

February 10, 2020

VIA E-FILING

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



Reply to: Leigha Worth
ED@bcpiac.org
Ph: 604-687-3034
Our File: 7300.131

Dear Mr. Wruck,

Re: FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) Multi-Year Rate Plan Application for 2020 to 2024 ~ Project No. 1598996 BCOAPO Final Argument

We represent the BC Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and Tenant Resource and Advisory Centre, known collectively in regulatory processes as "BCOAPO et al." ("BCOAPO").

Enclosed please find the BCOAPO's Final Argument with respect to the above-noted matter.

If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,
BC PUBLIC INTEREST ADVOCACY CENTRE

Original on file signed by:

Leigha Worth
Executive Director | General Counsel

Encl.

**BC OLD AGE PENSIONERS' ORGANIZATION, ACTIVE SUPPORT AGAINST POVERTY,
COUNCIL OF SENIOR CITIZENS' ORGANIZATIONS OF BC,
DISABILITY ALLIANCE BC, AND TENANT RESOURCE AND ADVISORY CENTRE
("BCOAPO")**

**FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) Multi-Year Rate Plan
Application for 2020 to 2024 ~ Project No. 1598996**

BCOAPO Final Argument

February 10, 2020

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") and FortisBC Inc.'s ("FBC" or "Fortis") low and fixed income residential ratepayers. As such, our clients' interests are clearly engaged by this application.

THE APPLICATION AND APPROVALS SOUGHT

On March 11, 2019, FortisBC Energy Inc. and FortisBC Inc. ("FortisBC") filed their Application for a Multi-Year Rate Plan ("MRP") from 2020 to 2024 seeking orders pursuant to sections 59 to 61 of the *Utilities Commission Act* ("UCA") including three deferral account proposals and a five year MRP term with terms specified in section 2.2 of Exhibit B-1.

Discrimination in rates

59 (1)A public utility must not make, demand or receive

(a)an unjust, unreasonable, unduly discriminatory or unduly preferential rate for a service provided by it in British Columbia, or

(b)a rate that otherwise contravenes this Act, the regulations, orders of the commission or any other law.

(2)A public utility must not

(a)as to rate or service, subject any person or locality, or a particular description of traffic, to an undue prejudice or disadvantage, or

(b)extend to any person a form of agreement, a rule or a facility or privilege, unless the agreement, rule, facility or privilege is regularly and uniformly extended to all persons under substantially similar circumstances and conditions for service of the same description.

(3)The commission may, by regulation, declare the circumstances and conditions that are substantially similar for the purpose of subsection (2) (b).

(4)It is a question of fact, of which the commission is the sole judge,

(a)whether a rate is unjust or unreasonable,

(b)whether, in any case, there is undue discrimination, preference, prejudice or disadvantage in respect of a rate or service, or

(c)whether a service is offered or provided under substantially similar circumstances and conditions.

(5)In this section, a rate is "unjust" or "unreasonable" if the rate is

(a)more than a fair and reasonable charge for service of the nature and quality provided by the utility,

(b)insufficient to yield a fair and reasonable compensation for the service provided by the utility, or a fair and reasonable return on the appraised value of its property, or

(c)unjust and unreasonable for any other reason.

Setting of rates

60 (1)In setting a rate under this Act

(a)the commission must consider all matters that it considers proper and relevant affecting the rate,

(b)the commission must have due regard to the setting of a rate that

(i)is not unjust or unreasonable within the meaning of section 59,

(ii)provides to the public utility for which the rate is set a fair and reasonable return on any expenditure made by it to reduce energy demands, and

(iii)encourages public utilities to increase efficiency, reduce costs and enhance performance,

(b.1)the commission may use any mechanism, formula or other method of setting the rate that it considers advisable, and may order that the rate derived from such a mechanism, formula or other method is to remain in effect for a specified period, and

(c)if the public utility provides more than one class of service, the commission must

(i)segregate the various kinds of service into distinct classes of service,

(ii)in setting a rate to be charged for the particular service provided, consider each distinct class of service as a self contained unit, and

(iii)set a rate for each unit that it considers to be just and reasonable for that unit, without regard to the rates set for any other unit.

(2)In setting a rate under this Act, the commission may take into account a distinct or special area served by a public utility with a view to ensuring, so far as the commission considers it advisable, that the rate applicable in each area is adequate to yield a fair and reasonable return on the appraised value of the plant or system of the public utility used, or prudently and reasonably acquired, for the purpose of providing the service in that special area.

(3)If the commission takes a special area into account under subsection (2), it must have regard to the special considerations applicable to an area that is sparsely settled or has other distinctive characteristics.

(4)For this section, the commission must exclude from the appraised value of the property of the public utility any franchise, licence, permit or concession obtained or held by the utility from a municipal or other public authority beyond the money, if any, paid to the municipality or public authority as consideration for that franchise, licence, permit or concession, together with necessary and reasonable expenses in procuring the franchise, licence, permit or concession.

Rate schedules to be filed with commission

61 (1)A public utility must file with the commission, under rules the commission specifies and within the time and in the form required by the commission, schedules showing all rates established by it and collected, charged or enforced or to be collected or enforced.

(2)A schedule filed under subsection (1) must not be rescinded or amended without the commission's consent.

(3)The rates in schedules as filed and as amended in accordance with this Act and the regulations are the only lawful, enforceable and collectable rates of the public utility filing them, and no other rate may be collected, charged or enforced.

(4)A public utility may file with the commission a new schedule of rates that the utility considers to be made necessary by a change in the price, over which the utility has no effective control, required to be paid by the public utility for its gas supplies, other energy supplied to it, or expenses and taxes, and the new schedule may be put into effect by the public utility on receiving the approval of the commission.

(5)Within 60 days after the date it approves a new schedule under subsection (4), the commission may,

(a)on complaint of a person whose interests are affected, or

(b)on its own motion,

direct an inquiry into the new schedule of rates having regard to the setting of a rate that is not unjust or unreasonable.

(6)After an inquiry under subsection (5), the commission may

(a)rescind or vary the increase and order a refund or customer credit by the utility of all or part of the money received by way of increase, or

(b)confirm the increase or part of it.

For clarity, BCOAPO has organized its argument to deal with the Performance Based Ratemaking (PBR) structure itself and the Multi Year Plan (MRP)issues specific to each utility separately.

BASE O&M

A. General Comments

BCOAPO submits that it is absolutely essential that the PBR base O&M be set appropriately. For example, if it is set too high, even in the presence of an appropriate (I-X) escalation factor, the resulting rates be too high after escalation.

The utility has a financial incentive – from the point of its owners, the shareholders – to inflate, by an overly generous escalator, overly high base rates throughout the period of the multi-year plan.

There are wonderful financial gains available to be appropriated over the term of a PBR scheme when initial rates are set too high: the errors are magnified through a multi-year scheme in the event of a too-high base being set, with the benefits to the shareholder being amplified by the

compound interest impact of an annual escalation (which may also be set too high) to the detriment of the ratepayer.

For example, if the initial rates were to be set just 2% above the appropriate level for the base of a 5-year PBR, the ultimate rates – under a 2% per year escalation – would be 12.62% above the rates required for full cost recovery (including the equity component) at the end of the plan. This is a win-lose for owners-ratepayers. And the utility proponent has a negative incentive to provide a “fair base.” However, the ratepayers should not pay more than a just and reasonable rate for utility service.

BCOAPO strongly encourages the BCUC to require the proposal to have an audited, results oriented outcome, before any new targeted or other new multi-million-dollar incentive plan proposal is approved, and the utility is allowed to recover the associated costs in its revenue requirement. In other words, the utility’s proposals should have to pass an ex-post analysis that can show conclusively that the costs to ratepayers are more than offset by the benefits to ratepayers before the cost recovery of the programs is allowed in rates by the regulator. Otherwise, the ratepayer will be paying more than the benefits are worth.

B. FBC’s Base O&M

1. FBC Proposal

Under the Proposed MRPs, the amount to be included in rates for the bulk of FortisBC’s O&M expenses will be determined using an O&M per customer amount escalated by inflation¹. The starting point for determining the O&M per customer amount is the 2019 Base O&M, which is the adjusted actual O&M expenditures for 2018 divided by the average number of customers for 2018, escalated by the approved formula inflation factors for 2019. The adjustments to the 2018 actual Base O&M include:

- The removal of \$0.5 M in savings (due to lower bad debt expense) which are considered to be temporary;
- The addition of \$0.338 M to account for the impact of the proposed changes in the allocation of O&M shared services;

¹ As indicated at p. C-49 of the Application, there is no X Factor included in the proposed formula for determining the annual O&M Expense.

- The removal of the cost of FHI and FI services directly charged to FBC in 2018 (\$1.023 M and \$1.615 M respectively).

This 2019 Base Amount is then further adjusted to:

- Include the net impact in 2019 of the new Employer Health Tax and the Medical Services Plan premium reductions (\$0.24 M);
- Include the ongoing costs associated with compliance with Assessment Reports (AR) No. 8 and No. 10 (\$1.54 M);
- Include the costs of manual meter reads for those customers that have opted for an AMI meter that has the wireless transmit function disabled (\$0.18 M) which were previously recorded/recovered via a deferral account;
- Include the savings associated with AMI which were previously tracked outside the Base O&M (\$1.161. M);
- Exclude the cost of BCUC levies which FBC is proposing will be tracked outside the O&M formula (\$0.237 M);
- Include incremental funding to address changes in the operating environment related to: i) stakeholder engagement (\$0.08 M); ii) vegetation management (\$0.075 M); iii) generation dam safety (\$0.232 M); iv) apprenticeship programs (\$0.197 M); v) cyber security (\$0.062 M) and iv) data analytics (\$0.099 M).

Overall, the proposed 2019 Base O&M is \$57.67 M. The details are set out in the following table².

² Exhibit B-1-3.

Table C2-14: FBC 2019 Base O&M¹³

| | |
|---|------------------|
| 2018 actual Base O&M | \$ 53,839 |
| Add temporary savings | 0.500 |
| Shared Services Studies Impact | 0.338 |
| Deduct 2018 actual FHI services direct charged to FBC | (1.023) |
| Deduct 2018 actual FI services direct charged to FBC | (1.615) |
| Adjusted 2018 Base O&M | \$ 52,039 |
| 2019 Inflation | 1.02382 |
| 2019 Base O&M before adjustments | <u>\$ 53,279</u> |
| Adjustments: | |
| Exogenous Factors: | |
| 2019 Z factor (EHT net of MSP) | 0.240 |
| 2019 Z factor - MRS | 1.540 |
| Deferrals: | |
| Manual meter read | 0.180 |
| Flow Through treatment: | |
| AMI Project cost reductions | (1.161) |
| BCUC levies | (0.237) |
| 2019 Normalized Forecast FHI Management Fee | 3.374 |
| FBC Costs included in FHI Corporate Services | (0.308) |
| Total adjustments | <u>3.628</u> |
| New funding for MRP term | <u>\$ 0.763</u> |
| 2019 Base O&M | <u>\$ 57,670</u> |

2. BCOAPO Position

Use of the 2018 actual Base O&M for FBC is a reasonable starting point. BCOAPO notes that FBC's actual 2018 Base O&M (\$53.839 M) is less than the 2018 Formula O&M used to set 2018 rates (\$54.776 M)³.

The following submissions address each of the adjustments FBC is proposing in order to derive the 2019 Base O&M.

Temporary 2018 Bad Debt Savings

FBC's bad debt expense in 2018 was \$471,147 as compared an average of \$1.1 M per annum for the preceding four years⁴. FBC proposes to adjust the Base O&M to reflect the 2014-2018 average of \$1⁵. BCOAPO takes the position that the \$0.5 M adjustment for "temporary savings" related to bad debt expense in 2018 is reasonable.

Shared Services Studies Impact

The Shared Service Study indicates that the impact of adopting the proposed Cost Driver Approach as opposed to the existing Timesheet Approach to allocating the 2018 shared services

³ Exhibit B-1, Application, p. B-33.

⁴ Exhibit B-10, BCUC IR's 1.35.2 and 1.35.4.

⁵ Exhibit B-14, BCUC IR 2.171.8.

costs would increase the allocation to FBC by \$0.338 M⁶. Subject to the BCUC accepting the proposed new methodology for allocating shared services costs, BCOAPO submits that the \$0.338 M adjustment to the 2018 actual Base O&M costs is reasonable.

FHI and FI Charges

Subsequent “adjustments” add the impact of the proposed Corporate Services Cost Allocation. As a result, it is necessary to remove the actual corporate services costs charged to FBC in 2018⁷. BCOAPO has no issues with this adjustment.

2019 Inflator

FBC has used the 2019 inflator (1.02382) approved by the BCUC as result of FBC’s Annual Review for 2019 Rates Application⁸. BCOAPO takes no issues with the value used.

Employer Health Tax/Medical Services Premium

This adjustment to the 2019 Base O&M represents the 2019 adjustments to O&M approved as a result of FBC’s Annual Review for 2019 Rates Application for the new Employer Health Tax (EHT) net of the Medical Services Plan (MSP) premiums reduction. The net increase is \$0.240 M (\$0.576 million EHT less the annual amount of \$0.336 M⁹ for the MSP premiums reduction). BCOAPO has no issues with this adjustment.

Mandatory Reliability Standards (MRS)

This adjustment to the 2019 Base O&M represents the annual incremental cost of complying with MRS that were approved for recovery during the current PBR Plan as exogenous factors (i.e., Assessment Report (AR) No. 8 and AR No. 10). FBC projects that \$0.940 M will be required in 2019 on an ongoing basis along with an additional \$0.600 million for the expected increase in costs beginning in 2020 to maintain compliance with AR 10¹⁰.

According to the response to the BCUC IR 1.35.4¹¹, the \$0.940 M in 2019 represents \$0.540 M in ongoing costs for AR No. 8 plus \$0.400 M in one-time cost for AR No. 10. The ongoing costs for AR No. 10 do not start until 2020, at which time they are forecast to be \$1.0 M. Based on

⁶ Exhibit B-1-1, Appendix D-5, p. 11.

⁷ Exhibit B-10, BCUC IR 1.147.1.

⁸ Exhibit B-2-2, Appendix A, Schedule 3.

⁹ The Application (p. C-45) references an amount of \$0.366 M. However, \$0.336 M is consistent with the 2019 Annual Review Application and reconciles with the net reduction of \$0.240 M.

¹⁰ Exhibit B-1, Application, p. C-45.

¹¹ Exhibit B-10, BCUC IR 1.35.4; Exhibit B-12, BCUC IR’s 2.178.5 & 2.178.6.

FBC's proposal¹², the 2020 O&M costs will be calculated by adjusting the 2019 Base O&M for inflation and for the forecast customer growth. As result, in order for the 2020 O&M to reflect \$1.0 M for the ongoing costs related to AR No. 10, it is necessary to reduce the \$1.0 M by the value of the 2020 inflator (i.e., the combined effect of the inflation and customer growth adjustment). It should be noted that the use of the annual formula inflator is consistent with FBC determination of the adjustment for BCUC Levies where the 2018 costs were escalated by the 2019 formula inflator¹³.

Assuming that inflation is 2% and customer growth is 1% per annum¹⁴, then to yield \$1.0 M in 2020 the AR No. 10 adjustment for 2019 should be \$0.971 M¹⁵ and the total 2019 adjustment for MRS should be \$1.51 M (i.e., \$0.54 M plus \$0.971 M) and not \$1.54 M as proposed by FBC.

