bcuc
British Columbia
Utilities Commission

Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3
bcuc.com

P: 604.660.4700
TF: 1.800.663.1385
F: 604.660.1102

ORDER NUMBER
G-48-19

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Energy Inc.
Application for Approval of 2019-2020 Revenue Requirements and Rates
for the Fort Nelson Service Area

BEFORE:
A. K. Fung, QC, Panel Chair/Commissioner
B. A. Magnan, Commissioner

on March 5, 2019

ORDER

WHEREAS:

A. On September 4, 2018, pursuant to sections 45, 46, 59 to 61 and 89 of the *Utilities Commission Act* (UCA), FortisBC Energy Inc. (FEI) submitted to the British Columbia Utilities Commission (BCUC) its 2019–2020 Revenue Requirements and Rates Application for the Fort Nelson service area (FEFN), seeking, among other things, BCUC approval of delivery rates for 2019 and 2020 (Application);

B. In the Application, FEI seeks approval of an interim, refundable delivery rate increase of 4.37 percent, effective January 1, 2019, and approval of an interim Revenue Stabilization Adjustment Mechanism (RSAM) Rate Rider of $0.199 per gigajoule (GJ), effective January 1, 2019. FEI also seeks approval of, among other things, a Certificate of Public Convenience and Necessity (CPCN) for an extension of FEI's distribution system in FEFN, resulting from its purchase of the gas distribution assets of the Prophet River First Nation;

C. By Order G-171-18 dated September 13, 2018, the BCUC approved the delivery rates and rate riders requested in the Application, effective January 1, 2019, on an interim and refundable/recoverable basis and established the regulatory timetable for the review of the Application. The regulatory timetable included one round of BCUC and intervener information requests (IR) and submissions on further process;

D. On November 19, 2018, FEI filed an evidentiary update to the Application. As a result of the changes identified in the evidentiary update, FEI revised its permanent 2019 delivery rate increase request for FEFN from 4.37 percent to 4.41 percent;

E. By Order G-235-18 dated December 10, 2018, the BCUC established a further regulatory timetable, which provided for Panel IRs to request clarification on a number of issues, followed by written final and reply arguments;

F. On January 11, 2019, FEI filed its written final argument, which included a request to maintain the existing interim delivery rates and rate riders for FEFN as approved by Order G-171-18 until the issuance of the

decision on the Application and the decision on the FEI 2019-2022 Demand Side Management (DSM) Expenditures Application filed on June 22, 2018;

G. By Order G-10-19 dated January 17, 2019, the BCUC issued its reasons for decision regarding FEI's 2019-2022 DSM Expenditures Application (DSM Decision); and

H. The BCUC has reviewed the Application, and the evidence and submissions filed in the proceeding, and considers that approval of the Application is warranted.

NOW THEREFORE pursuant to sections 45, 46, and 59 to 61 of the UCA, for the reasons attached as Appendix A to this order, the BCUC orders as follows:

1. FEI's requested delivery rate increase of 4.41 percent, effective January 1, 2019, and an additional delivery rate increase of 8.25 percent effective January 1, 2020, for FEFN are approved on a permanent basis, subject to any adjustments resulting from both the directives in the attached reasons for decision and the DSM Decision.

2. The RSAM Rate Rider is approved to be set at $0.199 per GJ on a permanent basis for FEFN, effective January 1, 2019.

3. The following deferral account requests are approved:

    a. The creation of a rate base deferral account for the 2019-2020 Revenue Requirement Application costs with an amortization period of two years beginning in 2019;

    b. The amortization of the 2017 Rate Design Application deferral account approved by Order G-162-16 over a five-year period beginning in 2019; and

    c. The delay of the disposition of the non-rate base Fort Nelson First Nations Right-of-Way Agreement deferral account to the next revenue requirement proceeding.

4. FEI is granted a CPCN for an extension of FEI's distribution system in FEFN, resulting from its purchase of the gas distribution assets of the Prophet River First Nation.

5. FEI is directed to file as a compliance filing with the BCUC the financial schedules for the 2019 and 2020 test period reflecting the impacts to the 2019 and 2020 revenue requirements and delivery rates of both the directives in the attached reasons for decision and the DSM Decision by no later than 30 days from the date of this order. FEI must describe its planned treatment of any differences between the interim and permanent 2019 delivery rates in the compliance filing.

6. FEI is directed to comply with all directives in the reasons for decision attached as Appendix A to this order.

7. FEI is directed to file amended tariff pages for FEFN within 30 days of the issuance of this order.

DATED at the City of Vancouver, in the Province of British Columbia, this 5th day of March 2019.

