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November 2, 2016

Via Email
Ms. Laurel Ross
Acting Commission Secretary
British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Dear Ms. Ross:

Re: FortisBC Inc. Annual Review of 2017 Rates

In accordance with Order G-123-16, the Industrial Customers Group (ICG) of FortisBC Inc. (FBC) provide Final Submissions in the above noted proceeding.

Introduction

In these Final Submissions, the ICG objects to the request for acceptance of a capital expenditure schedule for the Ruckles Substation Rebuild Project and the Upper Bonnington Old Units Refurbishment Project. The ICG also objects to the request for Z-factor treatment for the 2017 incremental O&M and capital expenditures related to the MRS program.

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 non-rate base deferral accounts that are the subject of this Application.

Upper Bonnington Old Units Refurbishment Project

The FortisBC justification for the refurbishment and replacement upgrades relies entirely on the negative financial impacts to customers as a result of the loss of entitlements from the Canal Plant Agreement (CPA). FortisBC relies on financial consequences of contractual provisions, which are within the authority of the Commission to change, not the loss of power generation to justify approximately $32 million of capital expenditures.[1] As FortisBC said:

> The Entitlement Parties receive their entitlements irrespective of actual flows to the Entitlement Parties' generating plants.[2]

Moreover, there is no evidence to suggest that the refurbishment and replacement upgrades will provide any benefits to BC Hydro. In fact, FortisBC has not consulted with BC Hydro about the refurbishment and replacement upgrades. The ICG submits that until FortisBC provides evidence of physical benefits adequate to justify the $32 million capital expenditure, which it cannot do, or provides evidence that FortisBC has consulted with BC Hydro as contemplated in the CPCN Guidelines, then the project should not be approved.

The ICG acknowledges that the assessed condition and vintage of the units is relevant to continued operations, but the continued operations of the project cannot justify the capital expenditures. But for the potential loss of entitlement under the CPA, it would be far better to discontinue operations or limit operations to the freshet, than refurbish and replace the units as planned by FortisBC. Given the CPA is within the jurisdiction of the Commission, the Commission should not approve the project unless it has determined that there are power generation benefits to BC Hydro. Simply put, until there is evidence of power generation benefits, the Commission cannot conclude that this project is in the public interest. The benefits could accrue to either BC Hydro or to FortisBC, but in the absence of evidence of adequate physical benefits this project should not be approved. In this proceeding, there is no such evidence.

Mandatory Reliability Standards

In the 2015 PBR Decision at p. 94, the Commission established five criteria for evaluating whether the impact of an event qualifies for exogenous factor treatment. By Order G-202-15, the Commission concluded that costs to comply with BC's MRS program qualify for exogenous factor treatment. The ICG does not believe that costs related to the MRS program continue to meet the criteria established for exogenous factor treatment.

These costs can be forecast and FortisBC should be accountable for variances from approved forecasts. Treating these costs as exogenous factors and not holding FortisBC accountable for variances from approved forecasts is no longer appropriate. In the alternative, these costs should be the subject of a deferral account.

[1] Exhibit B-3, BCUC 32.1.1,32.1.4, and 36.3
[2] Exhibit B-3, BCUC 32.1.4

Ruckles Substation

The estimated cost of the FortisBC Ruckles Rebuild Project ($7.6 million) is $4.1 million higher than the actual cost of the Nelson Hydro Rosemount Substation Rebuild ($3.5 million).[3] FortisBC claims this difference is attributable to differences between the projects, and at the same time acknowledges that the projects have similar characteristics.

The ICG submits that differences need to be more closely examined than has been permitted in this proceeding, and the differences are more likely to be attributable to differences in cost control measures Nelson Hydro as compared to FortisBC. For example, FortisBC had decided to purchase transformers from a North American supplier.[4] FortisBC claims that this is necessary because of North American-based vendors typically provide better support and the transformers are typically of higher quality. Yet both BC Hydro and Nelson Hydro source transformers of this size from off-shore.

The ICG submits that the cost comparison of the Nelson Hydro Rosemount Substation Rebuild and the Ruckles Rebuild provides a glaring example of systemic cost control issues at FortisBC. Before approving the Ruckles Rebuild, the ICG requests that the Commission do a full review of FortisBC construction and design standards, and procurement policies. It is noteworthy that FortisBC relies on its standard substation design practice to use AIS switchgear wherever possible due solely to decreased arc flash risk without consideration of arc flash mitigation measures for lower cost indoor metalclad switchgear.[5]

Such a review should provide evidence relevant to the FortisBC policy to source transformers from North American suppliers. In this proceeding, there is simply inadequate evidence for the Commission to conclude, as is necessary before approving the Ruckles Rebuild project, that the incremental cost of this procurement policy can be justified.

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.

FortisBC Electric Tariff

The ICG believes that an Annual Review should provide an opportunity to raise issues that are of concern to customers. At the Annual Review workshop, there was insufficient time to raise such issues. The ICG now requests the Commission consider such an issue related to metering of demand.

The provision related to metering of demand has been deleted in the FortisBC Electric Tariff, when, prior to 2010, such provisions were included.[6] The BC Hydro Electric Tariff calculates

[3] Exhibit B-13, Undertaking No.1
[4] Ibid., p. 1, second bullett
[5] Ibid. p.2, first bullett
[6] FortisBC Electric Tariff, section 5.4

demand on an average value over a period of not more than 32 minutes.[7] The ICG requests that the Commission direct FortisBC to revise its Electric Tariff terms and conditions to include provisions that once again address the basis for metering of demand and that such terms and conditions be consistent with the BC Hydro methodology for metering of demand.

In making this request, the ICG acknowledges that the scope of this proceeding does not necessarily include consideration of specific charges under tariffs. However, this issue has been raised before with FortisBC and has not yet been the subject of a Commission determination.[8] Nevertheless, FortisBC is charging customers, without approval of the Commission, based on a 15 minute demand window and not a 30 minute demand window.

If FortisBC objects to this request and the Commission concludes that this is not the appropriate proceeding for consideration of this request, then the ICG requests that the Commission direct FortisBC to file an amendment to its Electric Tariff that once again expressly establishes the demand window. In the event that FortisBC does not adopt a 30 minute demand window, then the Commission should establish a process to consider this issue.

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.

Yours truly,

(original signed)

Robert Hobbs

cc Registered Participants

[7] BC Hydro Electric Tariff, page 6, Definitions – Maximum Demand
[8] Stage IV Proceeding, Celgar Reply Submission dated July 10, 2015, para. 35