Manual Meter Read

Effective January 1, 2020, FBC will eliminate the use of the Radio-off Shortfall deferral account and include the cost of the associated meter reads in O&M expense. FBC estimates this cost to be \$0.180 M which it has included in the 2019 Base O&M. The 2019 revenue from the manual meter read fees is also forecast to be \$0.180 M and will be recorded in Other Revenues¹⁶. BCOAPO has no issues with this proposed adjustment.

AMI Cost Reductions

The AMI project is now complete and FBC proposes that the ongoing savings of \$1.161 million be incorporated into the Base O&M¹⁷. BCOAPO takes no issues with this proposed adjustment.

BCUC Levies

FBC proposes to forecast all of the BCUC levies outside of the O&M formula and to record variances in a deferral account¹⁸. The 2019 adjustment was determined by escalating the actual 2018 levies of \$0.231 M by the 2019 formula inflator¹⁹. BCOAPO has no issues with this adjustment.

2019 FHI Management Fee

¹² Exhibit B-1, Application, p. C-4.

¹³ Exhibit B-10, BCUC IR 1.34.1.

¹⁴ Exhibit B-10, BCUC IR 1.21.1.

¹⁵ \$1.0 M / (1.02x1.01)

¹⁶ Exhibit B-1, Application, p. C-46; Exhibit B-10, BCUC IR 1.37.1; and Exhibit B-14, BCOAPO IR 2.129.1.

¹⁷ Exhibit B-1, Application, p. C-46; Exhibit B-10, BCUC IR's 1.34.5 & 1.38.1.

¹⁸ Exhibit B-1, Application, p. C-46.

¹⁹ Exhibit B-1, Application, p. C-46; Exhibit B-10 BCUC 1.34.1.

This adjustment to the 2019 Base O&M reflects the forecasted FI/FHI corporate services management fee allocated to FBC in 2020 discounted back to 2019 for inflation²⁰.

It is noted that in deriving the \$3.374 M adjustment to the 2019 Base O&M, the 2020 allocated FI/FHI corporate services costs used as the starting point are \$3.439 M²¹. Dividing the two values yields a discount adjustment factor of roughly 1.9% which is roughly equivalent to inflation. However, FBC proposal calls for an annual inflator that includes the impact of both inflation and customer growth²². As noted previously, the combined effect to these two factors is roughly 3%. As result, to yield a value of \$3.439 M in 2020, only \$3.339 M needs to be included in the 2019 Base O&M (not \$3.374 M). BCOAPO submits that the BCUC should direct FBC to reduce the adjustment for the 2019 FI/FHI Management Fee accordingly.

FBC Costs included in FHI Corporate Services

With the implementation of a cost sharing model for 2020, there are certain O&M costs that historically reside in FBC which are now required to be included in the FHI corporate services pool of costs to ensure appropriate sharing. For 2020 this amount is estimated to be \$0.315 M²³. For purposes of determining the adjustment to the 2019 Base O&M this value was discounted by inflation back to 2019²⁴.

As discussed above the discount factor used should reflect FBC's proposed annual inflator which includes both inflation and customer growth. Using 3% as the estimated combined effect of the two would yield an adjustment to the 2019 Base O&M of (\$0.306 M) as opposed to the (\$0.308 M) proposed by FBC. BCOAPO submits that the BCUC should direct that this adjustment be revised accordingly.

New Funding – Customer Engagement

The Application includes additional resources of \$0.200 M for a Digital Advisor and a Communications Writer/Researcher to support customer communications. In addition, the Application includes a further \$0.200 M for a Digital Communications Advisor and costs required to support ongoing changes to and draft additional content for web-based platforms. FBC's share of these costs is \$0.08 M²⁵.

²⁰ Exhibit B-10, BCUC IR 1.147.1.1; Exhibit B-14, BCOAPO IR 2.126.1.

²¹ Exhibit B-14, BCOAPO IR 2.126.1 and BCOAPO IR 2.150.1.3.

²² Exhibit B-1, Application, p. C-4.

²³ Exhibit B-1, Application, Appendix D-5, Table D5-4.

²⁴ Exhibit B-14, BCOAPO IR 2.150.1.4.

²⁵ Exhibit B-1, Application, pages C-32 & C-35-C-36.

In response to interrogatories FBC has explained the need for these additional resources and the basis for the allocation of the costs between FEI and FBC²⁶.

However, it should be noted that as well as requesting additional funding to support customer communications, FBC is also proposing that it receive an incentive payment if customer use in digital channels meets certain annual targets²⁷. Furthermore, these targets are based on digital channel use growing at 1% per annum – roughly equivalent to the historic average growth rate.

Overall, it seems inappropriate for customers to be both i) funding through increased O&M efforts to improve/support the use of digital channels by customers and ii) paying an incentive to FBC when it meets growth targets in the use of digital channels that are based on historic growth rates. One would expect increased use in digital channels to occur as a result of the improvement that the incremental O&M funding will support. BCOAPO submits, that if the BCUC decides to approve the incremental funding, then the Customer Engagement Incentive should either be denied, or the annual targets increased. In the alternative, if the Customer Engagement Incentive is approved as proposed, then the incremental funding for customer engagement should be denied.

New Funding – Tree Management

The incremental funding (\$0.075 M) is to respond to the high number of outages in the Kootenay area resulting from trees falling on the conductor²⁸.

In response to interrogatories, FBC has demonstrated that both the frequency and duration of outages due to tree contacts is materially higher in the Kootenay area than for the system overall, both before and after normalization for major events²⁹. BCOAPO has no issues with this proposed adjustment.

New Funding – Generation Dam Safety

The additional funding of \$0.232 M is for dam safety reviews required by the Dam Safety Regulation and the BC Occupational Health and Safety Regulation³⁰. BCOAPO has no issues with this proposed adjustment.

New Funding – Network Operation Apprentice Program

²⁶ Exhibit B-10, BCUC IR's 1.30.2; 1.31.14 and 1.39.1.

²⁷ Exhibit B-1, Application, p. C-164.

²⁸ Exhibit B-1, Application, p. C-47.

²⁹ Exhibit B-5, BCOAPO IR 1.48.2; Exhibit B-14, BCOAPO IR 2.131.1.

³⁰ Exhibit B-1, Application, p. C-48; Exhibit B-10, BCUC IR 1.39.8.

The incremental funding of \$0.197 M is to hire additional apprentices³¹. However, it is noted that the funding is for the non-labour cost for apprentice development and is composed of annual trade school fees, expenses, personal protective equipment required for the program, tools and recruitment costs. The labour costs for the apprentices are typically charged directly to the activities performed³².

In its final argument FBC states that the funding is to hire four additional apprentices. However, the actual number of additional apprentices associated with the incremental funding does not appear in either the Application or the interrogatory responses referenced by FBC. Furthermore, the additional funding requested (\$0.197 M) is more than the actual amount spent in any year from 2014-2018 or the amount forecast for 2019³³. It is also noted that three additional apprentices³⁴ were added in each of 2017 and 2018 when the respective expenditures were \$0.054 M and \$0.139 M³⁵. Furthermore, the \$0.139 M in spending for 2018 is the highest level of annual spending since 2014 and is the value (adjusted for the 2019 inflator factor) that is already included in the 2019 Base O&M before any adjustments.

Overall, FBC has not sufficiently justified the requested \$0.197 M in incremental funding for apprentices. If \$0.139 M could support the training of six apprentices in 2018³⁶ then the addition of four more should create incremental costs of less than \$0.100 M³⁷. At most, this is the amount that the BCUC should approve for incremental funding in the 2018 Base O&M.

New Funding – Cyber Security

The total incremental cybersecurity for FBC is \$0.080 million, consisting of \$0.018 million for a new shared customer cyber security position with FEI and \$0.062 million for managed tools and services for FBC.³⁸ BCOAPO has no issues with this proposed adjustment.

New Funding – Data Analytics

FBC proposes additional funding (\$0.099 M) for additional staff to increase the use of Data Analytics³⁹. FBC has indicated that some of the related initiatives may improve work and

³¹ Exhibit B-1, Application, p. C-48.

³² Exhibit B-10, BCUC IR 1.39.3.

³³ Exhibit B-10, BCUC IR 1.39.3.

³⁴ Exhibit B-5, BCOAPO IR 1.50.2.

³⁵ Exhibit B-10, BCUC IR 1.39.3.

³⁶ Exhibit B-5, BCOAPO IR 1.50.2.

³⁷ $\$0.139 \text{ M} \times 4 / 6 = \0.093 M

³⁸ Exhibit B-1, Application, pp. C-40 & C-48; Exhibit B-5, BCOAPO IR 1.51.1.

³⁹ Exhibit B-1, Application, pp. C-40 & C-48.

employee efficiency, while others may accomplish different goals such as reducing the duration of customer outages⁴⁰. Overall, BCOAPO has no issues with this proposed adjustment.

C. FEI's Base O&M

One way to look at the efficacy of an MRP for FEI is to look at how the O&M spend changes⁴¹. The "Actual Base 2018 O&M" is \$238.693M⁴².

BCOAPO notes that FEI over-earned in each year of the five years of the previously approved plan by an average of 38 bp above the 8.75% RoE.⁴³ At the same time FEI under-spent on O&M *vis-a-vis* the formula amount in each of the five years of the previous plan for a cumulative total of \$46.350M or 4.02% below the formulaically determined total of \$1,153.995M over 2014-2018.⁴⁴ Accordingly, the formulaic rates, 2014-18 inclusive, that FEI was allowed to charge and that ratepayers had to pay included \$46.350M for O&M above the actual amount that was required by FEI to spend on O&M. This means that over the period 2014-18 inclusive, FEI's pre-tax return on equity was higher by a cumulative amount of \$46.350M than it would have been had the O&M costs – included in rates and paid by ratepayers – been actually spent on O&M.

This example illustrates that FEI has a clear financial incentive to underspend on O&M during a PBR plan, deferring the filling of vacancies, deferring maintenance, etc., during a plan so as to inflate earnings while "catching up" at the start of the next plan by adjusting base rates. O&M under-spending boosts earnings during the plan while ratepayers are paying for more O&M than is actually undertaken during the plan, with ratepayers paying again for the plan's under-spending when O&M is rebased. The indicative delivery rate impact for FEI customers after five years of earning above the formula, and spending on O&M below the formula is a 5.3% increase⁴⁵.

FEI now proposes to increase the 2018 Actual Base O&M of \$238.693M to \$256.685M⁴⁶ for 2019 as Base O&M for the next PBR plan, an increase of \$17.992M or 7.54%. If there were an approved escalator of $(I - X) = (2.0\% - 0.5\%) = 1.5\%$ per year that was applied to the 2018 Actual Base O&M of \$238.693M in 2018, a Base O&M after four years of escalation would be $\$238.693M \times (1.015)^4 = \$253.340M$ or \$3.353M less than FEI is requesting for 2019 Base O&M.

⁴⁰ Exhibit B-5, BCOAPO IR 1.52.1.

⁴¹ Exhibit B-1, Application, p. C-19.

⁴² Exhibit B-1, Application, Table C2-1

⁴³ Exhibit C7-5, BCOAPO Evidence, page 6

⁴⁴ Exhibit C7-5, BCOAPO evidence, page 8

⁴⁵ Exhibit B-1, Application, Table C9-1

⁴⁶ Exhibit B-1, Application, Table C2-1

BCOAPO submits that the requested 2019 Base O&M is excessive and rewards the 2014-2018 O&M under-spending by making ratepayers to pay for O&M twice: once when the utility takes what is embedded in rates and, instead of spending it all on O&M, under-spends and books the rest as pre-tax earnings, then again when the utility asks for more upon rebasing. “Temporary savings” seem to mean savings by deferring part of O&M spending under the plan to the rebasing exercise for the next plan. In BCOAPO’s view, 2019 base should be close to 2018 actual inflated by 2%. Some of the adjustments in the referenced table C2-1 would not be necessary, had the Utility not under-spent in each and every year of the previous plan.

On a related point, BCOAPO notes that not all O&M components are escalated - some are “pass-through” items which seems to refer to components that increase by a greater amount than the escalator would allow. It would be novel if the utility were to remove from escalation those components which are expected to increase by less than what the full escalator would allow, i.e., if the appropriate average measure of cost inflation is X%, then – unless all components increase by exactly X% - some components increase by more than X% while others increase by less than X%.

FEI Incremental Funding Requests for 2019 Base O&M

FEI proposes that after inflating 2018 Actual Base O&M for 2019, an additional \$10.416M be added to 2019 for Base O&M, the incremental being comprised as follows⁴⁷:

- An incremental \$1.360M for “Customer Expectations”;
- An incremental \$3.360M for “Engagement”;
- An incremental \$0.888M for “Indigenous Relations”; and
- An incremental \$4.808M for “System Operation, Integrity, and Security.”

This incremental funding represents a 4.36% increase over 2018 Actual Base O&M of \$238.693M.⁴⁸

Customer Expectations

The Actual Total 2018 FEI spending for Customer Expectations was \$2.276M for “Connect to Gas” and \$0.271M for “In-House Resources” for a total of \$2.547M. FEI is asking that ratepayer funding for these initiatives be increased to \$4.011M in total, for a 57.5% increase over 2018 Actual.

⁴⁷ Exhibit B-1, Table C2-7

⁴⁸ Exhibit B-1, Application, Table C2-1

Because FEI escalates the 2018 actual base O&M to get a 2019 base of \$2.651M, this incremental funding is listed as \$1.360M (i.e., \$4.011M - \$2.651M).

For further perspective, BCOAPO notes that at the beginning of the previous plan, in 2014, the actual spending for Connect to Gas was \$0.977M and \$0.051M for In-House Resources for a total \$1.028M⁴⁹, i.e., 25.6% of the current proposal.

The Connect to Gas incremental funding of \$1.200M (above the escalated 2018 actual) is broken down into⁵⁰:

- Advertising \$0.600M;
- NG Appliance Incentives \$0.350M; and
- Stakeholder Engagement \$0.250M.

In the Application, FEI states⁵¹:

Although FEI has been successful in adding new customers in recent years, the current market environment is becoming increasingly complex with numerous sources of information on energy options, making it challenging for customers to decipher information to make informed choices that meet their needs. For instance, many British Columbians are not using natural gas despite their proximity to the natural gas distribution system. In many cases, they are using alternative fuels such as oil or propane and have expressed a strong desire to become natural gas customers.

In this regard, BCOAPO notes the premises embodied in BCUC IR 1.30.5 - 1.30.6⁵² and BCUC IR 2.174.5⁵³. BCUC IR 1.30.5 asked:

Please explain why, given the successes in customer retention and attachments experienced during the Current PBR Plan with that plan's approved spending envelope, it is not reasonable for FEI to meet its goals during the MRP term with a Base 2019 O&M of \$2.380 million for the Connect to Gas initiative.

⁴⁹ Exhibit B-1, Application, Table C2-8

⁵⁰ Exhibit B-1, Application, Table C2-9

⁵¹ Exhibit B-1, Application, p. C-30

⁵² Exhibit B-10

⁵³ Exhibit B-12

In BCOAPO's view, given the size of the increase requested, previous plan O&M under-spending, and previous plan FEI over-earning, \$2.380M is an appropriate base for this spending component as a base in 2019.

Customer Engagement

In addition to the submissions made above with respect to FBC additional customer engagement costs, BCOAPO adds the following comments related to FEI:

Per Table C2-10⁵⁴:

- FEI spent \$0 on customer engagement from 2014-2016 inclusive;
- FEI's Actual engagement spending in 2018 was \$0.321M;
- FEI proposes a 2019 O&M base of \$0.510M; plus
- FEI proposes incremental funding for 2019 of \$3.360M; for
- Total 2019 Base O&M spending of \$3.870M.

