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November 16,2017

Via Email
Mr. Patrick Wruck
Commission Secretary and Manager, Regulatory Support
British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Dear Mr. Wruck:

Re: FortisBC Inc. Annual Review of 2018 Rates

In accordance with Order G-116-17, the Industrial Customers Group (ICG) of FortisBC Inc. (FBC) provide Final Submissions in the above noted proceeding.

Introduction

In these Final Submissions, the ICG supports the FBC request for a rate increase of 0.17% effective January 1, 2018. The ICG also supports the FBC recommendation that changes to the capital formula and base capital be considered during the next review of the PBR Plan, assuming FBC decides to seek approval of a new PBR Plan, which the ICG may not support. In addition, the ICG takes no position regarding the creation of deferral accounts and expects the use of deferral accounts to be the subject of a more fulsome review during the review of the next PBR Plan.

Approval of Regulatory Deferral Accounts

In this Application, FortisBC is seeking approval to create five non-rate base deferral accounts for regulatory proceedings. In the 2015 Annual Review Decision (Order G-202-15, dated December 14, 2015, p.10), the Commission said:

> ICG proposed making a change to the handling of external costs for regulatory proceedings representing a significant departure from current practice. While not appropriate to consider their proposal at this time, the Panel is in support of a more fulsome review of deferral account alternatives as appropriate at either the end of this PBR term or at the time of rebasing. This could provide the parties the opportunity to comment on whether certain deferral accounts are necessary, or could be eliminated, or combined and other alternatives to handling items currently deferred.

The ICG believes that the FortisBC approach to regulatory cost deferral accounts should be the subject of a fulsome review of deferral account alternatives as supported by the Commission. In

the meantime, the ICG takes no position with respect to the creation of the five new deferral accounts, four of which are related to current or future regulatory proceedings.

Future PBR Plan Considerations

FBC proposes to include MRS compliance audit costs outside of the formula O&M.[1] FBC justifies this approach because the audit is required every three years. For the purposes of this Application, the ICG does not object to this approach, but at the same time recommends that the Commission not accept FBC's justification for this approach. Many O&M costs are not annual costs, and yet a base level of O&M costs can be established that includes O&M costs that are not annual costs.

FBC considers the capital expenditures in excess of the formula to be a continuing trend. At the same time, FBC recommends no adjustments to the capital formula or to base capital before the next PBR Plan. The ICG supports this recommendation, and agrees that the PBR Plan is a package of interdependent components.[2] However, one of the changes for the next capital formula is the formula be expressed net of CIAC.

FBC claims that it was simply unsustainable to stay within the capital expenditures by simply reprioritizing capital work into future years. [3] This claim by FBC attempts to change the focus of concerns about capital planning and prioritization at FBC to the capital formula, and in the absence of any evidence to support the claim it should not be accepted. The ICG is concerned that the excess capital expenditures are in the long term not in the interests of customers. In particular, the ICG is concerned that costs that have been capitalized are "fixed costs" such as salaries and equipment costs that will continue beyond the need, if any, for such an aggressive capital program.

The ICG submits that the capital formula not be reviewed until the next PBR Plan, assuming there is to be a new PBR Plan, and instead review FBC's capital planning program. The excess capital expenditures call for a review of the FBC capital planning program, not a review of the capital formula. The ICG requests that FBC provide a capital planning program report with the next Annual Review.

All-Inclusive Code of Conduct and Transfer Pricing Policy

FBC and FEI are allocating costs between each other for shared personnel consistent with the requirements of the FEI All-Inclusive Code of Conduct and Transfer Pricing Policy.[4] For the SAP integration project, FBC recommends the number of employees within each company as a fair and reasonable cost allocation. The ICG supports this recommendation.

[1] Exhibit B-3,BCUC 1.1.1
[2] Exhibit B-3, BCUC 1.12.9
[3] Workshop Transcript, p. 48
[4] Exhibit B-3, BCUC 1.4.0

Load Forecast

The ICG accepts FBC's load forecast for 2018.

Power Loss Factor

In the Annual Review for 2017 Decision, the Commission Panel accepted FBC's system loss forecast methodology using a loss rate of 8 percent of gross load before AMI impact.[5] That methodology relies on a loss study completed in 2012.[6] During the Workshop, FBC argued that the loss factor is not material and does not warrant adjustment, but also acknowledged, during the Workshop[7] and in an IR response[8], that it plans to update the projections[9] The ICG submits that the loss factor is material because it has a large impact on customers that take service under Rate Schedule 109.

The ICG submits that the Commission Panel should no longer be willing to accept FBC's system loss forecast methodology, which appeared to be a simple comparison of gross billing against purchases and generation, and contained several errors. Moreover, given the acceptance of FBC's system loss forecast methodology in the last Annual Review Decision, the ICG requests that the Commission now direct FBC to review its system loss methodology and complete and submit a new loss study in the next Annual Review, with a fulsome analysis of the division of transmission system versus distribution system losses.

2018 DSM Expenditures

On page 119 of its Application, FBC states that it intends to file an application for approval of a DSM Expenditure Schedules for 2018 and future years by the first quarter of 2018. The ICG expects to be an active participant in the review of that Application.

Service Quality Indicators

The ICG accepts that the FortisBC performance against service quality indicators should not result in denial of incentives under the PBR Plan.

[5] 2017 Annual Review Decision, Appendix A, p. 26
[6] Exhibit B-8, ICG 1.4.1
[7] Transcript, p. 120
[8] Exhibit B-8,ICG 1.4.1
[9] Ibid.

Conclusion

As the ICG had anticipated in previous submissions, FBC has not yet provided any evidence that savings, if any, have been achieved that also can be attributed to the PBR Plan. FBC does not have any "new" specific initiatives to report that were initiated in 2017 and contributed to O&M savings in 2017.[10]

Yours truly,

(original signed)

Robert Hobbs

[10] Exhibit B-3,BCUC 1.2.1