BY ORDER

Original signed by:

A. K. Fung, QC
Commissioner

Attachment

FortisBC Energy Inc.

Application for Approval of 2019-2020 Revenue Requirements and Rates for the Fort Nelson Service Area

---

Reasons for Decision

March 5, 2019

Before:
A. K. Fung, QC, Panel Chair
B. A. Magnan, Commissioner

Table of Contents

Page no.

1.0 Background and Regulatory Process

On September 4, 2018, FortisBC Energy Inc. (FEI) submitted its 2019-2020 Revenue Requirements and Rates Application for the Fort Nelson service area (FEFN) to the British Columbia Utilities Commission (BCUC), pursuant to sections 45, 46, 59 to 61 and 89 of the *Utilities Commission Act* (UCA).

Pursuant to Order G-171-18 dated September 13, 2018, the BCUC approved an interim and refundable delivery rate increase of 4.37 percent and a revenue stabilization adjustment mechanism (RSAM) rate rider set at $0.199 per gigajoule (GJ), effective January 1, 2019 for FEFN. The BCUC also established a regulatory timetable which provided for intervener registration, one round of information requests (IR), and an opportunity for parties to file submissions on further process.

The Commercial Energy Consumers Association of British Columbia (CEC) registered as the sole intervener in the proceeding.

On November 19, 2018, FEI filed an evidentiary update to the application. FEI explained that the following three items have resulted in changes to the application and resulting revenue deficiencies for 2019 and 2020:[1]

1. Update to the allocation of intangible plant additions from FEI to FEFN for 2019 and 2020;
2. Update to the allocation of intangible plant from FEI to FEFN for 2017 actuals; and
3. Update to the transmission plant additions projected for 2018 and forecast for 2019 to account for projects underway.

FEI submits that the combined effect of the above items is a further revenue deficiency of $0.001 million or an additional rate increase of approximately 0.043 percent for 2019. This results in a revised delivery rate increase approval request of 4.41 percent for 2019 compared to the 4.37 percent delivery rate increase approved on an interim basis for 2019.[2] The application as supplemented by the evidentiary update is hereafter referred to as the Application.

In accordance with the regulatory timetable, FEI and the CEC filed submissions on further process, stating that a second round of IRs is not required and the proceeding should move to written arguments.

Pursuant to Order G-235-18 dated December 10, 2018, the BCUC established a further regulatory timetable which provided for Panel IRs to request clarification on a number of issues, followed by written final and reply arguments.

1.1 Relevant Decisions

During 2018 and 2019, the BCUC issued the FEI 2016 Rate Design Application (RDA) decision (RDA Decision) and the FEI 2019-2022 Demand Side Management (DSM) Application decision (DSM Decision), respectively, which have an impact on the Application.

[1] Exhibit B-1-1, p. 1.
[2] Ibid., pp. 2–3.

RDA Decision

The RDA Decision, issued on July 20, 2018, directed FEFN to do, among other things, the following:[3]

- Unbundle the commodity, midstream and delivery components of FEFN's residential, commercial and industrial rates;
- Replace FEFN's declining block rate structure with a flat rate structure;
- Rename FEFN's rate schedules to align with FEI's rate schedule naming conventions;
- Set the annual consumption threshold separating Rate Schedules 2 and 3 at 2,000 GJ per year, consistent with the threshold used in FEI's other service areas; and
- Rebalance revenues to costs amongst residential, commercial and industrial rate classes based on a 95 percent to 105 percent revenue to cost (R:C) ratio range of reasonableness.

The Application includes all of the above changes effective as of January 1, 2019.[4]

In the RDA Decision, the BCUC also directed FEI to consider the appropriateness of implementing a mitigation mechanism to address the impact of the rate design and rebalancing proposals on FEFN ratepayers in its next Revenue Requirements Application (RRA).[5] In response to this directive, FEI states that it is not proposing any mitigation mechanisms in the Application to address the rate impact from the RDA Decision or revenue requirement changes for 2019 and 2020.[6] FEI explains that the combined bill impact from the RDA Decision and the revenue requirement changes proposed in the Application is less than 10 percent for each of 2019 and 2020 for each Rate Schedule.[7] FEI notes that "a common threshold for defining a rate/bill increase that constitutes rate shock" is an increase of 10 percent or more.[8] The Panel accepts FEI's rationale as being an accurate statement of the commonly accepted standard.