The proposed 2019 base consists of:

- \$2.000M for "Raising Awareness," all of it incremental;
- \$1.400M for "Climate Action Partners," \$1.000M of which is incremental; and
- \$0.470M, for "Other Supporting Resources" of which \$0.360M is incremental. On this component, please see the FBC submissions.

BCOAPO notes that the proposed 2019 base exceeds seven times the actual 2018 spend. However, due to the urgency of the threat posed by Climate Change, BCOAPO does not propose a decrease in the proposal for Climate Action Partners.

In the case of "Raising Awareness," BCOAPO submits that absent any details, incremental spending of almost four times the 2018 total engagement spending is excessive: if any portion is added to the base, BCOAPO suggests a figure of \$0.500M would be more appropriate.

Indigenous Relations

BCOAPO supports FEI's proposal of \$0.888M for this activity.

⁵⁴ Exhibit B-1, Application

System Operation, Integrity, and Security

Per Table C2-13⁵⁵:

- Total 2014 spending was \$50.686M;
- 2018 Actual spending was \$70.882M;
- FEI proposes to escalate the 2018 spend as a base for 2019 of \$73.992M;
- FEI proposes further 2019 incremental base spending of \$4.808M; resulting in
- Base O&M for 2019 of \$78.800M.

BCOAPO places a high value on maintaining operational integrity and security. In this regard, BCOAPO notes in its evidence that over the previous plan's term, FEI under-spent on O&M by \$46M: had FEI underspent on O&M during the previous plan by "only" \$41M, there might need to be no request for 2019 incremental spending.

BCOAPO submits that this example of core utility management bears testament to the financial incentive for a utility to under-spend when it can get away with it during a PBR plan to increase RoE, and to make up for the under-spending from ratepayers with increased incremental requests upon rebasing.

FBC's CAPITAL EXPENDITURES

1. General Principles

1.1. FBC Proposal

FBC's capital expenditures fall under two main categories: Regular capital and Major Project capital expenditures. Regular capital expenditures include Growth, Sustainment and Other capital. Major Projects are capital expenditures that do not form part of Regular capital spending as they are approved through a separate process, usually CPCN applications.

The BCUC's 2014 PBR Decision approved a capital formula based on 2013 approved capital expenditures, subject to certain adjustments for inflation and customer for establishing capital spending during the PBR period excluding major non-recurring projects. In contrast, FBC is currently seeking approval of the level of Growth, Sustainment and Other Regular capital

⁵⁵ Exhibit B-1, Application.

expenditures to be incorporated in rates over the 5-year term of the Proposed MRP⁵⁶. However, FBC also proposes to review its forecast in its Annual Review for 2022 rates and, should it be deemed necessary, file an updated forecast of the 2023-2024 expenditures in 2022 to account for any material changes to the forecast that occur over that time period and ask for approval of the changes⁵⁷. Factors that may result in the need to file an updated capital expenditure forecast for 2023-2024 include load growth, asset condition, third party driven work and changes in cost of a Major Project such that a CPCN is no longer required⁵⁸.

The following table sets out FBC's actual capital spending for 2014-2018 and the projected 2019 spending at the time of the Application and compares it to the forecast capital spending for the MRP period⁵⁹.

| | Current PBR | | | | | | Proposed MRP | | | | |
|---|-------------|---------|---------|----------|----------|---------|--------------|----------|----------|----------|----------|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019P | 2020 | 2021 | 2022 | 2023 | 2024 |
| Growth Capital | | | | | | | | | | | |
| Transmission Growth | 377 | 4,224 | 62 | 2,939 | 945 | 833 | 5,172 | 2,063 | 2,740 | 5,195 | 1,088 |
| Distribution Growth | 3,027 | 1,105 | 500 | 1,795 | 1,153 | 747 | 3,718 | 1,878 | 1,807 | 1,899 | 1,921 |
| New Connects | 15,416 | 15,938 | 14,895 | 17,599 | 21,906 | 15,939 | 18,141 | 19,104 | 19,792 | 19,188 | 20,163 |
| CIAC | (7,618) | (6,562) | (6,840) | (12,143) | (11,960) | (7,862) | (9,831) | (10,205) | (10,421) | (10,218) | (10,771) |
| Subtotal, Growth Capital | 11,203 | 14,705 | 8,616 | 10,190 | 12,043 | 9,657 | 17,198 | 12,837 | 13,918 | 16,065 | 12,399 |
| Sustainment Capital | | | | | | | | | | | |
| Generation | 5,728 | 2,262 | 2,105 | 3,310 | 3,637 | 3,476 | 6,697 | 6,766 | 6,309 | 7,008 | 6,514 |
| Transmission Sustainment | 12,540 | 6,416 | 4,973 | 4,266 | 4,749 | 5,321 | 8,353 | 6,387 | 5,698 | 7,951 | 7,591 |
| Stations Sustainment | 10,722 | 4,093 | 2,804 | 5,072 | 4,434 | 5,238 | 13,538 | 13,624 | 5,279 | 3,793 | 15,971 |
| Distribution Sustainment | 18,089 | 13,290 | 14,202 | 15,320 | 14,004 | 14,835 | 20,337 | 20,338 | 19,542 | 19,990 | 20,353 |
| Telecommunications | 1,498 | 1,241 | 1,562 | 1,399 | 1,793 | 4,357 | 1,818 | 2,993 | 6,280 | 5,915 | 3,472 |
| CIAC | (1,349) | (493) | (1,595) | (389) | (1,501) | (1,011) | (1,278) | (1,260) | (1,293) | (1,253) | (1,354) |
| Subtotal, Sustainment Capital | 47,228 | 26,808 | 24,050 | 28,978 | 27,115 | 32,216 | 49,467 | 48,838 | 41,817 | 43,404 | 52,547 |
| Other Capital | | | | | | | | | | | |
| Equipment | 1,744 | 2,132 | 2,536 | 2,636 | 3,099 | 2,638 | 3,407 | 3,338 | 3,274 | 3,681 | 3,388 |
| Facilities | 1,233 | 859 | 1,703 | 2,267 | 1,666 | 2,000 | 3,264 | 2,346 | 2,346 | 2,346 | 2,346 |
| Information Systems | 5,116 | 5,192 | 5,067 | 8,980 | 7,177 | 10,587 | 9,081 | 9,028 | 9,136 | 9,254 | 9,400 |
| Subtotal, Other Capital | 8,093 | 8,183 | 9,307 | 13,882 | 11,942 | 15,225 | 15,752 | 14,712 | 14,756 | 15,281 | 15,134 |
| Major Projects | | | | | | | | | | | |
| Advanced Metering Infrastructure | 13,547 | 23,773 | 3,594 | 613 | - | - | - | - | - | - | - |
| Kootenay Operations Centre | 800 | (23) | 7,166 | 9,550 | 466 | - | - | - | - | - | - |
| UBO Old Units Refurbishment | - | - | - | 8,017 | 8,249 | 7,435 | 5,466 | 356 | - | - | - |
| Ruckles Substation Rebuild | - | - | - | 3,645 | 2,179 | - | - | - | - | - | - |
| Corra Linn Spillway Gate Replacement | - | - | - | 3,799 | 12,261 | 18,934 | 11,107 | 8,740 | 501 | - | - |
| Grand Forks Terminal Transformer Addition | - | - | - | - | - | 1,793 | 4,970 | 1,349 | - | - | - |
| Kelowna Bulk Transformer Addition | - | - | - | - | - | - | 5,556 | 7,250 | 6,633 | - | - |
| Subtotal, Major Projects | 14,349 | 23,750 | 10,758 | 25,625 | 23,155 | 28,162 | 27,098 | 17,695 | 7,135 | - | - |
| Total Capital Expenditures | 80,872 | 73,447 | 52,732 | 78,675 | 74,255 | 85,260 | 109,515 | 94,083 | 77,625 | 74,749 | 80,079 |
| Term Total | | | | 446,241 | | | | | 438,053 | | |

FortisBC is not proposing a true-up of rate base for actual regular capital spending over the term of the MRP. The approved forecast of capital will be embedded in rates over the term of the MRP with no adjustment for actuals until after the end of the term⁶⁰. Any positive or negative ROE

⁵⁶ Exhibit B-5, BCOAPO IR 1.61.1.

⁵⁷ Exhibit B-1, Application, p C-80.

⁵⁸ Exhibit B-10, BCUC IR 1.51.5.

⁵⁹ Exhibit B-12, BCUC IR 2.180.2.

⁶⁰ Exhibit B-10, BCUC IR 1.64.2; Exhibit B-12, BCUC IR 2.166.9.

impact of the variance between forecast and actual capital spending on costs incurred will be shared 50/50 with ratepayers⁶¹.

FortisBC is proposing that the approved CPCN threshold of \$20 M continue for the proposed MRP term⁶². The treatment for Major Projects will be the same under the proposed MRP as in the Current PBR Plan⁶³.

The Application⁶⁴ identifies four Major projects that are anticipated to come into service during the MRP. Two of the projects (Upper Bonnington Old Units Refurbishment and Corra Linn Spillway Gate Replacement Project) had already been approved⁶⁵ by the BCUC at the time the Application. A third project (Grand Forks Terminal Station Reliability Project) was in the process of being reviewed by the BCUC at the time of the Application but was subsequently approved in July 2019⁶⁶. The CPCN for the fourth one (Kelowna Bulk Transformer Addition) while expected in 2019 is still to be filed. FBC has acknowledged that it has identified, and is investigating, other projects that may be brought forward during the MRP term⁶⁷.

1.2 BCOAPO Submissions

During the current (2014-2019) PBR period actual capital expenditures exceeded the “formula” by approximately 19%⁶⁸. Appendix B-8 of the Application discusses the reasons for variance which were largely attributable to system improvements to accommodate growth (\$20.9 M) and newly identified sustainment capital work (\$19.4 M)⁶⁹.

Table B2-6: FBC Capital Expenditures Variances 2014 to 2019 (\$ millions)

| Year | Capital Expenditures | | | % variance to formula |
|--------------|----------------------|----------------|-----------------|-----------------------|
| | Actual | Formula | Variance | |
| 2014 | 42.665 | 42.193 | (0.472) | 1.1% |
| 2015 | 44.791 | 42.384 | (2.408) | 5.7% |
| 2016 | 45.838 | 42.874 | (2.964) | 6.9% |
| 2017 | 59.053 | 43.254 | (15.799) | 36.5% |
| 2018 | 60.187 | 43.818 | (16.369) | 37.4% |
| 2019P | 56.500 | 44.862 | (11.638) | 25.9% |
| Total | 309.034 | 259.385 | (49.649) | 19.1% |

⁶¹ Exhibit B-10, BCUC IR 1.64.1.

⁶² Exhibit B-10, BCUC IR 1.50.1.

⁶³ Exhibit B-9, MoveUp IR 1.9.1.

⁶⁴ Exhibit B-1, Application, pp. C-107 – C-108.

⁶⁵ Exhibit B-1, Application, p. C-107.

⁶⁶ Decision and Order C-2-19

⁶⁷ Exhibit B-10, BCUC IR 1.60.4.

⁶⁸ Exhibit B-1, Application, p. B-37.

⁶⁹ Exhibit B-10, BCUC IR 1.10.4.

Given the variances between the actual and formula capital spending that arose during the previous PBR period the change in approach regarding the treatment of Regular capital spending is reasonable.

The capital forecast is developed largely on a “bottom-up” basis based on known requirements⁷⁰. Since the further out one looks the more uncertain future capital spending requirements will be, FBC’s proposal to revisit the F2023-F2024 spending requirements during the MRP period is also reasonable.

BCUC Order G-120-15 states:

“The Certificate of Public Convenience and Necessity (CPCN) dollar threshold will be maintained at \$20 million dollars for FBC and increased from \$5 to \$15 million dollars for FEI. However, the Commission may require a CPCN review for projects below this threshold if it finds that pursuant to section 45 of the Utilities Commission Act it is in the public interest to do so”.

While FBC notes⁷¹ that none of Regular Capital projects included in the forecast have significant public interest issues but that if, in FBC’s view, a potential public interest issue were to arise, the FBC would identify the issue so that the BCUC could make a determination on the need for a CPCN application.

BCOAPO submits that other parties should also have the ability to identify, for the BCUC’s consideration, projects that they consider warrant a CPCN application base on public interest issues. In order to do so, parties participating in the Annual Review process should be able explore with FBC whether or not issues of public interest have emerged regarding its capital spending plans and make submissions where warranted.

With respect to there being no “true-up” to the capital spending forecast during the MRP period, it is noted that FBC’s proposal also calls for customers’ rates to be adjusted either up or down for the cost of service impacts of O&M and capital costs caused by exogenous factors that are beyond the control of the Companies⁷². What is not clear is whether the deferral/cancellation of a significant capital project included in the current forecast would fall into this category if the change was due to circumstances beyond FBC’s control (e.g., change in load growth), particularly if it led to a reduction in overall capital spending. This issue is further complicated by FBC’s

⁷⁰ Exhibit B-17, ICG IR 2.17.3; Exhibit B-12, BCUC IR 2.196.4.

⁷¹ Exhibit B-14, BCOAPO IR 2.135.1.

⁷² Exhibit B-1, Application, p. C-115.

proposal to eliminate the materiality threshold associated with exogenous factors. Therefore, BCOAPO asks the BCUC to allow parties to explore such issues as part of the Annual Review process.

2. Regular Growth Capital

2.1. FBC Proposal

Growth capital expenditures in 2020-2024 are forecast to be higher on average than those in 2017-2019⁷³.

Table C3-22: FBC Growth Capital Expenditures 2020-2024 (\$000s)

| | Average 2017-2019P | 2020 | 2021 | 2022 | 2023 | 2024 |
|---------------------|-----------------------|------------------|------------------|------------------|------------------|------------------|
| Transmission Growth | \$ 1,572 | \$ 5,172 | \$ 2,063 | \$ 2,740 | \$ 5,195 | \$ 1,086 |
| Distribution Growth | 1,232 | 3,716 | 1,876 | 1,807 | 1,899 | 1,921 |
| New Connects | 18,481 | 18,141 | 19,104 | 19,792 | 19,188 | 20,163 |
| Total | \$ 21,285 | \$ 27,029 | \$ 23,042 | \$ 24,339 | \$ 26,283 | \$ 23,170 |

Transmission Growth spending consists of a number of specific projects.

Table C3-23: FBC Transmission Growth Capital Expenditures 2020-2024 (\$000s)

| | Average 2017-2019P | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------------------------|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Sexsmith 2nd Transformer Addition | \$ 278 | \$ 4,633 | \$ - | \$ - | \$ - | \$ - |
| Summerland Transformer Replacement | n/a | 539 | 2,063 | - | - | - |
| Beaver Park Substation Upgrade | n/a | - | - | 2,740 | 5,195 | - |
| DG Bell 2nd Transformer Addition | n/a | - | - | - | - | 1,086 |
| Other Transmission Growth | 1,295 | - | - | - | - | - |
| Total | \$ 1,572 | \$ 5,172 | \$ 2,063 | \$ 2,740 | \$ 5,195 | \$ 1,086 |

Distribution Growth spending consists of two ongoing programs plus one discrete project⁷⁴.

