October 30, 2018

BCPIAC
Public Interest Advocacy Centre

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Our File: 7310.130

VIA E-FILING

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

Dear Mr. Wruck,

Re: FortisBC Energy Inc. - Annual Review for 2019 Delivery Rates

We make the following submissions on behalf of our clients, the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and the Tenant Resource and Advisory Centre, known collectively in this process as "BCOAPO et al." The constituent groups of BCOAPO et al. represent the interests of low and fixed income residential energy consumers within BC and more specifically in this process, the interests of FortisBC Energy Inc.'s ("FEI" or "Fortis") low and fixed income residential ratepayers.

The Application

In Order G-138-14, the BCUC approved the Performance Based Ratemaking ("PBR") Plan for FEI for 2014 through 2019. In compliance with that Order, on August 3rd of this year, FEI filed its materials in support of its position in this Annual Review Application for the fifth and final year of this PBR.

The specific approvals sought in this Application are:

1. Maintain 2019 delivery rates at approved 2018 levels, holding the delivery charge and basic charge at existing levels;

2. The following deferral account approvals as described in Sections 7.5 and 12.4:

- Creation of a rate base deferral account for the 2019-2022 Demand Side Management expenditures regulatory proceeding with a four-year amortization period.
- Amendment of the existing rate base 2017 Long-Term Resource Plan Application deferral account to also capture the regulatory proceeding costs related to the Application, as well as a three-year amortization commencing in 2019.
- A five-year amortization period for the existing 2017 Rate Design Application deferral account, commencing in 2019.
- Creation of a non-rate base deferral account, attracting a weighted average cost of capital (WACC) return, for the development costs related to Transmission Integrity Management Capabilities (TIMC), with disposition to be proposed in a future application.
- Partial amortization of the 2017-2018 Revenue Surplus account in the amount of $3.075 million, which will result in a total 2019 forecasted revenue deficiency/surplus of zero. FEI will provide a similar request in future applications until the balance in the account is drawn-down to zero.

3. A Biomethane Variance Account (BVA) Rate Rider for 2019 in the amount of $0.018 per gigajoule (GJ) as calculated in Section 10.2.1;

4. Revenue Stabilization Adjustment Mechanism (RSAM) riders for 2019 in the amounts set out in Table 10-10 in Section 10.2.2; and

5. The continued debiting of the Midstream Cost Reconciliation Account (MCRA) and crediting of the delivery margin revenue in the amount of $3.6 million for 2019, as described in Section 5.3.2.

6. Z-factor treatment for the 2019 Employer Health Tax and 2018 and 2019 MSP premium reductions, as described in Section 12.2 of the Application.

7. Approval to recognize cloud computing implementation costs to be capitalized consistent with traditional on premise hardware and software for 2019 as described in Section 12.3.1.2.[1]

[1] Exhibit B-2, page 2

On September 26, 2018, FEI filed an evidentiary update dealing with a number of issues, including an update to the Utility's capital expenditures: an important issue given the performance issues with that component of the PBR. Another issue flagged in this update was a "2018 forecast delivery revenue deficiency and a forecast other revenue decrease when compared to forecast delivery revenue and other revenue from FEI's Annual Review for 2018 Rates of $1.301 million and $0.219 million, respectively,"[2] as well as a $0.736 million delivery deficiency resulting from the RDA Decision's impact on customer count and customer demand forecasts for 2019 and $1.330 million reduction in other revenues due to the application of the lower Returned Payment Charge and Application/Connection Charge to the forecast cost drivers for 2019[3].

The Annual Review Workshop took place on October 2, 2018 as scheduled with undertakings filed on October 11, 2018. Then, two days before the original due date for Interveners' Final Arguments, FEI filed a Request to Amend the Delivery Rate, changing its original request to hold delivery rates and basic charges flat for 2019 through the drawing down of the 2017-2018 Revenue Surplus account to a 1.1% increase in delivery rates.

