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November 30, 2020

Via Email

Ms. Marija Tresoglavic
Acting Commission Secretary
BC Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Dear Ms. Tresoglavic:

Re: FBC Annual Review for 2020-2021 Rates

In accordance with Order G-287-20 (Exhibit A-7), by this letter the ICG submits final argument in this proceeding. By Order G-298-20 (Exhibit A-9), the Commission denied FBC's application to make 2020 interim rates permanent, effective January 1, 2020 and approved a 4.36 percent general rate increase, on an interim and refundable basis, effective January 1, 2021.

In this letter, the ICG first makes submissions regarding FBC's position regarding financing costs of deferral accounts. Regarding the Playmor Project, the ICG objects to an increase in capital expenditures for the Project. Then the ICG supports FBC's position regarding the SQIs with the request that the SAIDI and SAIFI thresholds be established for 2020 and 2021. Finally, the ICG requests the I-Factor input for the BC-AWE be the 2020 BC-AWE.

Financing Costs of Deferral Accounts

In this proceeding, FBC is seeking approval for financing costs of deferral accounts[1] that are inconsistent with previously approved principles established by Order G-110-12. In the Decision attached to Order G-110-12, the Commission identified two issues that must be considered regarding deferral accounts financing costs as follows:

> In the view of the Commission there are two important issues which must be considered in reaching a determination on whether to approve the deferral accounts as proposed by FortisBC. They are as follows:
>
> 1. Deferral Account Financing Cost
> This refers to the financing cost appropriate for various deferral accounts.
>
> 2. Determining An Appropriate Amortization Period

[1] Exhibit B-2, p. 53-56 and 89-90

> This refers to the most appropriate time period over which specific deferral account groups should be amortized.

> The Commission Panel believes that establishing *principles* to deal with these issues will be instrumental in helping to provide a context for the determinations which follow. [emphasis added] Accordingly, the Panel will address these two issues before undertaking to examine the specific deferral account approvals which are sought by FortisBC.[2]

And then the Commission referenced submissions by the ICG as follows:

> The ICG argues that FortisBC's deferral accounts should be financed in the same way as those of BC Hydro, which is at the weighted average cost of debt, as opposed to the weighted average cost of debt and equity, as proposed by FortisBC.
>
> In the alternative, the ICG argues that should the Commission Panel determine that some deferral accounts should attract the weighted average cost of debt and equity, then those should be limited to accounts where the balance is to be made part of a capital expenditure. [3]

As noted by the Commission, in reply submissions FortisBC argued as follows:

> FortisBC argues that BC Hydro is a Crown Corporation with different access to resources. It argues that FortisBC, as an investor-owned utility, should properly earn an equity return on its rate base deferral balance to allow the shareholders an opportunity to earn a fair return on its invested capital. It argues that FortisBC's rate base, including deferral accounts, is *financed as part of the total financing of the Company, and represents the actual cost being incurred by the Company.*[4] [emphasis added]

In this proceeding, FortisBC makes the same argument as follows:

> FBC considers that rate base treatment of its deferral accounts is the correct regulatory treatment because it results in the amounts expended on behalf of customers (or, if credits, collected from customers) being financed for rate making purposes at the same rate they are financed by the utility.[5]

The FortisBC argument for "rate base treatment of its deferral accounts" has been previously considered and rejected by the Commission as follows:

> The Commission Panel agrees with the ICG that deferred expenditures or credits ought not to be included in rate base or attract a rate base rate of return. The Panel notes that deferral accounts are regulatory assets, not true capital assets.

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[2] Order G-110-12 Decision, p. 103-104
[3] Order G-110-12 Decision, p. 104
[4] Order G-110-12 Decision, p. 105
[5] Exhibit B - 4, BCOAPO IR 27.1.1