Table C3-24: FBC Distribution Growth Capital Expenditures 2020-2024 (\$000s)

| | Average 2017-2019P | 2020 | 2021 | 2022 | 2023 | 2024 |
|---------------------------|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Small Growth Projects | \$ 419 | \$ 1,040 | \$ 1,070 | \$ 1,102 | \$ 1,122 | \$ 1,137 |
| Unplanned Growth Projects | 813 | 707 | 805 | 704 | 777 | 784 |
| DG Bell Feeder 4 Addition | n/a | 1,970 | - | - | - | - |
| Total | \$ 1,232 | \$ 3,716 | \$ 1,876 | \$ 1,807 | \$ 1,899 | \$ 1,921 |

Finally, New Connects includes the installation of new electric services and are based on historical expenditures adjusted for anomalous years and inflation⁷⁵.

2.2. BCOAPO Position

⁷³ Exhibit B-1, Application, p. C-82.

⁷⁴ Exhibit B-1, Application, p. C-83.

⁷⁵ Exhibit B-1, Application, p. C-85.

Transmission

With respect to the Transmission Growth capital spending forecast, all of the four Transmission Growth projects were identified in the 2012 Integrated System Plan⁷⁶. In response to information requests, FBC has provided details regarding the alternatives considered and the rationale for the adopted alternative for three out of the four projects⁷⁷. For these three projects it is reasonable to include their capital spending as forecast.

However, the scope definition of the Summerland Transformer Replacement is currently on hold pending a decision from the District of Summerland regarding potential future voltage conversion. The result is that a detailed definition of the project and analysis of alternative is yet to be completed⁷⁸.

BCOAPO submits that given the status of the Summerland Transformer Replacement project and the materiality of the spending involved (>\$2 M), the scope and proposed spending for this project should be reviewed as part of the Annual Review process prior to being incorporated in rates.

Distribution

In response to information requests⁷⁹, FBC has explained that the Small Growth Project spending in the Current PBR Plan term were reduced from 2015 to 2019 for the projects that were determined to be flexible and the funds reallocated to other programs or projects based on re-prioritization. Forecast expenditures for the 2020 to 2024 period are due to significant load growth in recent years and upgrades that are required to ensure continuing acceptable standards of service.

FBC has also explained that the forecast spending for Unplanned Projects is based on historical expenditures⁸⁰ and provided rationale for the DG Bell Feeder Addition⁸¹.

BCOAPO submits, that overall, the Distribution Spending forecast is reasonable for purposes of the MRP.

New Connects

⁷⁶ Exhibit B-5, BCOPA IR 1.62.1.

⁷⁷ Exhibit B-5, BCOAPO IR 1.62.1.

⁷⁸ Exhibit B-5, BCOAPO IR 1.62.2.

⁷⁹ Exhibit B-5, BCOAPO IR 1.63.2; Exhibit B-14, BCOAPO IR 2.137.1.

⁸⁰ Exhibit B-1, Application, p. C-83.

⁸¹ Exhibit B-5, BCOAPO IR 1.63.3.

BCOAPO agrees that FBC approach to forecasting the spending on New Connects based on an historical rolling average adjusted for anomalous years and inflation is reasonable for purposes of the MRP.

3. Regular Sustainment Capital

3.1 FBC Proposal

FBC's Sustainment Capital Spending is forecast to be higher than that in recent years⁸².

Table C3-25: FBC Sustainment Capital Expenditures 2020-2024 (\$000s)

| | Average | | | | | | |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|--|
| | 2017-2019P | 2020 | 2021 | 2022 | 2023 | 2024 | |
| Generation | \$ 3,475 | \$ 6,697 | \$ 6,766 | \$ 6,309 | \$ 7,008 | \$ 6,514 | |
| Transmission Sustainment | 4,778 | 8,353 | 6,387 | 5,698 | 7,951 | 7,591 | |
| Stations Sustainment | 4,915 | 13,538 | 13,624 | 5,279 | 3,793 | 15,971 | |
| Distribution Sustainment | 17,952 | 20,337 | 20,338 | 19,542 | 19,990 | 20,353 | |
| Telecommunications | 2,516 | 1,818 | 2,983 | 6,280 | 5,915 | 3,472 | |
| Total | \$ 33,636 | \$ 50,743 | \$ 50,098 | \$ 43,110 | \$ 44,657 | \$ 53,901 | |

3.2 BCOAPO Position

Generation

Generation Sustainment capital spending consists of four capital program areas⁸³:

Table C3-26: FBC Generation Capital Expenditures 2020-2024 (\$000s)

| | Average | | | | | | |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--|
| | 2017-2019P | 2020 | 2021 | 2022 | 2023 | 2024 | |
| Hydraulic Dam Structures | \$ 1,329 | \$ 4,130 | \$ 3,726 | \$ 2,206 | \$ 1,955 | \$ 2,730 | |
| Generating Equipment | 616 | 1,058 | 1,207 | 2,148 | 3,277 | 866 | |
| Generation Auxiliary Equipment | 876 | 955 | 1,033 | 809 | 809 | 823 | |
| Buildings and Structures | 653 | 554 | 800 | 1,146 | 966 | 2,095 | |
| Total | \$ 3,475 | \$ 6,697 | \$ 6,766 | \$ 6,309 | \$ 7,008 | \$ 6,514 | |

Spending on Generation Sustainment is driven by: i) the need to comply with Dam Safety and Occupational Health and Safety regulations and ii) the need to rectify age-related condition issues⁸⁴. In the Application and in response to information requests FBC has described the major projects it plans to undertake and, where requested, provided asset condition reports⁸⁵. BCOAPO has identified no issues with the proposed spending in this area.

Transmission Sustainment

⁸² Exhibit B-1, Application, p. C-84.

⁸³ Exhibit B-1, Application, p. C-85.

⁸⁴ Exhibit B-1, Application, pp. C-85-C-86.

⁸⁵ Exhibit B-5, BCOAPO IR's 1.66.2.1; 1.66.3.2; 1.66.4.2 and 1.66.5.

Transmission Sustainment expenditures address the condition and integrity of FBC's transmission line facilities and consist of spending in four program areas⁸⁶.

Table C3-31: FBC Transmission Sustainment Capital Expenditures Forecast 2020-2024 (\$000s)

| | Average | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2017-2019P | 2020 | 2021 | 2022 | 2023 | 2024 |
| Transmission Line Condition Assessment | \$ 553 | \$ 740 | \$ 426 | \$ 632 | \$ 502 | \$ 594 |
| Transmission Line Rehabilitation | 3,186 | 6,013 | 4,332 | 3,354 | 5,819 | 5,290 |
| Transmission Urgent Repairs | 573 | 501 | 525 | 591 | 502 | 570 |
| Transmission Rights of Way | 466 | 1,099 | 1,104 | 1,121 | 1,128 | 1,136 |
| Total | \$ 4,778 | \$ 8,353 | \$ 6,387 | \$ 5,698 | \$ 7,951 | \$ 7,591 |

Annual spending on Transmission Line Rehabilitation (the largest capital program) is determined each year based on the transmission line condition assessment completed in the previous year. Transmission Line Rehabilitation costs are forecast by region, based on the number of poles in the prior year's condition assessment program and the inflation-adjusted historical unit cost of rehabilitation⁸⁷. Spending during the MRP period also includes additional funds for rehabilitation of 30 Line between the South Slocan and Coffee Creek Substations identified in the 2018 condition assessment⁸⁸ and for the replacement of insulators⁸⁹.

The Transmission Right of Way program acquires rights of way and easements for existing transmission facilities that are in trespass on private property. Expenditures for this category also address access issues with respect to existing rights of way in order to facilitate ongoing operation and maintenance of the lines⁹⁰. The higher spending in the MRP period is attributable to the 30, 32 and 19 Line Right of Way Improvements project that involves acquiring additional right of way upslope of the existing ROW for 30 Line (Nelson to Coffee Creek Substation), 32 Line (Creston to Crawford Bay), and 19 Line (Slocan Valley) and clearing the additional right of way to reduce the number of tree related outages⁹¹.

BCOAPO has identified no issues with the spending in this area.

Stations Sustainment

Stations Sustainment includes expenditures for the replacement of station transformers and to replace/refurbish other station equipment. Spending is largely determined by asset condition

⁸⁶ Exhibit B-1, Application, p. C-89

⁸⁷ Exhibit B-10, BCUC IR 1.10.6.

⁸⁸ Exhibit B-1, Application, p. C-90.

⁸⁹ Exhibit B-5, BCOAPO IR 1.70.3.2.

⁹⁰ Exhibit B-1, Application, p. C-90.

⁹¹ Exhibit B-1, Application, p. C-90.

assessments completed in previous years. Spending for the MRP period is summarized in the following table⁹².

Table C3-34: FBC Stations Sustainment Capital Expenditures 2020-2024 (\$'000s)

| | Average | | | | | |
|----------------------------------|-----------------|------------------|------------------|-----------------|-----------------|------------------|
| | 2017-2019P | 2020 | 2021 | 2022 | 2023 | 2024 |
| Station Urgent Repairs | \$ 634 | \$ 574 | \$ 594 | \$ 687 | \$ 614 | \$ 655 |
| Station Assessment/Minor Planned | 1,209 | 1,317 | 1,354 | 1,394 | 1,419 | 1,438 |
| Transformer Replacements | 420 | 2,263 | - | - | - | 6,518 |
| Salmo Station Upgrade | n/a | 3,718 | 7,154 | - | - | - |
| Fruitvale Station Upgrade | n/a | - | - | - | - | 3,802 |
| Station Equipment | 2,652 | 5,667 | 4,522 | 3,198 | 1,760 | 3,559 |
| Total | \$ 4,915 | \$ 13,538 | \$ 13,624 | \$ 5,279 | \$ 3,793 | \$ 15,971 |

Higher spending during the MRP period is due to: i) specific transformer replacements planned for Trout Creek, AS Mawdsley and Kaleden due to asset condition⁹³; ii) required station upgrades at Salmo and Fruitvale⁹⁴ and iii) specific station equipment spending based on asset condition assessments⁹⁵.

BCOAPO has identified no issues with the spending in this area.

Distribution Sustainment

As illustrated in the following table, in the majority of program areas Distribution Sustainment spending is consistent with historical levels. The main areas⁹⁶ of departure are the result of: i) the replacement of potentially hazardous porcelain cut-outs on distribution feeders⁹⁷, ii) the replacement of sodium and mercury vapour street lights with more efficient LED lighting, and iii) the mandated replacement of distribution equipment containing Polychlorinated Biphenyls (PCBs)⁹⁸.

⁹² Exhibit B-1, Application, p. C-93.

⁹³ Exhibit B-1, Application, p. C-92; Exhibit B-5, BCOAPO IR 1.72.1.

⁹⁴ Exhibit B-1, Application, pp. C-92-C-93. Also, details on the Salmo project including alternatives considered can be found in Exhibit B-5, BCOAPO IR's 1.73.1 through 1.73.6.

⁹⁵ Exhibit B-1, Application, pp. C-93-C-95; Exhibit B-5, BCOAPO IR's 1.74.1 through 1.77.1.

⁹⁶ Exhibit B-1, Application, pp. C-97-C-98.

⁹⁷ The increasing failure of porcelain cut-outs is documented in Exhibit B-5, BCOAPO IR 1.78.1.

⁹⁸ Exhibit B-10, BCUC IR 1.57.8.

Table C3-37: FBC Distribution Sustainment Expenditures 2020-2024 (\$000s)

| | Average 2017-2019P | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|-----------------------|------------------|------------------|------------------|------------------|------------------|
| Distribution Line Condition Assessment | \$ 1,544 | \$ 1,645 | \$ 1,691 | \$ 1,632 | \$ 1,713 | \$ 1,864 |
| Distribution Line Rehabilitation | 3,146 | 2,802 | 3,148 | 2,872 | 2,680 | 3,150 |
| Distribution Line Rebuilds | 2,019 | 2,183 | 2,244 | 1,942 | 1,938 | 1,925 |
| Distribution Urgent Repairs | 3,112 | 2,620 | 2,748 | 2,732 | 2,823 | 2,865 |
| Distribution Small Planned Capital | 926 | 1,034 | 1,105 | 1,210 | 1,247 | 1,407 |
| Forced Upgrades and Line Moves | 2,264 | 2,578 | 2,564 | 2,656 | 2,570 | 2,758 |
| PCB Environmental Compliance | 731 | 2,677 | 2,721 | 2,663 | 3,124 | 2,444 |
| Porcelain Cutouts Replacement | n/a | 3,233 | 3,322 | 3,421 | 3,483 | 3,527 |
| Meter Exchanges | 55 | 127 | 130 | 140 | 140 | 141 |
| LED Street Light Retrofits | 370 | 787 | - | - | - | - |
| Other Distribution Sustainment Projects | 552 | 652 | 664 | 274 | 273 | 272 |
| Total | \$ 14,719 | \$ 20,337 | \$ 20,338 | \$ 19,542 | \$ 19,990 | \$ 20,353 |

BCOAPO has identified no issues with the spending in this area.

Telecommunications Sustainment

Telecommunications capital spending consists of four program areas. Forecast spending for each is set out below. Increases in the 2020-2024 timeframe are mainly driven by the need to upgrade or replace aging systems and by regulatory requirements⁹⁹.

Table C3-38: FBC Telecommunications Expenditures 2020-2024 (\$000s)

| | Average 2017-2019P | 2020 | 2021 | 2022 | 2023 | 2024 |
|-----------------------------------|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Communications Upgrades | \$ 247 | \$ 367 | \$ 379 | \$ 390 | \$ 397 | \$ 402 |
| Station Smart Device Upgrades | 428 | 323 | 380 | 329 | 328 | 326 |
| SCADA Systems Sustainment | 570 | 937 | 945 | 1,685 | 970 | 1,451 |
| Systems Upgrades and Replacements | 1,086 | - | 1,086 | 3,677 | 4,016 | 1,086 |
| Other Telecommunications | 186 | 190 | 194 | 200 | 204 | 206 |
| Total | \$ 2,516 | \$ 1,818 | \$ 2,983 | \$ 6,280 | \$ 5,915 | \$ 3,472 |

FBC explains¹⁰⁰ that sustainment capital expenditures for approved Z-factor events during the Current PBR Plan are now included under SCADA System Sustainment for the proposed MRP which contributes to the increases spending on this program.

In the Application FBC has provided details on the major projects included under Station Upgrades and Replacements¹⁰¹.

BCOAPO has identified no issues with the spending in this area.

4 Other Capital

4.1 FBC Proposal

Other capital consists of spending on Equipment, Facilities and Information

⁹⁹ Exhibit B-1, Application, C-99.

¹⁰⁰ Exhibit B-10, BCUC IR 1.36.3.

¹⁰¹ Exhibit B-1, Application, pp. C-100-C-101.

Table C3-39: FBC Other Capital Expenditures 2020-2024 (\$000s)

| | Average 2017-2019P | 2020 | 2021 | 2022 | 2023 | 2024 |
|---------------------|-----------------------|------------------|------------------|------------------|------------------|------------------|
| Equipment | \$ 2,791 | \$ 3,407 | \$ 3,338 | \$ 3,274 | \$ 3,681 | \$ 3,388 |
| Facilities | 1,978 | 3,264 | 2,346 | 2,346 | 2,346 | 2,346 |
| Information Systems | 8,915 | 9,081 | 9,028 | 9,136 | 9,254 | 9,400 |
| Total | \$ 13,683 | \$ 15,752 | \$ 14,712 | \$ 14,756 | \$ 15,281 | \$ 15,134 |

4.2 BCOAPO Position

Equipment

Equipment capital expenditures include the acquisition of vehicles, specialized tools and equipment. Expenditures for the equipment listed above are driven by obsolescence, excessive wear and regulatory compliance¹⁰².