FEI's Amended Rate Proposal

In FEI's September 26, 2018 Evidentiary Update, the Utility provided the following summary of the impacts of the change in its circumstances:

> **Summary of Impacts:**
>
> The combined impact of the items identified above is a 2019 revenue deficiency of $4.444 million or an approximate 0.6 percent rate increase for 2019. This increase combined with the rate increase of 0.5 percent identified in Section 1.4.5 of the Application would result in a rate increase of 1.1 percent in 2019. To avoid this rate increase, FEI proposes to hold 2018 delivery rates at existing levels (before consideration of riders) by amortizing a portion of the 2017 & 2018 Revenue Surplus Deferral account. The impacts of each of the items are set out in Table 3 below.

[2] Exhibit B-2-2, page 1
[3] Exhibit B-2-1, page 2

Then, at the Annual Review Workshop, Ms. Roy said the following in regards to the Utility's rate proposal

> So, we are going to start with the approval sought by FEI that were the focus of our application. The first is a delivery rate freeze for 2019. That means 2019 rates would be held at 2018 levels, which are also the same as 2017 and 2016 levels. And that would be accomplished by drawing down the existing revenue surplus deferral account by the amount of 6.319 million after tax, and that is equal to the revenue deficiency for 2019.
>
> **Proceeding Time 9:08 a.m. T03**
>
> Otherwise, without doing that, we would have a rate increase of 1.1 percent in 2019. [4]

Then, on October 19th, FEI filed a request for Approval of Interim Rates which said the following:

> While FEI requested a rate freeze in its Application, FEI acknowledges that a 1.1 percent delivery rate increase is a potential outcome of the proceeding given the revenue deficit at existing rates and the rate smoothing benefits of implementing a 1.1 percent delivery rate increase as noted in the Evidentiary Update[1], shown in FEI's workshop presentation[2], and discussed at the workshop[3]. Given this potential outcome, with which FEI is amenable, FEI is requesting approval of a 1.1 percent increase in delivery rates, on an interim basis. FEI believes it would be preferable to have an interim rate increase and a potential refund to customers if the BCUC instead approves a rate freeze, rather than an interim rate freeze and then flowing through an increase if the BCUC approves one.
>
> FEI, therefore, hereby requests approval of a 1.1 percent delivery rate increase and to set various delivery rate riders as applied for in the Application, on an interim and refundable basis, with any difference between the interim rates and the permanent rates to be refunded to or collected from customers (with interest at the average prime rate of FEI's principal bank applied to any refundable amounts) pending the BCUC's final decisions on the Application and the DSM Application. Once both decisions are received, FEI will submit a compliance filing to establish permanent rates and to address any difference between interim and permanent rates. [5]

[4] Transcript, pp 6-7
[5] Exhibit B-10, page 2

This was then followed by the October 23rd FEI request to amend its Delivery Rate

> FEI writes to amend its delivery rate request in the Application. Consistent with its interim rate request filed on October 19, 2018, FEI hereby requests approval from the British Columbia Utilities Commission (BCUC) for a permanent 1.1 percent delivery rate increase (exclusive of rate riders), pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA), effective January 1, 2019.
>
> As set out in the Application as amended, FEI is forecasting a $8.679[1] million revenue deficiency at existing rates. FEI's original proposal was to draw down a portion of the 2017-2018 Revenue Surplus account to keep rates at 2018 levels. However, FEI is now proposing to recover the forecast 2019 revenue deficiency by increasing delivery rates by 1.1 percent. Flowing through a 1.1 percent delivery rate increase is preferable due to the rate smoothing benefits, which are shown on slide 11 of FEI's workshop presentation (Exhibit B-8). FEI is expecting an increase in rates in 2020 due to the Lower Mainland Intermediate Pressure System Upgrade (LMIPSU) project coming into service.[2] The combination of flowing through a 1.1 percent delivery rate increase in 2019 and preserving the 2017-2018 Revenue Surplus account balance for rate smoothing should result in overall smoother rates for customers over the next few years. The revised financial schedules are provided in Appendix A.[6]

We note that in a multi-year PBR plan one of the usual advantages is that a revenue sufficiency or deficiency is not normally an issue because there is no cost forecasted and approved against which a sufficiency or deficiency can be calculated and compared. In a PBR, the Utility applies the formula to get rates it seeks to have approved which may then be adjusted in light of the impacts of approved Z-factors, rate riders, and other specified circumstances. This formulaic approach to setting rates is promoted as a regulatory cost-reducing measure vis-a-vis a full cost-of-service revenue requirement proceeding.