> Capital assets which are recognized as such under standard accounting rules such as US GAAP do not require deferral account treatment. It is only amounts which would otherwise be required to be expensed under standard accounting principles for which deferral account treatment is needed. However, in the Panel's view, amounts which represent operating costs or other costs which would commonly be expensed as current period charges but which are deferred for rate-smoothing purposes do not become capital investments, simply by the fact of the deferral. Normally, a utility, whether a Crown corporation or shareholder-owned, is not entitled to receive a return on operating costs or current period charges but simply recovery of those amounts from its ratepayers, assuming recovery is otherwise justified. Current period changes are not "investments" which attract a capital return, they are deferred operating costs/current period expenses which, as noted above, in the Panel's view, should not attract rate base rate of return. **The Panel finds that a more appropriate financing cost is an interest return.** For expenditures which are amortized beyond one year, the Panel finds that the appropriate return is FortisBC's *WACD*. The Panel further finds that for true-up deferral accounts which are, by their very nature, a short term deferral, the appropriate interest return is FortisBC's *short term interest cost.* [6] [italics added]

The Commission Panel further found:

> **The Commission Panel therefore directs that such deferral accounts [for preliminary and investigative work for capital projects], with costs accruing beyond a three year period and where no CPCN has been applied-for or expenditure schedule filed, be amortized into rates.** … The amounts in these accounts, unless otherwise ordered, are to attract a return at FortisBC's WACD until such time as they are properly added to an approved capital project.[7]

In these excerpts of the Order G-110-12 Decision, the Commission clearly stated principles, amongst others, it was establishing for financing deferral accounts. Nevertheless, FortisBC states in this proceeding:

> FBC plans to request a rate base treatment (or weighted average cost of capital return) for new deferral accounts in most circumstances.[8]

In the Order G-293-20 Reasons, the Commission Panel said:

> The Panel also agrees that it is neither efficient nor feasible to turn annual reviews into a forum in which any past order of the BCUC is subject to review and variation. The BCUC has a separate process for an interested party to request a

[6] Order G-110-12 Decision, p. 105
[7] Order G-110-12 Decision, p. 106
[8] Exhibit B-4, BCOAPO IR 27.1.1

> *review and variation* of previous orders, and that process would allow interested parties an opportunity to comment.[9] [italics added]

FBC has not sought a review and variation of Order G-110-12. Instead, without reference to Order G-110-12, FBC has sought and obtained approval on two applications for a higher return than permitted by the principles established by Order G-110-12.[10] These two exceptions do not amount to a "review and variation" of Order G-110-12. FortisBC had an opportunity to seek a "review and variation" of Order G-110-12 and did not take it. Now, the ICG respectfully submits, as noted in Order G-293-20, that FBC should follow the most recently approved orders, including Order G-110-12, to set its cost of capital. As found in Order G-293-20 regarding Order G-129-16 the "scope and framework of this Annual Review process, as determined by the previous BCUC decision on the FBC MRP, does not contemplate a review of Order G-129-16.[11] It also does not contemplate a review of Order G-110-12.

At least FBC has clearly stated its intentions. However, without reference to the principles established by Order G-110-12. And yet in its submissions regarding the CoC IRs, FBC stated:

> … FBC is entitled to rely on existing and valid BCUC Orders that have already approved aspects of its costs, including its capital structure and ROE.[12]

In this regard, FBC is selective. FBC believes that it is entitled to rely on Orders that increase returns, but Orders that decrease returns need not be followed. Without reference to Order G-110-12, FBC relies on two decisions that approve financing costs that do not follow the principles established by Order G-110-12. In effect, FBC argues that Order G-110-12 can no longer be relied upon for ratemaking purposes because it has sought and received approval for financing costs of deferral accounts in excess of amounts awarded by Order G-110-12.[13]

The ICG respectfully submits that it would be inconsistent to follow Order G-129-16 and not follow Order G-110-12. Further, the ICG respectfully submits that the principles established in Order G-110-12 ought to be confirmed by this Commission Panel so that FBC will not "request a rate base treatment … for new deferral accounts in most circumstances". At the very least, FBC should be transparent when it makes its next effort to abandon the principles established by Order G-110-12. It ought to do so with explicit reference to established principles found in Order G-110-12, which it may disagree with, but ought to follow until the Commission establishes new principles. Given Commission conclusions found in Order G-293-20, a review and variation of the principles established in Order G-110-12 is beyond the scope of this proceeding.