Table 2: FBC Vehicles, Tools and Equipment Capital Expenditures, 2020-2024 (\$000s)

| | Average 2017-2019P | 2020 | 2021 | 2022 | 2023 | 2024 |
|---------------------|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Vehicles | \$ 2,256 | \$ 2,700 | \$ 2,770 | \$ 2,695 | \$ 3,090 | \$ 2,785 |
| Tools and Equipment | 535 | 707 | 568 | 579 | 591 | 603 |
| Total | \$ 2,791 | \$ 3,407 | \$ 3,338 | \$ 3,274 | \$ 3,681 | \$ 3,388 |

In the Application¹⁰³ and responses to information requests¹⁰⁴ FBC has explained the reasons for the increased spending levels. BCOAPO has identified no issues with the spending.

Facilities

In response to information requests¹⁰⁵ FBC has provided additional details regarding the proposed Facilities spending and BCOAPO has identified no issues with the spending.

Information Systems

During the MRP period expenditures in this area are forecast to increase at less than two percent per annum relative to 2017-2019 average spending.¹⁰⁶ BCOAPO has identified no issues with the spending.

5. Major Projects

5.1 FBC Proposal

¹⁰² Exhibit B-10, BCUC IR 1.59.1.

¹⁰³ Exhibit B-1, Application, pp. C-101-C-102.

¹⁰⁴ Exhibit B-10, BCUC IR 1.59.1; Exhibit B-12, BCUC IR 2.194.1.

¹⁰⁵ Exhibit B-10, BCUC IR's 1.59.2 and 1.59.3.

¹⁰⁶ Exhibit B-1, Application, p. C-104.

Major Projects are capital expenditures that do not form part of Regular capital spending. Under FBC's proposed MRP they are approved through a separate CPCN or other application. There are three major projects that are expected to come into service during the MRP period that have already been approved by the BCUC:

- Upper Bonnington Old Units Refurbishment (Order G-8-17);
- Corra Linn Spillway Gate Replacement Project (Order C-1-17); and
- Grand Forks Terminal Station Reliability Project (Order C-2-19).

In addition, FBC has expected to file a CPCN Application for the Kelowna Bulk Transformer Addition in 2019. However, it is still pending. The resulting expenditures from these projects is set out in the following table¹⁰⁷.

Table 2: FBC Major Capital Projects, 2020 – 2024

| | 2020 | 2021 | 2022 | 2023 | 2024 | Project Total |
|---|------------------|------------------|-----------------|-------------|-------------|------------------|
| UBO Old Units Refurbishment | \$ 5,466 | \$ 356 | \$ - | \$ - | \$ - | \$ 5,822 |
| Kelowna Bulk Transformer Addition | 5,556 | 7,250 | 6,633 | - | - | 19,440 |
| Corra Linn Spillway Gate Replacement | 11,107 | 8,740 | 501 | - | - | 20,348 |
| Grand Forks Terminal Transformer Addition | 4,970 | 1,349 | - | - | - | 6,319 |
| Total | \$ 27,098 | \$ 17,695 | \$ 7,135 | \$ - | \$ - | \$ 51,928 |

Under the FBC's proposed MRP, the costs associated with Major Projects would be subject to flow-through treatment¹⁰⁸.

5.2 BCOAPO Position

It is noted that for both of the projects approved by the BCUC in 2017, the current spending forecast exceeds the approved levels¹⁰⁹. For the Upper Bonnington Old Units Refurbishment project the current forecast is \$34.2 M versus an approved budget of \$31.783 M. In the case of the Corra Linn Spillway Gate Replacement Project, the current forecast is \$66.844 M versus an approved budget of \$62.694 M.

BCOAPO expects that the Annual Review process will provide the appropriate opportunity for the prudence of the spending on these projects (and any other Major Projects) before the costs are flowed through to rates.

SERVICE QUALITY INDICATORS (SQIs)

A. FBC's SQIs

¹⁰⁷ Exhibit B-10, BCUC IR 1.60.6.

¹⁰⁸ Exhibit B-1, Application, p. C-157.

¹⁰⁹ Exhibit B-10, BCUC IR 1.60.1.

1. FBC Proposal

The following table sets out FBC's proposed Service Quality Indicators along with their associated Benchmark and Threshold value and contrasts them with those from the current PBR plan.

Table C7-5: Comparison of FBC Current and Proposed SQIs

| Indicators with Benchmarks and Thresholds | | | Current | | Proposed | |
|---|----------------------------------|---|-----------|-----------|-----------|-----------|
| | | | Benchmark | Threshold | Benchmark | Threshold |
| Annual | Safety | Emergency Response Time - Calls responded to within two hours | >= 93% | 90.6% | >=93% | 90.6% |
| 3 Year | Safety | All Injury Frequency Rate | <=1.64 | 2.39 | <=1.64 | 2.39 |
| Annual | Responsiveness to Customer Needs | First Contact Resolution | >= 78% | 72% | >=78% | 74% |
| Annual | Responsiveness to Customer Needs | Billing Index | <= 5 | <=5 | <=3 | 5 |
| Annual | Responsiveness to Customer Needs | Meter Reading Accuracy - Number of scheduled meter reads that were read | >= 97% | 94% | >=98% | 95% |
| Annual | Responsiveness to Customer Needs | Telephone Service Factor - Calls answered in 30 seconds or less | >= 70% | 68% | >=70% | 68% |
| Annual | Reliability | System Average Interruption Duration Index - Normalized | <= 2.22 | 2.62 | TBD | TBD |
| Annual | Reliability | System Average Interruption Frequency Index - Normalized | <= 1.64 | 2.50 | TBD | TBD |
| Informational Indicators | | | | | | |
| Annual results | Responsiveness to Customer Needs | Customer Satisfaction Index | n/a | n/a | n/a | n/a |
| Annual results | Responsiveness to Customer Needs | Average Speed of Answer (replaces Telephone Abandonment Rate) | n/a | n/a | n/a | n/a |
| Annual results | Reliability | Generator Forced Outage Rate | n/a | n/a | n/a | n/a |
| Annual results | Reliability | Interconnection Utilization | n/a | n/a | n/a | n/a |

In terms of the two Reliability Indicators (SAIDI and SAIFI), FBC proposes that the benchmarks be based on a three-year rolling average. As the 2019 data is not yet available, FBC proposal is to provide benchmarks and thresholds for these two indicators in early 2020¹¹⁰.

The Interconnection Utilization information indicator is new and is meant to monitor the level of service provided to FBC's wholesale customers¹¹¹.

¹¹⁰ Exhibit B-1, Application, p. C-153.

¹¹¹ Exhibit B-1, Application, p. C-153.

2. BCOAPO Position

General

In its Application FBC states¹¹² that SQIs are used to monitor the Utilities' performance to ensure that any efficiencies and cost reductions do not result in a degradation of the quality of service to customers. BCOAPO agrees that this is the purpose of SQIs.

BCOAPO also agrees with FBC's view that recent performance by the Utility is the appropriate measure as to an acceptable level of performance¹¹³.

Based on the Consensus Recommendation approved by the BCUC in Order G-14-15, the benchmark can be viewed as the "expected" level of performance, whereas the threshold represents the minimum level of acceptable performance, recognizing that SQI results will vary from year to year. In this regard, the performance below the threshold does not necessarily represent a serious degradation of service. Rather it is a factor the Commission may consider in determining whether there has been a "serious degradation of service" and whether adverse financial consequences for FortisBC are warranted. Such considerations would take place during the Annual Review process.

Emergency Response Time

Emergency Response Time is the time elapsed from the initial identification of a loss of electrical power (via a customer call or internal notification) to the arrival of FBC personnel on site at the trouble location.

During the 2014-2018 period the annual average value was 93%, consistent with the existing benchmark¹¹⁴. Furthermore, the lowest value during period was consistent with the existing threshold value.

Table A:C5-2-3: Results during the PBR Plan for Emergency Response Time

| Description | 2014 | 2015 | 2016 | 2017 | 2018 | Benchmark | | Threshold | |
|--------------------------------|------|------|------|------|------|-----------|----------|-----------|----------|
| | | | | | | Current | Proposed | Current | Proposed |
| Emergency Response Time | 91% | 92% | 97% | 93% | 94% | 93% | 93% | 90.6% | 90.6% |

¹¹² Exhibit B-1, Application, p. C-147.

¹¹³ Exhibit B-10, BCUC IR 1.90.1.

¹¹⁴ Exhibit B-1-1, Appendix C5-2, p. 4; Exhibit B-5, BCOAPO IR 1.88.2.

In BCOAPO's view, FBC's proposal to maintain the existing benchmark and threshold values for the proposed MRP period is reasonable.

All Injury Frequency Rate (AIFR)

The AIFR is a comprehensive safety performance indicator based on lost time injuries (LTI) plus medical treatment injuries (MT) per 200,000 hours worked (approximately injuries per 100 workers). For the purpose of this SQI, the measurement of performance is based on the three-year rolling average of the annual results.

During the 2014-2018 period, the three-year rolling average values were negatively influence by high values in 2013 and 2014. In subsequent years the annual values have all been better than the benchmark value¹¹⁵.

Table A:C5-2-5: Results during the PBR Plan for AIFR

| Description | 2014 | 2015 | 2016 | 2017 | 2018 | Benchmark | | Threshold | |
|-----------------------------------|------|------|------|------|------|-----------|----------|-----------|----------|
| | | | | | | Current | Proposed | Current | Proposed |
| AIFR – three year rolling average | 2.58 | 2.52 | 1.97 | 1.27 | 1.28 | 1.64 | 1.64 | 2.39 | 2.39 |
| AIFR – annual | 3.21 | 1.54 | 1.15 | 1.13 | 1.52 | n/a | n/a | n/a | n/a |

It is noted that over the 2014-2018 period the current/proposed benchmark values are less than either the average of the three-year rolling average results or the average of the annual results. In addition, the current/proposed threshold value is higher than the range of annual values experienced over the 2014-2018 period.

Overall, FBC's proposal to maintain the existing benchmark is reasonable. However, BCOAPO submits that the threshold value should be increased to align more closely with recent results and in light of the fact that use of three-year rolling average will dampen the effect of any deterioration in a single year's results. BCOAPO recommends that the threshold for the proposed MRP period be set at 2.0. Adjusting the threshold value to recognize the improve performance in recent years would be consistent with FBC's proposals regarding First Contact Resolution.

First Contact Resolution

¹¹⁵ Exhibit B-1-1, Appendix C5-2, p. 6.

First Contact Resolution measures the percentage of customers who receive resolution to their issue in one contact with FBC. It is noted that the average results for the 2014-2018 period are 78%, consistent with the current benchmark value¹¹⁶.

Table A:C5-2-6: Results during the PBR Plan for First Contact Resolution

| Description | 2014 | 2015 | 2016 | 2017 | 2018 | Benchmark | | Threshold | |
|---------------------------------|------|------|------|------|------|-----------|----------|-----------|----------|
| | | | | | | Current | Proposed | Current | Proposed |
| First Contact Resolution | 73% | 76% | 79% | 80% | 82% | 78% | 78% | 72% | 74% |

FBC's proposals to maintain the current benchmark value and to increase the threshold value are reasonable, as the later recognizes the improving performance trend.

Billing Index

The Billing Index indicator tracks the effectiveness of the Company's billing processes by measuring the percentage of customer bills produced meeting performance criteria. The Billing Index is a composite index with three components:

- Billing completion (percent of accounts billed within two days of the billing due date);
- Billing timeliness (percent of invoices delivered to Canada Post within two days of file creation); and
- Billing accuracy (percent of bills without a production issue based on input data).

The objective is to achieve a score of five or less¹¹⁷.

The annual results for the 2014-2018 period have all been better than the benchmark established for the current PBR period¹¹⁸.

Table A:C5-2-8: Results during the PBR Plan for Billing Index

| Description | 2014 | 2015 | 2016 | 2017 | 2018 | Benchmark | | Threshold | |
|----------------------|------|------|------|------|------|-----------|----------|-----------|----------|
| | | | | | | Current | Proposed | Current | Proposed |
| Billing Index | 2.34 | 0.39 | 0.57 | 0.15 | 0.29 | 5.0 | 3.0 | 5.0 | 5.0 |

In the current Application, FBC proposes to lower the benchmark to 3.0 but maintain the current threshold value of 5.0.

¹¹⁶ Exhibit B-1-1, Appendix C5-2, p. 7.

¹¹⁷ Exhibit B-1-1, Appendix C5-2, p. 8

¹¹⁸ Exhibit B-1-1, Appendix C5-2, p. 8.

Information requests sought comment on why, given the 2014-2018 results, the benchmark and/or threshold values were not reduced further for the current MRP period. In its responses FBC pointed to the potential volatility in the annual results and the need to be consistent as between the FEI and FBC benchmark/threshold values¹¹⁹. However, in terms of volatility, BCOAPO notes that FBC’s Billing Index’s highest value during the 2014-2018 period is less than one-half the current threshold level. Furthermore, in FEI’s case the highest value (2.63) was just slightly more than one-half of the current threshold value. Also, for FBC the average value over the five years was 0.75, while for FEI it was 1.18.

BCOAPO submits that based on the results from the past PBR period, it would be reasonable for customers in both utilities to “expect” a Bill Index performance of less than 1.5. Also, the past results suggest that a threshold value of no more than 3.0 would also be reasonable.

Meter Reading Accuracy

The Meter Reading Accuracy SQI compares the number of meters that are read to those scheduled to be read. The annual results for each of the years in the current PBR period have all been better than the current benchmark value of 95%¹²⁰.

Table A:C5-2-9: Results during the PBR Plan for Meter Reading Accuracy

| Description | 2014 | 2015 | 2016 | 2017 | 2018 | Benchmark | | Threshold | |
|-------------------------------|------|------|------|------|------|-----------|----------|-----------|----------|
| | | | | | | Current | Proposed | Current | Proposed |
| Meter Reading Accuracy | 98% | 96% | 99% | 99% | 99% | 97% | 98% | 94% | 95% |

FBC’s proposal is to increase both the benchmark and the threshold values.

The proposed increase in the benchmark value is reasonable as it is consistent with the average of the 2014-2018 results. However, BCOAPO takes the position that in the case of the threshold value, it would be more reasonable to increase it to 96%, the lowest value experienced during the 2014-2018 period.

Telephone Service Factor

The Telephone Service Factor (Non-Emergency) measures the percentage of non-emergency calls that are answered in 30 seconds¹²¹.

¹¹⁹ Exhibit B-10, BCUC IR 1.91.1; Exhibit B-14, BCOAPO IR 2.146.1.

¹²⁰ Exhibit B-1-1, Appendix C5-2, p. 9.

¹²¹ Exhibit B-1-1, Appendix C5-2, p. 9.

FBC notes¹²² that the results from 2014 to 2018 were consistent with the benchmark of 70 percent, except for 2014 which was negatively impacted by the events such as the first verified meter readings occurring after the IBEW labour disruption ended in December 2013, introduction of the Residential Conservation Rate, and the integration of the City of Kelowna customers.

Table A:C5-2-10: Results during the PBR Plan for Telephone Service Factor (Non-Emergency)

| Type of Call | 2014 | 2015 | 2016 | 2017 | 2018 | Benchmark | | Threshold | |
|----------------------|------|------|------|------|------|-----------|----------|-----------|----------|
| | | | | | | Current | Proposed | Current | Proposed |
| Non Emergency | 48% | 71% | 70% | 70% | 72% | 70% | 70% | 68% | 68% |

In BCOAPO’s view, FBC’s proposal to maintain the current benchmark and threshold values is reasonable given the 2015-2018 results.