Further, BCOAPO notes that FEI originally stated that the approved formulas and forecasts would have resulted, as at August 23rd, in a 0.522% increase in delivery rates: such an increase would not have required much, if any, smoothing. In the instant case, BCOAPO notes the numerous revisions in FEI's delivery rate requests were all made in the relatively truncated period between August 3rd and October 23rd. Our clients and expert consultant are concerned with the number of "late breaking" changes in a short and streamlined PBR proceeding and it begs the questions how the Utility failed to foresee what, from the outside, appear to be foreseeable circumstances until the last minute?

[6] Exhibit B-11, FEI Request to Amend the Delivery Rate

Having said this, BCOAPO does not oppose FEI's October 23rd amendment request given that there will be some amount of rate-smoothing provided for ratepayers under the currently approved plan and its administration. However, given the circumstances and the lateness of FEI's amendment request and the brevity of FEI's submission on that point, we feel it is incumbent upon the Utility to take the opportunity presented by the timing of its final argument to fully explain how, in the course of the events outlined above, it only came to the conclusion that an amendment to its rate application was required at such a late date.

Deferral Account Approvals

As outlined above, in its Application, FEI sought approval of the following asks regarding its deferral accounts:

- Creation of a rate base deferral account for the 2019-2022 Demand Side Management expenditures regulatory proceeding with a four-year amortization period.
- Amendment of the existing rate base 2017 Long-Term Resource Plan Application deferral account to also capture the regulatory proceeding costs related to the Application, as well as a three-year amortization commencing in 2019.
- A five-year amortization period for the existing 2017 Rate Design Application deferral account, commencing in 2019.
- Creation of a non-rate base deferral account, attracting a weighted average cost of capital (WACC) return, for the development costs related to Transmission Integrity Management Capabilities (TIMC), with disposition to be proposed in a future application.
- Partial amortization of the 2017-2018 Revenue Surplus account in the amount of $3.075 million, which will result in a total 2019 forecasted revenue deficiency/surplus of zero. FEI will provide a similar request in future applications until the balance in the account is drawn-down to zero.

However, as previously discussed, FEI is no longer pursuing the last of its deferral account asks so we will not discuss that further in this submission.

BCOAPO has reviewed the evidence on record regarding FEI's request for a new rate base deferral account for its 2019-2022 Demand Side Management expenditures regulatory proceeding with a four year amortization period starting in 2019. At this time, we are satisfied by the evidence on record in this respect and we do not object to the establishment of this deferral account as applied-for.

In addition to its request for a new Deferral Account, FEI also requested approval of an amendment to its Long Term Resource Plan ("LTRP") Rate Base Deferral Account to include costs associated with that regulatory proceeding with a proposal to amortize this increased amount over three years starting in 2019. BCOAPO notes that this expansion does not result in an unexpected or bloated figure being included in this Deferral Account: instead, the cost of this process with this expanded scope is lower than the cost ceiling the BCUC originally approved for the LTRP, making it difficult to affect shock or horror, were our clients so inclined, which, for the record, they are not. The proposed three year amortization period also fails to raise an eyebrow: it appears to be in line with the considerations of what would and would not be a reasonable amortization period for such a process. As a result, BCOAPO has no objection to FEI's proposal to expand the scope of the LTRP costs included in the associated rate base deferral account or the amortization period for that account.

FEI's next proposal is in regard to its deferral accounts was to begin a five year amortization of its existing 2017 Rate Design Application starting in 2019[7]. BCOAPO agrees with FEI's position and reasoning: it is a reasonable amortization period a regulatory proceeding with such a wide reaching scope.