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[9] Order G-293-20 (Exhibit A-8), Appendix A, p. 6
[10] Order G-133-20 and MRP Decision
[11] Order G-293-20 (Exhibit B-8), Appendix A, p. 6
[12] Exhibit B-11, p.2
[13] Exhibit B-4, BCOAPO IR 27.1.1, where FBC refers to the MRP Decision and Order G-133-20

FBC seeks approval of six deferral account all proposed as Rate Base Deferral Accounts. As noted above, the Order G-110-12 principles state that deferred operating costs/current period expenses, including all of the amounts to be booked to the six deferral accounts, should not attract rate base rate of return. The application of the principles to the deferral accounts that were the subject of the Order G-110-12 Decision can be turned to make this clear.[14]

Following the Order G-110-12 principles, the following deferral accounts should attract financing costs based on "FortisBC's short term interest cost" because "true-up deferral accounts, are by their very nature, a short term deferral".

Annual Reviews for 2020-2024 Rates

2020 Cost of Service Analysis

BCUC-Initiated Inquiry Costs

Mandatory Relations Standards (MRS) 2021 Audit

Indigenous Relations Agreement (Huth Substation)

The remaining deferral account "2021 Long-Term Electric Resource Plan" should attract financing costs based on "FortisBC's WACD" because the expenditures are to be amortized beyond one year.

As noted by FBC, the recovery from customers of the net incremental O&M impact included in the COVID-19 Customer Recovery Fund Deferral Account will remain the subject of a future BCUC determination.[15] As confirmed by FBC during the Workshop, FBC is tracking the balances in the deferral account by customer class, and the disposition of such balances is also to be the subject of a future BCUC determination.[16]

Playmor Project

FBC has applied for approval of this project pursuant to section 44.2 in order to recover the costs of the project. FBC submits should not be considered to be part of "Regular Capital". In the MRP Decision, the Commission approved capital expenditures for the three-year period 2020-2022, including Regular Capital. Further, the Commission

[14] Order G-110-12 Decision, p. 109, research costs relating to Irrigation rate attracted a short term interest rate; p. 110, negotiations with BCH re PPA attracted WACD; p. 111, costs related to conversions to US GAAP attracted WACD, set up costs related to MRS attached WACD, p. 113 investigation costs related to capital projects attracted WACD, p. 113, costs for an Integrated System Plan attracted WACD; p. 115, preliminary investigation and engineering costs for a Capital Expenditure Plan attracted WACD; p. 116, deferral accounts for power purchase expenses, revenue variances, property tax variances, and pension expense variances all attracted WACD.
[15] Exhibit B-6, BCUC IR 23.5
[16] Transcript, p. 89, lines 9-18

directed FBC to file an updated forecast of the 2023 and 2024 capital expenditures for approval in the Annual Review for 2023 rates.

In this proceeding, FBC is asking the Commission to increase capital expenditures for 2022 beyond the amounts approved in the MRP Decision. In the MRP Decision, FBC sought and obtained approval to replace the capital formula with forecast capital expenditures for the term of the Proposed MRP. At the same time, FBC sought and obtained approval for an increase of capital expenditures of approximately 30% over actual capital expenditures. The average 2017- 2019P is $91 million, and the 2020 forecast capital expenditures is $120 million for a 30% increase in capital expenditure arising from the change from the formula to forecasts.[17]

Now, FBC is seeking yet another increase to capital expenditures. FBC justifies this increase because it should not be expected to forecast growth capital expenditures. [18] However, as noted at the Workshop, the Project has three drivers: "insufficient station capacity to meet customer requests, reliability concerns associated with the existing configuration, and aging equipment that is near end of life."[19] Given only one of these drivers relates to customer growth, FBC ought to have forecast the need for this Project and included it in the capital expenditures that were approved in the MRP Decision. If the Commission agrees, then the Commission should not approve the increase to capital expenditures for the Playmor Project requested in this Application.

Under these new regulatory parameters approved in the MRP Decision, FBC should not be granted approval for projects in addition to the 30% increase already approved with the change from a capital formula to a capital forecast. Although in previous Annual Reviews, the Commission has approved additional capital expenditures to those under the capital formula methodology it should not do so under the capital forecast methodology. FBC should be held to its capital forecasts, and make appropriate adjustments to capital expenditures to accommodate the Playmor Project. The Commission should hold FBC to the forecast capital expenditures under the new regulatory parameters approved by the MRP Decision.