System Average Interruption Duration Index (SAIDI)

SAIDI is the amount of time the average customer’s power is off during the year after adjusting for the impact of major events¹²³. For the purpose of this SQI, the measurement of performance is based on the three-year rolling average of the annual results.

FBC notes that the results were fairly stable for 2015-2016. However, for the years 2017 and 2018 the results were influenced (increased) by: i) the implementation of the Outage Management System (OMS), a system used to record distribution outages based on the outage start time, ii) wildfires and iii) adverse weather.

Table A:C5-2-13: Results during the PBR Plan for SAIDI

| Description | 2014 | 2015 | 2016 | 2017 | 2018 | Benchmark | | Threshold | |
|--------------|------|------|------|------|------|-----------|----------|-----------|----------|
| | | | | | | Current | Proposed | Current | Proposed |
| SAIDI | 2.09 | 2.15 | 2.18 | 2.76 | 3.10 | 2.22 | TBD | 2.62 | TBD |

Given these factors, FBC is proposing to wait for the actual 2019 results and then propose benchmark and threshold values for the MRP period. FBC is also proposing to change the reporting from a three-year rolling average to using the current year value only¹²⁴.

FBC’s proposals are further explained in response to BCUC 1.94.3 and BCOAPO considers them to be reasonable.

¹²² Exhibit B-1-1, Appendix C5-2, p. 10.
¹²³ Exhibit B-1-1, Appendix C5-2, p. 12.
¹²⁴ Exhibit B-1-1, Appendix C5-2, p. 13.

System Average Interruption Frequency Index (SAIFI)

SAIFI is the average number of interruptions per customer served per year, after adjusting for the impact of major events¹²⁵.

The SAIFI results for the 2014-2018 period show the same trends as did the SAIDI result – fairly stable over the 2015-2016 period and then increasing for 2017 and 2018. The reasons are similar in that the implementation of the OMS also impacts the SAIFI results, but to a lesser degree¹²⁶.

Table A:C5-2-14: Results during the PBR Plan for SAIFI

| Description | 2014 | 2015 | 2016 | 2017 | 2018 | Benchmark | | Threshold | |
|--------------|------|------|------|------|------|-----------|----------|-----------|----------|
| | | | | | | Current | Proposed | Current | Proposed |
| SAIFI | 1.39 | 1.49 | 1.51 | 1.56 | 1.62 | 1.64 | TBD | 2.50 | TBD |

FBC’s proposals for setting the SAIFI value for the MRP period are the same as its proposals regarding SAIDI and BCOAPO considers them to be reasonable.

Informational Indicators

FBC’s current PBR plan uses three informational indicators:

- Customer Satisfaction Index,
- Telephone Abandonment Rate, and
- Generator Forced Outage Rate.

The Application calls for the continued use of the Customer Satisfaction Index and the Generator Forced Outage Rate as information indicators. It also proposes to adopt an Average Speed of Answer index in lieu of the Telephone Abandonment Rate and to adopt a fourth indicator – Interconnection Utilization.

The Company does not believe the Telephone Abandonment Rate is indicative of whether customer needs are being met as there is really no way to know why a customer abandoned a call, absent asking the customer directly. Indeed, it notes there may be positive reasons why a customer abandoned a call without talking to a customer service representative (e.g., they receive the information they were looking for from the recorded interactive voice response or IVR

¹²⁵ Exhibit B-1-1, Appendix C5-2, p. 14.

¹²⁶ Exhibit B-1-1, Appendix C5-2, p. 14.

message). As a result, the Company believes the ASA is more directly related to the customer experience, with shorter wait times for customers preferable to longer wait times¹²⁷.

BCOAPO agrees that, with the introduction of IVR technology, the ASA is a preferred measure of customers' experience when seeking to contact FBC via the telephone.

The Interconnection Utilization index is being introduced specifically in response to concerns raised by BCMEU¹²⁸. As such, BCOAPO defers to BCMEU's submissions regarding the appropriateness of the index.

B. FEI's SQIs

1. FEI AIFR

Per Table A:C5-1-6, for 2017 and 2018 both the three-year rolling average (RA) AIFR and the annual (Ann) AIFR were below the Current Benchmark of 2.08¹²⁹:

Table A:C5-1-6: Results during the PBR Plan for AIFR

| Description | 2014 | 2015 | 2016 | 2017 | 2018 | Benchmark | | Threshold | |
|--|------|------|------|------|------|-----------|----------|-----------|----------|
| | | | | | | Current | Proposed | Current | Proposed |
| AIFR – three year rolling average | 2.22 | 2.42 | 2.13 | 2.00 | 1.74 | 2.08 | 2.08 | 2.95 | 2.95 |
| AIFR – annual | 1.73 | 2.52 | 2.13 | 1.36 | 1.74 | n/a | n/a | n/a | n/a |

BCOAPO suggests that the current proposal to maintain the AIFR Benchmark at 2.08 and Threshold at 2.95 is not sufficiently aggressive as targets for such an important and core value as safety. Given that the annual AIFR statistics for both 2017 and 2018 are significantly below the 2.08 proposal, BCOAPO submits that a more aggressive target such as a benchmark of 1.9 for AIFR would be appropriate along with a consequent reduction in the threshold to 2.77.

2. FEI Billing Index

The FEI annual results for the 2014-2018 period have all been better than the benchmark established for the current PBR period:¹³⁰

¹²⁷ Exhibit B-1, Application, p. C-150.

¹²⁸ Exhibit B-1, Application, p. C-153.

¹²⁹ Exhibit B-1-1, Appendix C5-1, page 7

¹³⁰ Exhibit B-1-1, Appendix C5-1, page 10

Table A:C5-1-10: Results during the PBR Plan for Billing Index

| Description | 2014 | 2015 | 2016 | 2017 | 2018 | Benchmark | | Threshold | |
|----------------------|------|------|------|------|------|-----------|----------|-----------|----------|
| | | | | | | Current | Proposed | Current | Proposed |
| Billing Index | 0.89 | 1.06 | 0.57 | 0.75 | 2.63 | 5.0 | 3.0 | 5.0 | 5.0 |

As noted above under FBC Billing Index, BCOAPO submits that based on the results from the past PBR period, it would be reasonable for customers in both utilities to “expect” a Bill Index performance of less than 1.5. Also, the past results suggest that a threshold value of no more than 3.0 would also be reasonable.

FBC’s SUPPORTING STUDIES

1. Lead-Lag Study

1.1. FBC Proposal

The 2018 Lead-Lag Study for FBC (per Appendix D3-2) results in a net lag of 9.5 days which is an increase of 2.8 days from the previous study’s results currently used by FBC¹³¹. The resulting impact (increase) in working capital requirements leads to a \$105 k increase in the 2020 revenue requirement¹³².

1.2. BCOAPO Position

FortisBC used the same model and methodology consistent with the one established as part of the Terasen Gas Inc 2010-2011 Revenue Requirement Application. That 2009 Lead-Lag study was reviewed independently by KPMG and approved by the BCUC¹³³.

Page D-36 of the Application documents the major differences between the current study and the one previously used by FBC. The major change is in the Sales Revenues lag which has increased from 46.1 to 49.5 days. The response to BCUC 1.134.2 explains the reasons for this change. Responses to other information requests explain other changes from the previous study¹³⁴.

The response to BCOAPO 1.97.1 explains how the results will be used during the MRP period to set the annual revenue requirement.

¹³¹ Exhibit B-1, Application, p. D-35.

¹³² Exhibit B-12, BCUC IR 2.250.1.

¹³³ Exhibit B-10, BCUC IR 1.132.3.

¹³⁴ Exhibit B-10, BCUC 1.134.3 through BCUC 1.134.7.

Overall, BCOAPO has identified no issues with the results of the study or its use during the MRP period. However, BCOAPO notes that the proportion of customers on monthly billing has an impact on the Study's results¹³⁵. Accordingly, BCOAPO submits that as part of each Annual Review, FBC should be required to report any change that has occurred in the percentage of customers on monthly billing, and parties should be provided the opportunity to make submissions as whether or not the revenue lag should be adjusted.

2. Shared Services Study

2.1 FBC Proposal

Currently, cross charges between FEI and FBC are based on timesheets (Timesheet Approach). The Companies propose to allocate these costs based on cost drivers (Cost Driver Approach)¹³⁶. The Application explains that the Cost Driver Approach is more efficient to administer while providing an allocation methodology that reasonably represents the sharing of resources. The reason being that a Cost Driver Approach would require minimal timesheets / journal entries to be processed, and the cost drivers would require only annual updating with a broader review of the shared services model on a longer-term basis¹³⁷.

FBC notes that the values used for the cost drivers will be updated annually but changes in the cost drivers used would require BCUC approval¹³⁸.

2.2. BCOAPO Position

Based on 2018 actual costs, the change in the treatment/allocation of shared services costs decreases FEI's O&M by \$0.34 M and increases FBC's O&M by a corresponding amount¹³⁹.

Table D4-3: 2018 Actual O&M Shared Services – Cost Driver Approach vs Timesheet Approach

| (millions) | O&M Actual Timesheet Approach | O&M Actual Cost Driver Approach | Allocations as per Timesheet Approach | Allocations as per Cost Driver Based | Difference in Approaches |
|--------------|-------------------------------|---------------------------------|---------------------------------------|--------------------------------------|--------------------------|
| FEI | 271.55 | 271.21 | 1.38 | 1.04 | 0.34 |
| FBC | 57.36 | 57.70 | (1.38) | (1.04) | (0.34) |
| Total | 328.91 | 328.91 | 0.00 | 0.00 | 0.00 |

FBC claims that the impact is small when considered in the context of each utility's total O&M costs¹⁴⁰. However, it is noted that the \$0.34 M change represents 1.3% of the FEI's shared cost

¹³⁵ Exhibit B-10, BCUC IR 1.134.2.

¹³⁶ Exhibit B-1, Application, p. D-37.

¹³⁷ Exhibit B-10, BCUC IR 1.135.1.

¹³⁸ Exhibit B-12, BUC IR 2.251.2.

¹³⁹ Exhibit B-1-4, p. D-40.

¹⁴⁰ Exhibit B-1, Application, p. D-40.

that are subject to allocation and 4.5% of FBC's shared costs that are subject to allocation¹⁴¹. Looked at in this context, the impact is more material, particularly for FBC.

While the Cost Driver Approach is simpler to administer, it is less accurate than the Timesheet Approach. BCOAPO asks the BCUC to carefully consider whether the improvement in efficiency offsets the loss accuracy, given the resulting impacts.

3. Corporate Service Study

3.1. FBC Proposal

In the Application, FortisBC is requesting approval of the methodologies of allocating common corporate service costs from FI and FHI to FEI and FBC¹⁴². This methodology will then be applied each year (starting in 2020) to the eligible corporate pool costs at FI and FHI¹⁴³.

A portion of costs of the FI corporate services are allocated to FHI, FEI, and FBC on a percentage basis. The allocation is calculated using the following factors:

- 25% - Controllable operating costs as a percent of all Fortis group operating costs; and
- 75% - Total assets (excluding goodwill) as a percent of all Fortis group total assets.

A portion FHI's costs eligible¹⁴⁴ for allocation (including its share of FI's costs) is allocated to FBC and FEI based on the Massachusetts Formula¹⁴⁵ which is a commonly used approach.

3.2. BCOAPO Position

The allocation methodology has been subject to an external review by KPMG¹⁴⁶ and a number of information requests during the current proceeding¹⁴⁷. BCOAPO has identified no issues with the proposal.

INCENTIVES

A. FBC's Incentives

¹⁴¹ Table D4-2 from the Application indicates that the total FEI and FBC costs subject to allocation in 2018 were \$25.392 M and \$7.459 M respectively.

¹⁴² Exhibit B-1, Application, D-41.

¹⁴³ Exhibit B-1, Application, p. D-52.

¹⁴⁴ Per Exhibit B-1, Application, p. D-49 the pool of eligible FHI corporate service costs excludes certain costs that are specific to FHI or its other subsidiaries.

¹⁴⁵ Exhibit B-1, Application, p. D-49.

¹⁴⁶ Exhibit B-1-1, Appendix D-5.

¹⁴⁷ For example - BCUC 1.138.1 through 1.141.5; BCOAPO 1.105.1 through 1.110.3 and BCUC 2.255.1 & 2.255.2.

1. Power Supply Incentive

1.1. FBC Proposal

FBC is requesting approval of a Power Supply Incentive (PSI) to encourage the FBC to increase efficiency, reduce costs, and enhance performance in the area of power supply.

Calculation of Eligible Mitigation Benefits (EMB) created by this activity, as compared to a passive strategy, are shared with customers on the following basis:

- the first \$7.5 million of any reduction in PPE as a result of optimization activity will be to the benefit of customers, and
- any remaining reduction is apportioned 90 percent to customers and 10 percent to FBC¹⁴⁸.

The Eligible Mitigation Benefit will be calculated by comparing FBC's actual PPE to the calculated PPE under a passive strategy in which FBC did not engage in any active optimization activity, and solely relied on its firm contracted resources to meet load¹⁴⁹.

1.2. BCOAPO Position

BCOAPO has two fundamental concerns with FBC's proposal.

- The first is that it is FBC's job to manage the system so as to minimize costs and it is inherently "wrong" to have to incent them to do so.
- The second is that there is lack of transparency in that the calculation of the incentive will not be publicly available but rather submitted as a confidential report to the BCUC¹⁵⁰.

However, if the BCUC does decide to approve the incentive, then the \$7.5 M floor – beyond which the incentive applies is too low. The \$7.5 M is based on analyses done by FBC which suggest that efforts by the Company to reduce Power Supply costs below that based on a "passive strategy" would result in annual savings of \$7.5 M to \$23 M¹⁵¹. If the purpose of the incentive to encourage FBC to do "more" to reduce power supply cost – then it should apply to any results over and above what would be minimal efforts. In BCOAPO's view, it should apply when FBC has "stretched" itself to achieve savings. One way to do this would be to have the incentive apply when savings in excess of \$15 M have been achieved (roughly the mid-point of the range).

¹⁴⁸ Exhibit B-1, Application, p. C-166.

¹⁴⁹ Exhibit B-1, Application, Appendix C-7, p. 8.

¹⁵⁰ Exhibit B-1, Application, Appendix C-7, p. 9.

¹⁵¹ Exhibit B-10, BCUC IR 1.96.7.

2. Customer Engagement Incentive

2.1 FBC Proposal

FBC is proposing that it receive an incentive equivalent to 5 basis points if it achieves certain annual customer engagement targets over the MRP period¹⁵².

2.2 BCOAPO Position

As well as the comments noted above (see under heading BASE O&M: New Funding – Customer Engagement) – if the BCUC decides to approve such an incentive, the targets are too low.

Set out below are the customer engagement metrics for 2014 to 2018. As they show, for FBC the results have been increasing by 1% per annum while for FEI they've been increasing at 4% per annum¹⁵³.

Table C8-8: Historic Proportion of Digital Customer Interactions

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2016-2018 Average | Average Annual Growth |
|-----|------|------|------|------|------|-------------------|-----------------------|
| FEI | 21% | 23% | 25% | 28% | 36% | 29% | 4% |
| FBC | 24% | 28% | 18% | 22% | 26% | 22% | 1% |

In both cases the targets (see below) are equivalent to achieving similar growth in the future.