DSM Decision

Subsequent to FEI and the CEC filing their final arguments, on January 17, 2019, the BCUC issued the DSM Decision. In the DSM Decision, the BCUC ordered, among other things:[9]

- Acceptance of FEI's DSM expenditure schedule setting out expenditures of $324.6 million for 2019 through 2022; and
- Approval of FEI's request to increase the forecast annual additions from $15 million to $30 million to the rate base DSM deferral account (previously referred to as the Energy Efficiency and Conservation [EEC] deferral account) for the period from 2019 through 2022.

The DSM expenditure schedule consists of annual expenditures of $66.35 million to $96.78 million for the period 2019 through 2022.[10] This is an increase from FEI's previous DSM plan where annual expenditures had been approximately $27.55 million to $35.87 million for the period of 2014 through 2018.[11]

---

[3] RDA Decision, pp. 48–58.
[4] Exhibit B-1, p. 10; FEI Final Argument, p. 3.
[5] RDA Decision, p. 57.
[6] Exhibit B-1, p. 12.
[7] Ibid., p. 12, Table 2-3.
[8] Ibid., p. 12.
[9] DSM Decision, pp. 15 & 19.
[10] FEI 2019-2022 DSM Expenditures Plan Proceeding, Exhibit B-1-1, p. 22, Table 6-1.

The increase in DSM expenditures approved by the BCUC in the DSM Decision will result in an increased amount of DSM expenditures allocated to FEFN. FEI proposes to update the forecast balances for FEFN for 2019 and 2020 as part of its compliance filing to the Panel's decision on the current Application.[12]

1.2 Approvals Sought

FEI seeks the following approvals from the BCUC, pursuant to sections 45, 46 and 59 to 61 of the UCA:[13]

- A permanent delivery rate increase of 4.41 percent effective January 1, 2019 to recover the forecast revenue deficiency of $102,000 in 2019;
- An additional permanent delivery rate increase of 8.25 percent in 2020 to recover the incremental forecast revenue deficiency of $180,000 in 2020;
- The RSAM rate rider to be set to $0.199 per GJ (a decrease of $0.192 per GJ compared to 2018) effective January 1, 2019;
- The following deferral account requests:
    - The creation of a rate base deferral account for the 2019-2020 Revenue Requirement Application costs with an amortization period of two years beginning 2019;
    - Amortization of the 2017 Rate Design Application deferral account, as approved in Order G-162-16, beginning in 2019 over a five-year period; and
    - Delay in disposition of the non-rate base Fort Nelson First Nations Right-of-Way Agreement deferral account to the next revenue requirement proceeding; and
- A Certificate of Public Convenience and Necessity (CPCN) for an extension of FEI's distribution system in FEFN resulting from its purchase of the gas distribution assets from the Prophet River First Nation (PRFN), with 53 residential and six commercial properties currently attached to the system.

In Section 2 of these reasons for decision, the Panel reviews and makes determinations on the first three approvals sought in the Application as outlined above.

2.0 Revenue Requirement and Rates

FEI forecasts a revenue deficiency of $102,000 and $180,000 for 2019 and 2020, respectively.[14] FEI submits that the revenue deficiencies are primarily due to the reduction in customer demand forecast, and to a lesser extent, an increase in depreciation and amortization expenses and rate base growth.[15] FEI states that the largest contributor to the revenue deficiencies in 2019 and 2020 is the decrease in energy demand, which contributes $270,000 out of the net revenue deficiency of $282,000. Other contributing factors to the net revenue deficiency include rate base growth from capital additions for system growth and maintenance, an increase in depreciation expense primarily from Distribution Plant additions and upgrades to the Fort Nelson office building, and increases in amortization expense and taxes. The net revenue deficiency is partially offset by reduced

[11] Ibid., p. 19, Table 5-1.
[12] FEI Final Argument, p. 16.
[13] Exhibit B-1, pp. 5–6; FEI Final Argument, pp. 1–2.
[14] FEI Final Argument, p. 1.
[15] Exhibit B-1, pp. 15–16.

operating and maintenance (O&M) expenses and property taxes, and the amortization of the 2017 revenue deficiency ending in 2018.[16]

Two issues were explored related to FEI's forecast revenue deficiencies and rate increases which are discussed further below: (i) the declining FEFN demand forecast; and (ii) the potential implementation of postage stamp rates to address rate pressures experienced in FEFN.