FBC should be required to manage its capital expenditures below the amounts approved by the MRP Decision and embedded in rates. As found by the Commission in the MRP Decision:

> As noted previously in this Decision, the Panel disagrees with the CEC and ICG that forecast capital expenditures should be subject to a flow-through or true-up mechanisms. Treating all forecast capital as flow-though would exclude these expenditures from the ESM and provides no incentive for the Utilities to be more efficient and effective. If the Utilities overspend compared to forecast or formula

[17] Exhibit B-10, BCUC 1.51.1, Table 1 and Table 2

[18] Exhibit B-6, BCUC IR 14.1, where FBC states that it could not "reasonably forecast the Playmor Project as part of its Regular capital expenditures in the MRP proceeding. The Playmor Project is a growth-driven project resulting from new customer load requests."

[19] Transcript, p. 111, lines 8-12

capital expenditures, as was the case in the Current PBR Plans, the absence of a true-up mechanism would mean that the ROE impacts related to any excess expenditures would be shared with ratepayers. Further, having an ESM in place means if FEI and FBC effectively manage capital projects and spend less than forecast or formula FEI growth capital expenditures, the achieved ROE will exceed the allowed ROE built into rates and this amount will be shared with ratepayers. In this case, ratepayers share in the savings during the MRPs and given the remaining life of assets beyond the MRP term, after re-basing at the end of the MRP term, ratepayers will continue to benefit from these efficiencies.[20]

SQI

The ICG accepts FBC's position that the SQI results filed in this proceeding indicate that the Company, at least for the purposes of this Annual Review, is meeting service quality standards.

FBC presented the June 2020 year-to-date SQI results in Section 13 of the Application. The ICG expects the actual 2020 SQI performance will be reviewed in the Annual Review for 2022 rates.

FBC filed a revised Order seeking approval for its proposed benchmarks and thresholds for the SAIDI and SAIFI. The ICG submits that the Commission should approve the revised Order only if the effect of such approval is expressly limited to 2020 and 2021.[21]

I –Factor

In the MRP Decision and Order G-166-20, the BCUC approved an I-Factor using the actual CPI-BC and BC-AWE indices from the previous year. As shown in Table 2-1 of the Application, the I-Factor has been calculated utilizing actual CPI-BC and AWE-BC data. Applying the actual 2019 labour weighting of 62 percent, the calculation of the 2020 I-Factor is (2.692 percent x 38 percent) + (2.881 percent x 62 percent) = 2.809 percent, and the calculation of the 2021 I-Factor is (1.596 percent x 38 percent) + (5.946 percent x 62 percent) = 4.293 percent.[22]

As noted in the Workshop Undertaking[23], using the 2020 AWE in place of the 2021 AWE reduces the 2021 rate increase by 0.25 per cent. And as noted by the AUC, when growth in AWE exceeds the growth in the CPI, the I-Factor overstates the input price inflation.[24] Further, FBC acknowledges that the pandemic has impacted the BC-AWE.[25] From the comparison of the BC-CPI and BC-AWE together with the acknowledged impact of the pandemic impacts on the BC-AWE, the Commission should conclude that

[20] MRP Decision, p. 82
[21] Exhibit B-6, BCUC IR 26.4, Attachment 26.4, item 5
[22] Exhibit B-2, p. 9
[23] Exhibit B-15, Undertaking No. 1
[24] Exhibit B-8, ICG IR 2.2, Attachment 2.2, para. 228
[25] Exhibit B-15, Undertaking No. 1

the I-Factor formula results overstate the input price inflation. In these circumstances, the ICG recommends the use of the 2020 AWE in place of the 2021 AWE for calculating the revenue requirement and rate increase for 2021.

Recommendations

In this proceeding, the ICG recommends:

1) The principles established by Order G-110-12 be followed;
2) There be no adjustment to the capital expenditures for the Playmor Project;
3) The approval of the SQI thresholds for SAIDA and SAIFI be limited to 2020 and 2021; and
4) The I-Factor be calculated based on the 2020 BC-AWE.

Yours truly,

(Original Signed)

Robert Hobbs