Table C8-9: Digital Channel Use Target

| | 2020 | 2021 | 2022 | 2023 | 2024 | MRP Total |
|-----|------|------|------|------|------|-----------|
| FEI | 40% | 44% | 48% | 52% | 56% | >48% avg. |
| FBC | 27% | 28% | 29% | 30% | 31% | >29% avg. |

BCOAPO submits that if FBC is going to receive an incentive, it should be for results that go beyond the historic trend – particularly if it receives additional O&M funding (as proposed).

B. FEI's Incentives

FEI proposes the additional financial incentives¹⁵⁴:

- 1) 10 BPS bonus for exceeding forecast growth in RNG;
- 2) 10 BPS bonus exceeding forecast load growth for transportation customers;
- 3) 5 BPS bonus for exceeding forecast gas conversion activity;
- 4) 5 BPS bonus for reducing GHG emissions below forecast; and

¹⁵² Exhibit B-1, Application, pp. C-159 and C-164.

¹⁵³ Exhibit B-1, Application, p. C-164.

¹⁵⁴ Exhibit B-1, Table C8-1

5 BPS bonus for both FEI and FBC for increasing the adoption of digital service channels.

In our submissions above, BCOAPO has addressed the last proposal.

Regarding the first four bonus proposals, all pay off for the utility by beating a forecast that is supplied by the utility. As such, the utility has a financial incentive to under-forecast each of the first three targeted activities. In BCOAPO's view, there is no need to provide a further incentive to do so. Additionally, due to the fact that the utility earns a margin on increased deliveries customers, etc., there is already a financial incentive to increase RNG, transportation load, and gas conversions.

Regarding the fourth incentive, reducing GHG emissions, there is a similar financial incentive to over-forecast GHG emissions to grab an easy bonus. Further, it should be the responsibility of the utility to act in a socially responsible way especially in respect of existential threats. As such, the bonus should not be approved.

O&M DETERMINATION DURING MRP

1. FortisBC Proposal

Similar to the Current PBR Plans, rates during the Proposed MRPs will reflect the recovery of both indexed-based O&M and forecast O&M. For indexed-based O&M, each year the O&M expense will reflect the previous year's indexed-based O&M per customer amount adjusted by inflation and then multiplied by a forecast of the Average Number of Customers calculated as the twelve-month average of the forecasted number of customers)¹⁵⁵.

2. BCOAPO Position

Under the current plan the year over year O&M formula is as follows:

$$OM_t = OM_{t-1} * [1 + (I-X)] * (1+G/2)$$

Under the proposed MRP the year over year O&M formula is as follows:

$$OM_t = UCOM_{t-1} \times (1 + I) \times AC_t$$

Where:

OM = Indexed-based Operating and Maintenance Expense

UCOM = Unit Cost O&M

¹⁵⁵ Exhibit B-1, Application, p. C-49.

t = Forecast Year

I = Inflation Factor

AC = Average Number of Customers

The two formulae are generally the same with one major difference. Under the current plan only 50% of the growth in customers was used in the “formula” whereas under the proposed MRP the full customer growth is used (Note: This is achieved by multiplying the previous year’s O&M per customer by the number of in the test year).

In support of this approach FBC argues¹⁵⁶ there is a strong linear relationship between O&M and number of customers and points to analysis provided in its response to BCOAPO 1.23.1 to suggest it is close to 1:1.

However, BCOAPO submits that there is fundamental flaw in FBC argument and supporting analysis. The analysis just looks at the relationship between actual O&M and number of customers and does not account for the fact that the proposed formula also includes an annual adjustment for inflation.

In response to BCOAPO 2.132.2, FBC provide similar analysis but this time based on the actual O&M after it has been adjusted for inflation. The results suggested there was a negative relationship between O&M and number of customers. FBC claims that the results are meaningless and should be ignored. BCOAPO disagrees with this assertion.

Overall the combined results suggest that:

- If an annual adjustment for inflation is included, then there is no need for any adjustment related to customer growth. This is supported by the following figure which shows that after adjustments for inflation, FBC’s O&M per customer is roughly constant – if not declining¹⁵⁷. This would suggest that an MRP formula that included just an inflation adjust would be more than sufficient.

¹⁵⁶ Exhibit B-10, BCUC IR 1.17.7.

¹⁵⁷ Exhibit B-1, Application, p. B-33.

Figure B2-2: FBC O&M from 2013 to 2019



BCOAPO notes that the same result also applies to FEI – see Figure B2-1 from the Application.

- Alternatively, the results from BCOAPO 1.23.1 – which show a roughly 1:1 relationship between customers and O&M would suggest that a formula which used customer growth – but no inflation adjustment - would also be satisfactory.

BCOAPO submits that the proposed approach which includes annual adjustment for both inflation and customer growth is not appropriate.

CLEAN GROWTH INNOVATION FUND (THE INNOVATION FUND)

In short, BCOAPO opposes FortisBC’s proposal for the Innovation Fund.

First, it is BCOAPO’s position that there are other sufficient alternatives for promoting utilities innovation, such as the Natural Gas Innovation Fund, the DSM Innovative Technologies program, GGRR-enabled funding for commercial NGT and RNG activities¹⁵⁸, as well as the Utilities’ long-term resource planning¹⁵⁹.

Second, since the main goal of the Innovation Fund is to advance innovation to meet the climate objectives set by all levels of government¹⁶⁰, it is necessary that prior to approving any customer-funded projects which promote utility innovation, the provincial government and the regulator establish a province-wide regulatory framework and implementation plan. For example, the Reforming the Energy Vision (REV), cited by FortisBC in its Evolution of Innovation Funding Case

¹⁵⁸ Exhibit B-10, BCUC IR 1.73.13.
¹⁵⁹ Exhibit B-10, BCUC IR 1.83.1.
¹⁶⁰ FortisBC Final Argument, pp. 224-226.

Study¹⁶¹ was initiated by the Governor of New York State, Andrew Cuomo. Subsequently, the New York State Public Service Commission issued Trac 1 Order in the REV proceeding adopting regulatory policy framework and implementation plan¹⁶². New York customer-funded REV demonstration RD&D projects were filed pursuant to guidelines established by the Trac 1 Order. The regulatory framework will provide certainty to all utilities, shareholders, and customers, and will assist with overcoming the challenges associated with the diverse capabilities among utilities. It is possible that the government and the regulator will decide to create a consolidated fund for all utilities to address common needs and avoid duplication of research activities, similar to the New York Millennium Fund cited by FortisBC in its Evolution of Innovation Funding Case Study¹⁶³. Additionally, clear guidelines issued by the regulator will enhance consumer protection. For example, the REV Trac 1 Order contains special protections for low- or moderate-income customers who are not be able to participate in REV benefits. In the Trac 1 Order, the New York State Public Service Commission addressed concerns faced by low income customers, including the impact of the costs of implementing REV and the need to ensure that the benefits of REV accrue to low income communities.¹⁶⁴ Similar protections for low and fixed income customers should be established by the BCUC prior to approving customer funding of utility innovation projects.

If the BCUC decides to approve the Innovation Fund, then BCOAPO urges for the following provisions:

1. Without clear guidelines from the regulator, the innovation projects should be pre-approved by the BCUC annually¹⁶⁵, followed by interim reports, followed by a mandatory final report. Quarterly monitoring reports may be utilized in the first period.
2. Innovation activities should be funded volumetrically. BCOAPO submits that charging each customer the same contribution for the Innovation Fund is contrary to section 59 of the *UCA*. Collecting the same amount from all customers would be unfair and unduly discriminatory to low- and fixed-income customers, who already are facing disproportionate energy cost

¹⁶¹ Exhibit B-1, Application, p. C-136.

¹⁶² State of New York Public Service Commission, CASE 14-M-0101 – Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision, Order Adopting Regulatory Policy Framework and Implementation Plan issued on February 26, 2015 (the REV Trac 1 Order), online < <http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId=%7b0B599D87-445B-4197-9815-24C27623A6A0%7d> >.

¹⁶³ Exhibit B-1, Application, p. C-136.

¹⁶⁴ The REV Trac 1 Order, pp. 69 - 70, 84 – 88, 114.

¹⁶⁵ Exhibit B-12, BCUC IR 2.214.13

burdens and energy poverty. The same rate rider will disproportionately impact low- and fixed-income ratepayers burdening them with even higher bills.

FortisBC alleges that it is fair that all customers fund innovation activities equally since all customer types, not just higher volume users, will experience the benefits.¹⁶⁶ FortisBC also states that the rate rider method is appropriate “if the goal is to collect the same amount from all customers, which assumes that all customers should benefit equally from the amounts collected” (emphasis added).¹⁶⁷ At the same time, FortisBC acknowledges that in some cases, high volume customers might experience greater benefits in terms of reduced utility bills through the advancement of technology.¹⁶⁸ BCOAPO submits high volume customers will receive greater benefits from the Utilities innovation projects in most cases.

Additionally, without special provisions, low income customers will not be able to participate the most markets resulting from innovation activities but will bear costs of the Innovation Fund. At present, we are unaware of any special provisions that would remove this bar to participation.

3. The Innovation Fund should include low income specific requirements - a requirement to allocate a fair minimum spending allowance towards low-income customers. This measure will ensure that utilities develop innovation projects beneficial to low- and fixed-income customers. Additionally, the External Advisory Council proposed by FortisBC¹⁶⁹ should include representatives of low-income customers, to ensure that project prioritization and selection address low income customers concerns.
4. A volumetric rate rider should appear as a separate line item on bills for all customers. Contrary to FortisBC assertion that embedding the rate rider within existing rates “provides for clear and transparent communication”,¹⁷⁰ it is BCOAPO position that showing rate riders separately in customer’s bills will provide for more transparency and accountability for the collected money.

FortisBC’s Multi Year Rate Plan – Performance Based Ratemaking (PBR)

A. General Comments

¹⁶⁶ Exhibit B-10, BCUC IR 1.79.4.

¹⁶⁷ Exhibit B-10, BCUC IR 1.75.5.

¹⁶⁸ Exhibit B-12, BCUC IR 2.214.7.

¹⁶⁹ Exhibit B-1, Application, p. C-145.

¹⁷⁰ Exhibit B-12, BCUC IR 2.214.5.

It would be all but impossible for an outsider observing any rate-setting regulatory process to remain unaware of the importance all those involved place on its outcome. The Utility comes to the table needing to attend to two purposes: ensuring its continued operations and satisfying its shareholders' drive for profit. Ratepayers come to the table with a similar, yet somewhat diverging purpose: like the Utility, ratepayers wish to ensure its continued operation but without regard for shareholder wealth. Instead, a well-considered ratepayer agenda is a balanced one: safe, reliable, and environmentally and socially responsible service provided at rates that leave no one behind.

Our clients appreciate that in any rate hearing, a regulator's task is to strike a balance between the Utility's goals and the Ratepayers' where they conflict and to approve projects, rates, and rate structures that are in the public interest.

In a system where cost of service regulation is meant to protect the interests of captive ratepayers by serving as a proxy for a competitive market, that rigorous regulation is the price Utilities pay for their monopolistic operations. Performance Based Ratemaking (PBR) is a comparatively light-handed form of regulation: one that can reward utilities for positive performance in certain areas of their business like – for example - efficiency, customer service, safety, and environmental impact reductions or penalize them for unjustifiable failures. From the utility standpoint, there are clear benefits to PBR schemes: less intensive regulatory oversight during the PBR term, saving them time and money and decoupling their returns from capital investments. In the BC model, there is also a potential benefit to ratepayers under a well-constructed PBR. Cost savings in the form of decreased regulatory expenses and incentivized efficiencies are created and ratepayers share in the financial reward for the utility's successes.

However, this form of rate setting is a major departure the regulatory norm, and because of that it be structured in such a way that justifies the risk it poses to ratepayers. If that cannot be said to be the case, then, however strong the desire for a PBR might be, it cannot be in the public interest and should be rejected in favour of continued cost of service regulation.

B. FortisBC's 2020-2024 PBR Proposal

In its Application, evidence, and Final Argument, FortisBC has been frank about some of what many agree are the weaknesses of the current PBR Plan: most notably the clear failure of the capital formulas to provide adequate funding for the two respective utilities' capital expenditure needs each year¹⁷¹. A second critique is that the companies' previous PBR efforts failed to

¹⁷¹ FortisBC Argument, pp. 22-23, para 46.

sufficiently promote the ratemaking innovation seen in other jurisdictions.¹⁷² What remains to be seen is whether their efforts and evidence are sufficiently compelling in these and all other critical areas to justify departing from the default: cost of service regulation.

In its Final Argument, FortisBC identified ten points it addressed to justify its MRP design:

The five-year term is essential for increasing regulatory efficiency and promoting a long-term focus for FEI and FBC.

- The continuation of a formulaic approach for controllable O&M is warranted.
- The continuation of a formulaic approach for FEI's Growth capital is warranted.
- The current inflation factor continues to reflect FEI and FBC's share of labour and non-labour costs.
- A zero percent productivity factor is warranted given declining industry productivity growth and FEI and FBC's efficiency compared to its peers.
- A forecast of customer growth with true-up is an accurate and theoretically correct approach which should be adopted.
- The continuation of the Earning Sharing Mechanism, with a return to a more traditional calculation without a dead band, will increase the incentive power of the plan and improve administration and ease of understanding.
- The proposed Efficiency Carry-Over Mechanism will improve incentives in later years of the Proposed MRPs.
- The continuation of the Off-Ramp provisions is warranted.
- The continuation of the effective Annual Review process is warranted.¹⁷³

While all areas engage our clients' interests, there are three of are of particular concern that we, on behalf of BCOAPO et al., will address. The first is the zero percent productivity factor FortisBC is asking to have approved. The second is the proposed removal of the 50% multiplier on the growth factor for O&M and FEI's growth capital and the third is moving to a capital forecast for FBC's Growth. Fortis has asserted that these changes are required in order for the Utilities to address a number of challenges discussed in its Application, evidence and Final Argument.

The first is policy direction and mandates from all levels of government towards decarbonization¹⁷⁴. Our clients are pleased to see an express acknowledgement from the Fortis Utilities of this challenge: FEI in particular. Of course, it would be exceedingly difficult not to do

¹⁷² FortisBC Argument, pp. 22-23, para 46.

¹⁷³ FortisBC Argument, p. 37, para 66.

¹⁷⁴ FortisBC Argument, p. 18, section 1.1, starting at para 36.

so in the current ecological and political climates: one needs only look to the daily news for stories of fires, floods, mass extinctions, unprecedented temperature changes, and Climate Marches to see that the winds of change are blowing. However, it is comforting to our clients to see that their utilities are not sticking their figurative heads in the sand because doing so would threaten their long-term viability. However, this acknowledgement cannot be interpreted as an acceptance of the targeted incentives FortisBC is proposing as part of this Application. We will address those incentives in a later section of this Submission.

In addition to the challenges posed by decarbonization policies, FortisBC also cited the following as justifications for some of the changes proposed:

- Rising customer expectations with respect to service, engagement channels and keeping pace with other service providers¹⁷⁵;
- An increased need for engagement with stakeholders and Indigenous communities as a result of stakeholder activism and provincial and federal policy changes¹⁷⁶;
- An increased need for maintenance and investment in our aging infrastructure to continue to provide safe, reliable services along with increased need to provide for physical and cyber security¹⁷⁷; and
- An increased need for innovation and the adoption of new technologies to improve operations, enhance customer service levels and meet decarbonization policy objectives¹⁷⁸.