The fourth of FEI's deferral account-related proposals seeks approval of the creation of a non-rate base deferral account, attracting a weighted average cost of capital (WACC)

[7] Exhibit B-2, p. 68

return, for the development costs related to Transmission Integrity Management Capabilities (TIMC), with disposition to be proposed in a future application. This issue is somewhat trickier for BCOAPO than the previous ones because going into the Workshop BCOAPO had concerns about the magnitude of expenditures planned for this project and then as a result for the first two phases of this project where it has not yet been subject to a prudence and necessity examination. However, given the information provided by FEI in its response to BCUC IR 1.21.6, at the Workshop and in response to Ms. Walsh's question about rate impacts if TIMC costs are not included in deferral account and are instead placed in O&M and capital[8], we are prepared to support FEI's application for this new deferral account.

<u>The Biomethane Variance Account ("BVA") & RSAM for 2019</u>

FEI is seeking to set the BVA at $0.018 per gigajoule (GJ) for 2019. In addition to the cost of line items like procuring biomethane supplies, education, marketing, direct and administration, enrollment, and IT upgrades, the BVA includes the upgrading plant cost of service and the interconnection cost of service for projects introduced after Order G-210-13. In 2019 these BVA costs are forecast to be $3.607 on a before tax basis. The biomethane program-related O&M is forecast to be higher in 2018 ($1.928 million) as opposed to what was approved for the year ($1.121 million) but not prohibitively so and approximately half a million was due to the Kelowna upgrader fire remediation cost.[9].

The Revenue Stabilization Adjustment Mechanism (RSAM) captures variances between the delivery margin forecast and actuals for residential and commercial customers and the associated rate rider captures the shortfall or over collection of the RSAM account over the course of two years.[10] FEI is projecting that by the end of 2018, this account will hold a credit of $9.3 M.

[8] Exhibit B-9, Undertaking No. 2
[9] Exhibit B-2, p. 52
[10] Exhibit B-2, page 86

BCOAPO et al. has reviewed the evidence regarding FEI's two rate riders and it does not take issue with what has been presented in this process. As a result, our clients wish to go on the record indicating that they support FEI's application in this regard.

The Midstream Cost Reconciliation Account (MCRA)

BCPIAC supports FEI's proposal to continue the current treatment of midstream costs by debiting the MCRA and crediting the delivery margin by $3.6 million in 2019, especially considering that this specific treatment was part of the Commission approval for 2014 through 2018 (Order G-138-14).[11] BCOAPO sees no reason on the record to deviate from the practice approved for the first four years of this five year PBR, an indeed, there is evidence that this treatment has been beneficial during the PBR term.[12] As a result, our clients support this FEI proposal and recommend that the BCUC accept it as filed.

Z-Factors

BCPIAC supports the request for two Z-factors (per B-2, Section 12-2), one related to the Employer Health Tax ("EHT") and the other to the Medical Services Plan premium reductions. The EHT payroll tax is forecast to cost $3.294 M[13] in 2019, clearly exceeding the $1.140 M threshold for Z-factor treatment. As for the MSP Premium Reduction, it is forecast to generate savings of $1.038 M in both 2018 and 2019[14]. The total for these two years adds up to more than the aforementioned materiality threshold as well.

BCOAPO also accepts that these two circumstances were indeed exogenous and unforeseen in addition to material. As a result, BCPIAC recommends to the Commission that it approve FEI's applied for Z-factor treatments.

[11] Exhibit B-2, Page 47
[12] *Ibid.*
[13] Exhibit B-2, page 54
[14] Exhibit B-2, page 122

BCOAPO's General Comments and Concerns Regarding this PBR

Like many others in this process, BCOAPO has been less than pleased with the performance of this PBR's CapEx Formula. Slide 5 from the Annual Review Workshop shows that in each year, 2014-2018, the actual CapEx exceeded formula substantially, with the exception of year 1 (2014) where the excess was only 3.70%. Looking at Growth CapEx, the excess of actual ($244.961M) over formula ($154.181M) for 2014-2018 cumulatively is $90.780M or 58.88%.