Demand Forecast

The total energy demand in FEFN has been declining since 2014.[17] For 2019 and 2020, FEI forecasts a decrease in demand of 54 terajoules (TJ) and 78 TJ, respectively, from the 2018 approved level of 560 TJ.[18] FEI submits that the decrease in demand is the largest driver of the revenue deficiency in 2019 and 2020. It contributes approximately $184,000 to the revenue deficiency in 2019 and to an incremental revenue deficiency of $86,000 in 2020. The decrease in demand in 2019 and 2020 is mainly attributable to:[19]

- The continuing trend of decline in use per customer (UPC) for both residential (Rate Schedule 1) and small commercial (Rate Schedule 2) services; and
- The steady trend of decline in customer counts in the residential customer class.

FEI submits that based on its UPC forecast methods, the UPC for Rate Schedule 1 is forecast to continue to decline in 2019 and 2020.[20] Similarly, the UPC for Rate Schedule 2 has been steadily declining since 2015. Furthermore, as a result of the RDA Decision, 16 customers have been moved from Rate Schedule 2 to Rate Schedule 3, which effectively lowers the average UPC for Rate Schedule 2.[21]

With respect to residential customer additions, FEFN has experienced negative net residential customer additions in both 2016 and 2017. However, if the CPCN for the PRFN Extension is approved, the PRFN will be converted from a single large commercial customer to 53 new residential and 6 new small commercial customers in 2019. This would result in a temporary reversal of the trend in negative net residential customer additions in 2019, but then the forecast is once again negative in 2020. Thus, the temporary reversal does not result in an overall change in demand.[22]

Postage Stamp Rates

FEI states that it is currently not proposing to implement postage stamp rates in FEFN, which if implemented would mean that FEFN ratepayers would pay the same rate for the delivery of their natural gas as customers in the rest of FEI's service areas. FEI explains its decision on the basis that it has not yet filed for approval of 2020 rates for the rest of FEI's service areas and FEFN's residential customers would experience a rate increase from moving to FEI's rates, as illustrated in the table provided by FEI and reproduced below.[23]

[16] Ibid., pp. 1–2.
[17] Ibid., p. 31, Figure 4-7.
[18] Ibid., p. 21.
[19] Ibid., p. 16.
[20] Ibid., pp. 27–28, Figure 4-4.
[21] Ibid., pp. 28–29, Figure 4-5.
[22] Ibid., pp. 24–26, Figure 4-2.
[23] Ibid., p. 13.

Table 1 – Comparison between FEI and FEFN Delivery Rates

	FEI Estimated Rate (2019)	Fort Nelson Proposed Rates (2019)	Difference	FN/FEI	Fort Nelson Proposed Rates (2020)	Difference	FN/FEI
Rate Schedule 1							
Basic Charge/Day	$ 0.4085	$ 0.3701	$ (0.0384)		$ 0.3701	$ (0.0384)	
Delivery Charge/GJ	$ 4.376	$ 3.712	$ (0.664)		$ 4.097	$ (0.279)	
Annual Usage (GJ)	125	125			125		
Effective Rate/GJ	**$ 5.57**	**$ 4.79**	**$ (0.78)**	(14%)	**$ 5.18**	**$ (0.39)**	(7%)
Rate Schedule 2							
Basic Charge/Day	$ 0.9485	$ 1.2151	$ 0.2666		$ 1.2151	$ 0.2666	
Delivery Charge/GJ	$ 3.384	$ 4.002	$ 0.618		$ 4.435	$ 1.051	
Annual Usage (GJ)	349	349			349		
Effective Rate/GJ	**$ 4.38**	**$ 5.27**	**$ 0.90**	20%	**$ 5.71**	**$ 1.33**	30%
Rate Schedule 3							
Basic Charge/Day	$ 4.7895	$ 3.6845	$ (1.1050)		$ 3.6845	$ (1.1050)	
Delivery Charge/GJ	$ 2.977	$ 3.492	$ 0.515		$ 3.821	$ 0.844	
Annual Usage (GJ)	3,164	3,164			3,164		
Effective Rate/GJ	**$ 3.53**	**$ 3.92**	**$ 0.39**	11%	**$ 4.25**	**$ 0.72**	20%
Rate Schedule 25							
Admin Charge/Mth	$ 39.00	$ 39.00			$ 39.00		
Basic Charge/Mth	$ 469.00	$ 600.00			$ 600.00		
Demand Charge/GJ/Mth	$ 23.358	$ 31.785	8.427		$ 34.449	11.091	
Delivery Charge/GJ	$ 0.836	$ 1.053	0.217		$ 1.141	0.305	
Contract Demand	293	293			293		
Annual Usage (GJ)	41,500	41,500			41,500		
Effective Rate/GJ	**$ 2.96**	**$ 3.93**	**$ 0.97**	33%	**$ 4.24**	**$ 1.28**	43%