1. PBR/MRP Success and ROE

In its Final Submission, FortisBC took issue with the statement made by BCOAPO's Expert Mr. Russ Bell that the fact that the two Fortis utilities have been able to achieve their approved ROE in the past does not necessarily mean that they will continue to do so in future.¹⁷⁹ This is, in our submission, the only meaningful evidence that exists about the success of the plan. It is interesting then that FortisBC states that the current PRB plans are successful and warrant the continuation of an MRP for FEI and FBC¹⁸⁰ but the only evidence we have that it is a success is the Utilities' achievement of their ROE.

¹⁷⁵ FortisBC Argument, p. 19, section 1.2, starting at paragraph 38.

¹⁷⁶ FortisBC Argument, p. 20, section 1.3, starting at paragraph 41.

¹⁷⁷ FortisBC Argument, p. 21, section 1.4, starting at paragraph 43.

¹⁷⁸ FortisBC Argument, p. 22, section 1.5, starting at paragraph 44.

¹⁷⁹ FortisBC Argument, p. 27, para 54.

¹⁸⁰ FortisBC Argument, p. 7, para 10.

2. O&M Savings in the PBR

In tables B2-2 and B2-3¹⁸¹, FortisBC presents the O&M savings it has achieved in the current PBR, including total savings to its customers: \$56.8 million in savings to customers for FEI and \$15.2 million in savings to customers for FBC. In fact, Fortis states that FEI's actual formula O&M per customer (adjusted for inflation) decreased by 16% from 2013 to 2019 and FEI's total O&M, adjusted for inflation, has decreased by 13%.¹⁸² FBC's actual formula O&M per customer (adjusted for inflation) decreased by 12% and FBC's total O&M decreased by 14%.¹⁸³ BCOAPO is left to wonder why, in a situation where there was a clear reduction in O&M per customer FortisBC wishes to make the formula linear? There is, in BCOAPO's submission, no compelling evidence on record to show that the trend of declining O&M per customer is about to end so there should continue to be a factor applied to this value. If this is not done, ratepayers will be paying for a large incremental bump in the two utilities' funding to the benefit of the companies' shareholders.

We note that the MRP the Utilities are proposing is one where this and a number of other proposed changes are actually going to decrease the benefit customers see, not increase it or even hold it steady. The Utilities cannot expect ratepayers to allow them to point to the results of the past without regard to the unjustifiable and negative effects of what they propose.

3. Introduction of a 0% Productivity Factor

The Utilities' position that a Zero Productivity Factor, if put into action, will create significant incremental funding for their use, an increase of O&M of approximately \$54 million for FEI and \$15 million for FBC¹⁸⁴. Further, Fortis asserts that there is, based on their interpretation of productivity growth in other jurisdictions an industry-wide move to lower X-Factors. That, they allege, in addition with their operation under PBR in the past, is ample justification for their proposed move to a zero percent X-Factor.

However, BCOAPO notes that in Alberta there was a reduction in their X-Factor to +0.3%¹⁸⁵ and while this admittedly represents a reduction in their first generation PBR in recognition that the low hanging efficiency fruits have been picked, it was certainly not a move to zero like FortisBC

¹⁸¹ FortisBC Argument, p. 9.

¹⁵³ FortisBC Argument, p. 10, para 15.

¹⁸³ FortisBC Argument, p. 10, para 15.

¹⁸⁴ This is derived from Tables B2-2 and B2-1 on p. 9 of the FortisBC Argument. Mr. Bell advises that if one sums column E of these tables, the savings to the Utilities related to the proposed change in the PIF are \$54.4 million for FEI and \$15.2 million for FBC.

¹⁸⁵ AUC Decision 20414-D01-2016 (Errata), para 169; FortisBC Argument, p. 63, para 133.

has proposed. BCOAPO also notes that in Ontario where utilities have operated on PBR models for years, the OEB set their X-Factor for the amalgamated Union and Enbridge Gas utilities at +0.3%¹⁸⁶: again, not zero. Third, in the Régie de l'énergie's final decision on the X-Factor determination for Hydro-Québec Distribution, the Régie set Hydro-Québec Distribution X-Factor at +0.3 percent¹⁸⁷. While the 0.3% PIF appears to be a stretch factor, it is still included in the X factor and, contrary to FortisBC's argument, the trend we have just described is a decline, not a move to zero.

In our submission, if the Commission was to approve a zero percent X-Factor, this would make the O&M linear, creating significant incremental funding that renders the plan entirely too generous to the benefit of only the utilities. The evidence is that Fortis has managed its costs per customer at a pace that is much lower than inflation, and in fact sees declining costs. In our view, the quantum of the generosity the Utilities have proposed they benefit from obviate any purported need for changes to the model, particularly removing the 50% growth factor.

4. Removal of the 50% Growth Factor for O&M and FEI Growth Capital.

FortisBC asserts that, in the current PBR, it was not provided sufficient funding for growth capital¹⁸⁸. Fortis proposes to change the Growth Capital formula to:

$$GC_t = UCGC_{t-1} * (1 + I) * GCA_t$$

In this instance, t is the test (or forecast) year, and I is the inflation factor and is lagging by one-half year. The I-factor is a composite inflation factor including 45 percent BC-CPI plus 55 percent BC-AWE. The half year lag is accomplished by comparing the most current July to June period with twelve months prior July to June period. The UCGC is the Unit Cost Growth capital, and GCA is the Gross Customer Additions forecast.¹⁸⁹

Proposed changes to Growth Capital include:

- (a) Re-scoping and rebasing to a 2019 Unit Cost Growth Capital Base: FEI has added Distribution pressure system improvements to the scope of Growth capital, as it is similarly driven by customer growth. The 2019 Base unit cost is the average 2016-2018 actual Growth capital costs per Gross Customer Addition, with adjustments for known and measurable changes. The Base Growth capital amount is set out in Part Five of this Final Submission.
- (b) A forecast of Gross Customer Additions: FEI proposes to forecast Gross Customer Additions in each Annual Review, subject to a true-up in each subsequent year. **This**

¹⁸⁶ FortisBC Argument, p. 62, para 129; p. 63, para 131.

¹⁸⁷ FortisBC Argument, p. 64 para 135.

¹⁸⁸ FortisBC Argument, p. 43, para 85 and Figure B2-3.

¹⁸⁹ FortisBC Argument, p. 44, para 87.

removes the 50 percent lagging growth factor approach used in the Current PBR Plans. The use of the Gross Customer Additions is discussed immediately below, while the forecast approach is discussed in Part Three, Section G of this Final Submission.

- (c) Implied zero productivity factor: This is discussed in Part Three, Section F of this Final Submission.¹⁹⁰

FortisBC proposes a similar approach to O&M.

$$OM_t = UCOM_{t-1} * (1 + I) * AC_t$$

As in the previous formula, t is the test (or forecast) year and I is the inflation factor and is lagging by one-half year. The I-factor is a composite inflation factor including 45 percent BC-CPI plus 55 percent BC-AWE. The half year lag is accomplished by comparing the most current July to June period with twelve months prior July to June period. However, in this case, UCOM is the Unit Cost O&M and AC is the forecast of average number of customers.

First, BCOAPO is compelled to note that these proposed changes are incremental to the introduction of the zero PIF and serves to increase the Utilities' funding above and beyond the increases we have already discussed above.

In paragraph 166 of its Argument, Fortis states:

- The correlation coefficient between FEI's number of new attachments and actual formula-related Growth capital costs is close to 0.95.
- The correlation coefficients between the average number of customers and actual formula O&M expenditures for FEI and FBC are calculated at 0.95 and 0.90 respectively.
- Similarly high correlation coefficients of .90 and .92 for Growth capital and O&M were shown to exist for 2004 to 2009, where data was available.

While we recognize that a party's position on issues can change over time, and their chosen approaches with them, it is of no small concern to BCOAPO that FortisBC's approach within this Application lacks internal consistency. The Utilities happily rely on the correlational relationship when it suits them, but discount it utterly when it doesn't. First, in its Argument the Utilities said "FortisBC also provided regression analyses, as requested by BCOAPO, which supports FortisBC's proposal to remove the 50 percent multiplier."¹⁹¹ However, it then goes on to say, "FortisBC emphasized that the regression analysis has limitations, and that it is not appropriate to rely on the slope of a regression line constructed with only six data points to forecast FortisBC's incremental costs."¹⁹² The Utilities seem to want it both ways, claiming that the regression demonstrates the 50% adjustment to the growth factor is not needed, yet the regression is not

¹⁹⁰ FortisBC Argument, p. 44, para 88.

¹⁹¹ FortisBC Argument, p. 78, para 169.

¹⁹² FortisBC Argument, p. 78, para 170.

good enough to use to forecasting the relationship between customers and costs. The best guess we can make is that FortisBC is saying that there is a strong relationship, but they do not know what the relationship is.

Then Fortis makes an even more baffling statement.

The use of a multiplier on the growth factor should also not be imposed as it will duplicate the role of the productivity factor, which explains why all other jurisdictions, except one, use a 100 percent growth factor.²²⁹ The apparent rationale for a multiplier on the growth factor is to take into account the impacts of economies of scale. However, the economies of scale achieved by the utility are already factored into the Base O&M and any benefits of economies of scale going forward are included in the productivity factor. If the productivity analysis shows that a zero productivity factor is warranted, then there can be no justification for imposing an additional positive productivity factor “through the back door” on the growth factor. As the zero value productivity factor already reflects the realization of economies of scale, any adjustment to the growth factor to reflect economies of scale will be double-counting the realization of economies of scale during the term of the Proposed MRP. These points are developed further below.¹⁹³

With respect, this is totally illogical. Given that the productivity factor is zero, BCOAPO cannot see how there is any duplication.

As demonstrated by Mr. Bell, the trend in O&M is for flat O&M per customer¹⁹⁴. This clearly indicates that there is a declining cost per customer on an inflation adjusted basis.

As discussed above, in tables B2-2 and B2-3, FortisBC summarized the purported O&M efficiency savings attributed to customers. The Utilities then stated FEI’s actual formula O&M per customer (adjusted for inflation) decreased by 16% from 2013-2019 and FEI’s total O&M, adjusted for inflation, has decreased by 13%.¹⁹⁵ They also asserted that FBC’s actual formula O&M per customer (adjusted for inflation) decreased by 12% and FBC’s total O&M decreased by 14%.¹⁹⁶ This alone indicates that the FortisBC proposal to increase O&M per customer by inflation alone is incorrect. Based on Fortis’ own admission, the relationship is not linear as they have asserted.

This is supported by the slopes produced by the regression analysis. As noted in our expert consultant Mr. Bell’s evidence, the slope for FEI is between 0.332 and 0.261¹⁹⁷, and for FBC it is between 0.377 and 0.245.¹⁹⁸ Quite frankly, FortisBC’s plan to use a flat O&M per customer without any adjustment is not supported by the evidence. The fact of the matter is, if the

¹⁹³ FortisBC Argument, p. 79, para 173.

¹⁹⁴ Exhibit C7-5, A-9, pp 8-10.

¹⁶⁶ FortisBC Argument, p. 10, para 15.

¹⁹⁶ FortisBC Argument, p. 10, para 15.

¹⁹⁷ Exhibit C7-5, A-9, p. 9.

¹⁹⁸ Exhibit C7-5, A-9, p. 9.

relationship is supported by regression, then the slope is informative, and then the 50% adjustment factor is more than generous.

While Fortis may disagree with the use of the slopes in the regression analysis, it is the only empirical evidence of the relationship between costs and customers. Given the strong correlation coefficients, it is our position that one must consider using the slope as the adjustment factor. The 50% adjustment factor is the starting point, and there is nothing on the record that indicates any move up from there is warranted. In fact, based on Mr. Bell's evidence¹⁹⁹, it would be entirely reasonable to use a 30% adjustment factor (0.3*cost per customer) in this MRP.

5. Moving to a Forecast for FBC Growth capital.

The Application has indicated FBC's intention to move to a 5-year forecast of growth capital²⁰⁰. This impacts the incentive properties of the MRP²⁰¹. There are also trade-offs between operating and capital costs²⁰²: companies can invest in capital to save O&M or conversely, delay capital investments, resulting in higher O&M. There are links between O&M and Capital so the two cannot realistically or fairly be evaluated independently. If we were to, as FortisBC has proposed, moves one of the two linked factors out of the formulaic approach, it mutes the incentive properties of the MRP, as it is a return to COS regulation for that portion.

Further, Mr. Bell states "when I have been involved in forecasting, the further out one forecasts, the less reliable the forecast is, and the more an uncertainty premium one puts into the forecast."²⁰³ While Fortis may assert that no such premiums were included explicitly in any forecasts, they must have been there implicitly. When one puts a forecast together, the further out the forecast, the more uncertainty exists, and the more one must price that uncertainty into the forecasts. If there was no explicit adjustment, there most certainly was an implicit adjustment included by those individual managers that prepared the forecast.

Based on the foregoing, BCOAPO recommends that, if the Commission does approve the Utilities' application for a PBR, that it order FortisBC to return to a formulaic approach to FBC growth capital.

B. PBR – BCOAPO Conclusions

¹⁹⁹ Exhibit C-7-5, A9, pp 8-10.

²⁰⁰ FortisBC Argument, p, 30; Exhibit B-1, Table C-5.

²⁰¹ Exhibit C7-5, A11, pp. 11-12.

²⁰² Exhibit C7-4, A11, pp. 11-12.

²⁰³ Exhibit C7-5, A12, pp. 12-13.

BCOAPO has already noted that FEI and FBC have achieved their formula returns in each of the years of the prior MRP/PBR.²⁰⁴ While our expert Mr. Bell acknowledged that achieving the allowed ROE is not a perfect indicator of success²⁰⁵, it is the only empirical evidence of whether all of the components of an MRP/PBR work when put into operation together. Given that this is the case, he felt the question was clear: why are the changes FortisBC is asking for necessary? Why are they needed? We have demonstrated that the removal of the PIF will increase funding to the two utilities combined by approximately \$70 million²⁰⁶ and there is certainly no sufficiently compelling evidence to justify enriching their operations by such significant amounts on the backs (and pocketbooks) of their captive ratepayers. Rubbing salt in the wound, removing the 50% growth factor adjustment provides additional revenues to FortisBC, despite the clear evidence that the unit costs are on a declining cost curve.

All in all, our clients are unimpressed by these proposals and FortisBC's attempts to justify them. As we have said before, PRB is not a right. It is not a norm. It is a marked departure from the rigorous Cost of Service regulation intended to protect ratepayers like our clients from the actions of utilities who owe their fealty not only to their customers but their shareholders: shareholders that are jealous of their dividends. As such, any PBR plan must be solid: justified and justifiable. In our view, FortisBC's current plan is neither and as such, the Commission has two options: reject the MRP/PBR in its entirety and return to CoS regulation until the Utilities bring forward a more balanced and justifiable PBR model or, make modifications to what is currently proposed. Should the Commission determine that a modification is appropriate then our clients respectfully submit that, at the very least, the Utilities' X factors should be +0.3%, consistent with other jurisdictions, the adjustment to the growth factor should be between 30% and 50%, and FBC growth capital should return to a formulaic approach.

ALL OF WHICH IS RESPECTFULLY SUBMITTED:

Original on file signed by:

Leigha Worth, Executive Director
BC Public Interest Advocacy Centre

Original on file signed by:

Irina Mis, Staff Lawyer
BC Public Interest Advocacy Centre

²⁰⁴ Exhibit C7-5, A6, pp. 6-7.

²⁰⁵ Exhibit C7-5, A6, pp. 6-7.

²⁰⁶ savings related to the PIF are \$54.4 million for FEI and \$15.2 million for FBC