Tenant Resource and Advisory Centre ("BCOAPO *et al.*" or "BCOAPO"). The constituent groups of BCOAPO *et al.* have represented the interests of FEI's low and fixed income residential ratepayers in the examination and analysis of this and past FEI Performance-Based Ratemaking Schemes as well as their related Annual Reviews.

In Section 1.2 of its Application, FEI summarized the approvals it was seeking. These approvals include:

1. Maintaining the 2018 delivery rates at the approved 2017 levels by holding both the delivery and basic charges at their current levels;
2. The creation of a Biomethane Variance Account (BVA) Rate Rider for 2018 in the amount of $0.026 per gigajoule (GJ) as calculated in Section 10.2.1;
3. Revenue Stabilization Adjustment Mechanism (RSAM) riders for 2018 in the amounts set out in Table 10-11 in Section 10.2.2;
4. The transfer of the ending 2017 balances in the Rate Stabilization Deferral Account (RSDA) Phase-in Rider Balancing Account and Amalgamation Regulatory Account to the Residual Delivery Rate Riders Deferral Account as described in Section 10.2.3; and
5. Approval of the following deferral accounts as described in Sections 7.5 and 12.4:
    a. Creation of a rate base deferral account for the 2020 Revenue Requirement regulatory proceeding with the amortization period to be determined when that application is filed;

b. The creation of a rate base deferral account for the Surrey Operating Agreement regulatory proceeding with a three year amortization period;

6. Approval of the proposed three year amortization period for the existing 2016 Cost of Capital Application Deferral Account, commencing in 2018; and
7. A change in the name of the 2017 Revenue Surplus account to the 2017-2018 Revenue Surplus Account.

In general, BCOAPO does not oppose FEI's application as filed, particularly the FEI proposal to hold 2018 delivery rates at 2017 levels. That does not, however, mean that BCOAPO is without concerns, significant ones, about the current PBR.

Comments

In the October 17, 2017 Annual Review Workshop, there was some discussion of "the 2018 surplus." In particular, on page 9 of the FEI presentation,[1] FEI noted a cumulative surplus of $7.960 Million as between Fiscals 2017 and 2018. Using the data from the slide presentation, it is apparent that there is a projected 2018 deficiency of $24.052 million and 2017 surplus of $32.012 million: the $7.960 Million is the different difference between the two figures. The following table, taken from the data on page 9 of the workshop presentation, summarizes this.

	$ Million
2018 Demand Forecast	(47.318)
2018 Other Revenue	(3.090)
2018 O&M	5.431
2018 Depreciation & Amortization	22.686
2018 Financing and Return on Equity	34.670
2018 Taxes	11.673
2018 Subtotal (Surplus) Deficiency	24.052
2017 Subtotal (Surplus) Deficiency	(32.012)
Net 2017/2018 (Surplus) Deficiency	(7.960)

[1] Exhibit B-10.

The takeaway from this is that the only reason for FEI's ability to cite a surplus is that it is presenting a "cumulative number" that offsets the significant F2018 deficit with F2017's even greater surplus.

During the Workshop, FEI presented ~~a number of~~and sought comment on three possible scenarios to amortize this cumulative surplus~~, seeking comments on the three options presented. These options were on page 10 of the Workshop material.~~, as set out below:

- Option 1: 2018 rates decrease; amortize 2017 Surplus in 2018;
- Option 2: 2018 rates decrease; amortize 2017 Surplus in 2019 and 2020; and
- Option 3: Proposed – No 2018 rate change; amortize 2017/2018 Surplus in 2019 and 2020.[2]

Generally, because residential ratepayers are particularly sensitive to changes in their rates, BCOAPO supports scenarios that avoid rate shock and smooth rates. As such, BCOAPO supports Option 3, which results in a 0.0% increase in rates in 2018, and 2.2%, 2.0%, and 4.4% rate increases in 2019, 2020, and 2021 respectively. However, having said that, BCOAPO notes that the majority of the 2017 surplus had to be used to offset the significant increase in costs in 2018. As such, in our view, it is premature to discuss any potential long term rate smoothing. Instead, it is prudent to wait to address this issue in 2018, when the actual 2018 results are known and the 2019 forecast is available.

As well, BCOAPO submits that the issue of surpluses and deficiencies should be addressed in the context of any proposal to extend the current PBR plan or in the formulation of a new one. The causes of surpluses and deficiencies must be examined and addressed in such a way to limit the true up of variances, and allow customers to have much needed rate certainty and stability. In that vein, BCOAPO will now discuss some suggestions for inclusion in any subsequent PBR plan.

Three of the areas that should be addressed include:

i. Forecast sales and demands.
ii. Forecast capital, and capital outside the dead band.

[2] Exhibit B-10

iii. Prudence of capital expenditures.

As noted on page 9 of the workshop material,[3] ~~,~~ one of the largest variances in 2018 will be the Demand forecast. FEI discussed this on pages 12-18 of the Workshop material, where the Utility compared the Holts Exponential Smoothing (ETS) method to the existing method. On page 14 of the workshop material, FEI ~~provides~~ provided a graph that seems to indicate that the ETS method is superior for commercial UPC, but inferior for Commercial Customer Additions.

While BCOAPO encourages improvements in forecasting, in our view the impacts of and ~~methods~~ methodologies to deal with load and demand variances are better addressed in the context of a full process should Fortis apply for a new PBR. In such a setting, it is possible for customers to more thoroughly explore issues, and possibly provide evidence of alternative methods. The process for the annual rates filing is an abbreviated process that does not facilitate an in depth review of a change in methodology. Further, it is not clear from the evidence that ETS will provide a materially better result.

On page 14 of its Application,[4] ~~,~~ FEI discusses the impact of capital additions that exceed the dead band. This issue is discussed throughout Sections 7 and 10 of the Application. In response to BCOAPO IR 5.2,[5] ~~,~~ FEI indicated why using total capital over the two years is an average variance, and why adding the two years' variance is appropriate. Without agreeing with FEI, BCOAPO submits that this is an example of why it is important to deal with the issue of capital to be included in base rates, and how excess capital should be treated. As this is close to the end of this PBR term, it would obviously not be efficient to reopen and redesign the entire PBR plan. However, any future PBR plan should address how capital is treated, how base capital is determined, and examine alternatives to minimize expenditures outside of the PBR formula, while still maintaining any incentive properties to find efficiencies in capital execution.

At the Workshop, there was ~~also~~ extensive discussion of the SAP integration project, including which Utility benefitted from the integration, FEI or FBC; and whether SAP was the appropriate platform moving forward as compared to a cloud based solution~~, or whether using a cloud based solution was superior~~. Within the limited scope of the PBR Annual Review process, there was little opportunity to test proposed solutions and none to provide intervener evidence that

[3] Exhibit B-10
[4] Exhibit B-2
[5] Exhibit B-4

supports alternative views. As such, BCOAPO submits that in any rebasing review, major capital projects ~~be~~ should be subject to a prudence review to ensure that customers only pay for prudently incurred costs representing the lowest cost alternative to provide safe and reliable utility service over the life of the asset.

Please do not hesitate to contact me should you have any questions.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

BC Public Interest Advocacy Centre

Original on file signed by:

Leigha Worth
Barrister & Solicitor
Executive Director

Kate Feeney
Barrister & Solicitor