[24]

FEI submits that it cannot predict when FEI would apply for postage stamp rates for FEFN or when FEFN's residential customers will no longer experience a rate impact from moving to FEI's rates. FEI explains that this is because "there are a number of factors and circumstances, some beyond FEI's control, that could lead to the rate impact being reduced or increased in the near future." FEI provides the following examples where the rate impact to FEFN's residential customers from moving to FEI's rates would be reduced:[25]

- If FEFN continues to experience negative growth in residential customers and natural gas demand in all rate classes continues to decline;
- If FEFN's system requires capital investments of $1 to $2 million to address integrity concerns or for other sustainment projects; or
- If FEI continues to have delivery rate increases of zero to one percent in the rest of FEI's service areas.

[24] Exhibit B-2, BCUC IR 1.1.
[25] Ibid., BCUC IR 1.2.

Position of the Parties

Overall, the CEC recommends that the BCUC grant the approvals sought in the Application.[26]

Demand Forecast

FEI states that based on its forecast energy demand for FEFN, FEFN's forecast revenue is not sufficient to recover FEFN's revenue requirement over the 2019-2020 test period under the rate structure approved by the RDA Decision and at the 2018 approved delivery rates. Based on FEFN's rate structure approved by the RDA Decision and the approved 2018 delivery rates, FEI forecasts a revenue deficiency of $102,000 and $180,000 in 2019 and 2020, respectively, or a $282,000 net revenue deficiency over those two years.[27]

The CEC accepts FEI's demand forecasts for 2019 and 2020.[28] However, in the CEC's view, the demand variances for the residential and commercial rate classes are considerable. In particular, the CEC points out that Rate Schedule 1 "has been consistently over-forecast for 8 of the 10 years between 2008 and 2017, and for each 6 of the last 6 years."[29] The CEC submits that such variances could be evidence of some embedded biases and could be the result of the historical inputs used by FEI in its analyses. The CEC notes that historical inputs track past activity and do not account for future changes, such as the impact of global warming or recessions. The CEC submits that there is no significant evidence on the record with respect to the impact of global warming, and that such information could provide FEI with an improved understanding of UPC trends and customer additions in future RRAs and in the long term.[30]

In the CEC's view with respect to Rate Schedule 1, it would expect a mix of over and under-forecasting over a 10-year period rather than the continuous over-forecasting shown. The CEC submits that "it is not appropriate for the utility to continue to over-forecast without attempting to improve its forecasting, even if it considers the over-forecasting to be small."[31] The CEC also points out that over-forecasting the number of customers in FEFN would result in a larger allocation of shared services costs to FEFN to the extent that the proportion of customers in FEFN relative to FEI is misrepresented.[32]

With respect to Rate Schedule 2, the CEC points out that FEI is not able to provide a rationale for the continuing decline in UPC. The CEC submits that "it would be reasonable for FEI to undertake to consider what long term effects may be contributing to the clear decline in UPC" in Rate Schedules 1 and 2.[33]

The CEC also points out that although FEI is already evaluating the potential for using an Exponential Smoothing load forecasting methodology, the evidence so far is that the new methodology is not superior to the existing methods. Therefore, the CEC recommends that the BCUC direct FEI to undertake further work to improve its demand forecast. The CEC also recommends the BCUC "direct FEI to re-examine its residential and commercial forecasting for biases, such as global warming" and report to the BCUC within a year.[34]

[26] CEC Final Argument, p. 2.
[27] FEI Final Argument, p. 2.
[28] CEC Final Argument, pp. 9–11.
[29] Ibid., p. 7.
[30] Ibid., p. 5.
[31] Ibid., p. 8.
[32] Ibid., p. 14.
[33] Ibid., pp. 9–10.
[34] Ibid., p. 6.