Formula Capital Expenditures

	2014			2015			2016		
	Actual	Formula	Variance	Actual	Formula	Variance	Actual	Formula	Variance
Growth	24.231	21.478	2.753	45.776	28.480	17.296	47.500	33.262	14.238
Other	100.168	98.343	1.825	107.803	110.901	- 3.098	114.641	112.053	2.588
Pension/OPEB	3.915	3.915	-	4.324	4.324	-	4.075	4.075	-
Total	128.314	123.736	4.578	157.903	143.705	14.198	166.216	149.390	16.826
			3.70%			*9.88%*			*11.26%*

	2017			2018			Cumulative		
	Actual	Formula	Variance	Projected	Formula	Variance	Projected	Formula	Variance
Growth	59.542	33.477	26.065	67.912	37.485	30.428	244.961	154.181	90.780
Other	139.416	113.104	26.312	153.460	114.596	38.865	615.488	548.997	66.491
Pension/OPEB	2.663	2.663	-	3.127	3.127	-	18.104	18.104	-
Total	201.621	149.244	52.377	224.499	155.207	69.292	878.553	721.282	157.271
			35.09%			*44.64%*			*21.80%*

It cannot come as a surprise that with variances of these magnitudes, BCOAPO questions the usefulness of the formula at all. We also note that the reason FEI gave at the Workshop for the 2018 CapEX overage relative to what the Utility filed last year was that twofold: (i) fleet and equipment for operating crews; and (ii) the Whistler pipeline IP project.[15] With respect, BCPIAC does not understand why fleet and equipment for crews could not be more accurately forecast just one year out and invites FEI to provide in greater detail that explanation in its Final Argument so all may understand how that specifically contributed to this CapEX variance to that degree and whether FEI has been

[15] Transcript, p. 11

able to identify why it was unable to more accurately forecast the related costs over a one year timeline. This will assist the Commission and Intervenors to understand whether this will again be an issue in future or where it might raise its head again.

Our clients also wish to register their specific support for Mr. Quail's comments on behalf of MoveUP at the Annual Review Workshop regarding any assumption that there might be widespread support for a PBR term after this one[16]. Our clients share MoveUP's healthy skepticism regarding the "superiority of PBR over cost-of service" regulation. That is not to say it is never a good idea, but it is manifestly unclear at this time whether it is realistic to assume there will be any public support for another PBR term immediately after this one ends. BCPIAC suggests that cost-of- service (one year or multi-year) or a modified and much more limited PBR plan that indexes only O&M revenues (with capital spending determined/approved in a mini-hearing) are two alternatives worth considering for the "next generation."

And finally, as we stated in the FEI DSM Expenditures Application, BCOAPO remains concerned that FEI's DSM spending on low-income initiatives is below plan[17]. Workshop Undertaking No. 5 also stated:

> 2018 projected expenditures for the low income program area are below plan due to anticipated lower project completions in the Energy Conservation Assistance Program. This is due to a program delivery vendor transition that occurred during 2018 after the initial delivery vendor entered creditor protection early in the year.
>
> Projected energy savings in the low income program area are driven by Energy Savings Kit delivery volumes that are higher than plan due to strong program participation.[18]

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[16] Transcript, pp. 24-29
[1717] Exhibit B-4, BCSEA IR 1.2.3; Transcript, pp. 102-3
[18] Exhibit B-8

Our clients are hopeful that FEI will see that its Low-Income DSM spending will be brought up to plan in the upcoming year so that Low-Income customers can enjoy the benefits of demand reduction more fully.

Conclusion

As is evident from the above, BCOAPO is supporting FEI's Application although that support is not unqualified. We recommend that the Application be approved as filed but with it on the record that BCOAPO does not accept that this experience was an unmitigated success or that cost of service is somehow not an option going forward simply because FEI has announced its intention to apply for another PBR in the new year.

All of which is respectfully submitted,

BC PUBLIC INTEREST ADVOCACY CENTRE

Original on file signed by

Leigha Worth
Executive Director | General Counsel