In its reply argument, FEI disputes the CEC's submission that FEI has over-forecast residential demand over the last 10 years. FEI submits that its "residential forecast has been reasonable and well below the industry average variance, and is based on a sound forecast method."[35] Specifically, FEI refers to Table A2-3 in the Application which demonstrates that five of the last six years had variances of 2 percent or less and the fact that the 10-year mean absolute percent error of the demand forecast is 2.9 percent for residential demand, which compares favorably with the industry average of 4 percent. FEI further notes that the CEC has not identified any flaws in FEI's forecasting method nor has it suggested any alternative.[36]

FEI also takes issue with the CEC's submission that the residential UPC is over forecast and notes that as shown in Table A2-4 of the Application, the historical variances have been immaterial and FEI's method is sound. FEI points to the fact that any UPC forecast variance is captured by the RSAM account and returned to, or recovered from customers. FEI notes once again that the CEC has not identified any flaws in FEI's approach or suggested any alternative.[37]

FEI further points to the fact that the BCUC has already given directions for the evaluation of alternative forecasting methods to FEI as a whole and that it will be reporting on the results of its evaluation, in compliance with the BCUC's previous directives in its upcoming RRA. Given this, FEI argues that another directive would be "redundant and unnecessary." FEI submits that its forecast should be approved as filed and the CEC's request for further work on demand forecasts should be rejected.[38]

Postage Stamp Rates

With respect to postage stamp rates, in the CEC's view, "it is not necessary for there to be no impact for customers to successfully transition to postage stamp rates." The CEC believes that transition impacts can be managed over time to mitigate excessive impacts, such as "rate shock". The CEC submits that it would be appropriate to postage stamp FEFN's rates with FEI in the near future "to maintain consistency with the rest of the much larger service area, and to reduce regulatory and managerial costs." Furthermore, the CEC recommends the BCUC request a compliance filing from FEI that further examines the circumstances likely to influence rate impacts and identify an appropriate time period to implement postage stamp rates.[39]

In response to the CEC's recommendation that FEI further examine the various circumstances that are likely to influence rate impacts and identify an appropriate time frame for implementation of postage stamp rates, FEI opposes the recommendation on the basis that it cannot predict future trends in FEFN's rates due to factors that are beyond FEI's control that could lead to reduced or increased rate impacts in the near future. However, FEI is prepared to continue to update the BCUC in future RRAs on the comparison between FEI and FEFN delivery rates and any plans for implementation of postage stamp rates for FEFN.[40]

Panel Determinations

The Panel finds FEI's forecast revenue requirements and resulting rates for 2019 and 2020 to be reasonable. The Panel agrees that the primary driver of the revenue deficiencies is the decreased demand forecast, which is calculated based on FEI's approved forecasting methodology for FEFN. Further, the Panel finds FEI's forecast O&M expenses reasonable based on its review of the evidence. The Panel notes that FEI's forecast O&M for the

[35] FEI Reply Argument, p. 1.
[36] Ibid., p. 2.
[37] Ibid., pp. 3–4.
[38] Ibid., p. 5.
[39] CEC Final Argument, p. 4.
[40] FEI Reply Argument, p. 1.

2019 and 2020 test period is consistent with previous years' approved forecasts and that the variances observed between forecast and actual O&M in the most recent years are primarily due to an employee being on medical leave and lower than expected allocations of shared services fees from FEI, which the Panel finds reasonable.

The Panel also notes that while certain issues were raised by the CEC in its final argument, which are further discussed by the Panel below, the CEC did not object to the specific approvals sought by FEI in the Application.

Based on the evidence provided by FEI in the Application and subsequent clarification through the IR process, the Panel finds the requested delivery rates and RSAM rate rider to be just and reasonable. **Accordingly, the Panel approves FEI's requested delivery rate increase of 4.41 percent effective January 1, 2019 and an additional delivery rate increase of 8.25 percent on a permanent basis effective January 1, 2020, subject to any adjustments resulting from these reasons for decision and the DSM Decision. Similarly, the Panel approves the RSAM rate rider to be set at $0.199 per GJ on a permanent basis, effective January 1, 2019. The Panel directs FEI to file a compliance filing reflecting the impacts to the 2019 and 2020 revenue requirements and delivery rates of both the directives in these reasons for decision and the DSM Decision within 30 days from the date of this order. FEI is directed to describe its planned treatment of any differences between the interim and permanent 2019 delivery rates as part of the compliance filing.**

Demand Forecast

The Panel acknowledges the CEC's recommendation that FEI be directed to review its demand forecasting for bias, such as global warming, and to provide a compliance report within one year; **however, the Panel declines to take the actions recommended by the CEC.** FEI confirmed in response to BCUC IRs that it has been evaluating an alternative load forecasting method for both FEI and FEFN and that a full report and recommendation for the appropriate forecasting method going forward will be filed as part of FEI's upcoming revenue requirements application in 2019.[41] Given this, and the fact that for purposes of consistency and administrative efficiency many of the forecasting tools and methods applied to FEFN are based on the methods and tools used by FEI, the Panel finds it most appropriate for issues related to forecasting methodology to be addressed as part of the upcoming FEI RRA rather than as part of this proceeding.

Postage Stamp Rates

As for the CEC's recommendation for FEI to more aggressively pursue the implementation of postage stamp rates for FEFN, the Panel makes the following observations. As discussed by FEI and demonstrated in Table 1 above, currently only residential customers (Rate Schedule 1) would experience a rate increase if FEFN were to amalgamate or postage stamp its rates with the rest of FEI's service areas. The Panel recognizes FEI's concerns regarding the rate impact that would be experienced by the residential customers in FEFN. However, the Panel also notes that FEFN's commercial and industrial customers currently would experience rate decreases if FEFN and FEI were to postage stamp their rates. Furthermore, the potential for reduced administrative and regulatory costs resulting from postage stamp rates should at least partially offset the negative rate impact on FEFN's residential customers.

Based on the magnitude of the rate increases requested and the continuing downward trend of the total energy demand in FEFN, in the Panel's view, unless some significant changes in circumstances were to occur, it is likely that FEFN's residential customers would not experience a significant rate increase from moving to postage stamp rates in the near future. The Panel agrees with the CEC that it is not necessary for there to be no rate

[41] Exhibit B-2, BCUC IR 2.1, 2.2.

impacts in order to transition to postage stamp rates, and that transitional impacts can be minimized and managed with sufficient planning and fore-thought.

The Panel recognizes that FEI has not yet filed its RRA to set 2020 rates for FEI, and as such it is not yet in the position to forecast the rate impact of postage stamp rates in 2020. Additionally, as referred to earlier, FEI has indicated in its reply argument that it is prepared to continue to update the BCUC in future FEFN RRAs regarding its plans, if any, for implementation of postage stamp rates, and the Panel agrees that this is a reasonable approach.

Accordingly, the Panel directs FEI to include in the next RRA for FEFN, a discussion of the potential for postage stamping rates in FEFN along with the rest of FEI, including the following information:

- **The forecast rate impact of moving to postage stamp rates for each of FEFN's rate schedules for 2021 and 2022 (or the applicable test period, if different from the two years referenced);**
- **FEI's assessment of the pros and cons of moving to postage stamp rates in the near future;**
- **FEI's assessment of the likelihood of the occurrence of factors and circumstances that could result in a reduced or increased rate impact in the near future;**
- **Proposed mechanisms to reduce or mitigate negative rate impacts to an acceptable level; and**
- **A proposed time period to implement postage stamp rates.**

3.0 Capital Projects and CPCN Request

In the Application, FEI requests a CPCN for an extension of FEI's distribution system in FEFN resulting from the proposed purchase of the PRFN gas distribution assets.[42] FEI also forecasts capital additions to its distribution system, including the additions related to the purchase of the PRFN assets of $575,000 and $463,000 in 2019 and 2020, respectively.[43] A number of issues were raised in IRs regarding the capital projects and CPCN proposed in the Application. These issues and the CPCN request are addressed in Sections 3.1 and 3.2 below.

3.1 Recreation Centre District Station Valve Replacement Project

The forecast capital additions for distribution assets for 2020 include the Recreation Centre District Station Valve Replacement project. FEI explains that the project is for the replacement of an under-rated valve at the Recreation Centre District Station to ensure "an adequate safety factor".[44] FEI submits that the forecast expenditures for this project are $288,000, of which $74,000 is forecast in 2020 and the remainder of the expenditures are forecast to be incurred after 2020. FEI also submits that the scope of this project has increased due to the requirement to replace an additional five valves and add a station bypass. Furthermore, the station will likely be completely replaced and reinstalled at a different location due to a request from the City of Fort Nelson to relocate the station. FEI submits that it will clarify the full scope and timing of the project by 2020.[45]

[42] Exhibit B-1, p. 6.
[43] Ibid., p. 47.
[44] Ibid., p. 48; FEI Final Argument, p. 11.
[45] Exhibit B-2, BCUC IR 10.5.

Position of the Parties

FEI submits that the Recreation Centre District Station project is an example of a type of infrequent expenditure where the cost of combining improvements would be lower than if mitigated one at a time. This results in significant upgrades to stations occurring on an infrequent basis, which creates peaks in the expenditures.[46]

The CEC does not note any particular concerns with respect to FEFN's capital plan and proposed additions. In the CEC's view, the costs as discussed by FEI are reasonable and appropriate.[47]

Panel Determination

The Panel recognizes that it may make economic sense to combine the improvements to the Recreation Centre District Station into one large capital expenditure. However, the Panel is concerned with the magnitude of the increased scope of the project. The Panel is also cognizant of the fact that the majority of the proposed expenditures for the project are expected to occur after the 2019-2020 test period, and agrees with FEI that it would be appropriate to clarify the full scope and timing of the project by 2020. **Accordingly, the Panel directs FEI to include in its next RRA for FEFN a discussion of the full scope and timing of the Recreation Centre District Station project, including the circumstances that led to the change in scope, the alternatives considered, and an update to the expenditure forecast for the project.**

3.2 CPCN Request for the PRFN Extension

In the Application, FEI seeks approval of a CPCN for the acquisition of the PRFN gas distribution system. FEI submits that "considering the low cost of acquiring the gas distribution system from PRFN and the straight-forward nature of the transaction," including the CPCN request as part of the Application "is efficient and cost effective for FEFN customers."[48]

Background

The PRFN is located approximately 100 km south of Fort Nelson and is within the Fort Nelson service area. The PRFN owns and operates a gas distribution system, which was constructed by BC Gas (predecessor of FEI) in 1989. FEI provides gas service to the PRFN through a single gas meter connected to the Spectra transmission mainline system. FEFN bills the PRFN under Rate Schedule 3 as a single large commercial customer. The PRFN currently does not request payment from individual members for the use of the system, and the properties serviced by the system do not have individual meters.[49]

FEI explains that in February of 2016, the PRFN approached FEI to assume ownership of the PRFN gas distribution system because the PRFN believes it "has no ability or resources to expand it for the anticipated growth of PRFN over the next 5 to 10 years."[50] The PRFN sees FEI as being the "best situated to operate and maintain the existing system safely and reliably, and also capable of expanding the system to accommodate PRFN's potential growth in the near future." Furthermore, the PRFN believes that by having its individual band

[46] FEI Final Argument, p. 13.
[47] CEC Final Argument, p. 18.
[48] Exhibit B-1, p. 58.
[49] Ibid., p. 59.
[50] Ibid., p. 61.

members pay their own utility bills, it would allow the individual members to establish credit ratings, which would help drive economic opportunity.[51]

A number of issues were explored in detail through IRs, including project timeline, due diligence performed by FEI, expected rate impact, required permits and right-of-way issues, details of the Asset Purchase Agreement, and communication with PRFN as a whole and with its members.

CPCN Description

The PRFN gas distribution assets consist of 3.2 km of 60 mm polyethylene gas distribution main (PRFN Extension). The distribution main currently has 53 residential and 6 commercial properties attached. FEI estimates the acquisition costs at $10 plus $8,000 in legal fees. If the CPCN is granted, FEI would need to install individual gas meters to the properties, relocate risers, conduct a leak survey and inspect the pipeline. The estimated capital expenditure for this work is $104,000. FEI plans to commence and complete the gas meter installations in 2019.[52]

FEI plans to conduct a leak survey and inspect the pipeline after the pipeline system is acquired. FEI explains that this is appropriate because it does not expect any new findings from a leak survey that would significantly impact the pipeline system acquisition for the following reasons:

- FEI completed a leak survey in 2016 and found no issues;
- FEI injects odorant into the PRFN system, and since the PRFN does not have pavements, the likelihood of an undetected leak is small;
- FEI has already completed an above-grade inspection of the PRFN system;
- BC Gas installed the PRFN system and FEI has been involved in the operation and maintenance of the system; and
- FEI has a close working relationship with the PRFN and has been privy to detailed information on the PRFN system.

FEI further explains that the earliest opportunity to conduct “an efficient, quality” leak survey in the PRFN area is late spring to early fall. This is because it would not be practical to conduct a leak survey when the grounds are frozen, as the results would not be very accurate and would add significant costs to the project.[53]

FEI anticipates little to no impact on delivery rates to the existing FEFN customers in 2019 and 2020 from the PRFN Extension and subsequent capital expenditure. The minimal rate impact is primarily due to the increased volume of basic charge revenue expected from the PRFN Extension. FEI submits the PRFN Extension would result in an increase in rates of 0.24 percent in 2019 and a decrease in rates of 0.25 percent in 2020.[54] FEI further submits that under a scenario where the $104,000 estimated capital cost increases by 20 percent and the PRFN energy consumption decreases by 20 percent, the impact on FEI’s existing customers’ rates is an increase of 0.31 percent and 0.02 percent or an annual increase of $1.80 and $0.14 for an average residential customer in 2019 and 2020, respectively.[55] However, FEI considers there to be a low likelihood of this scenario occurring because

[51] Exhibit B-1, p. 63.
[52] Ibid., p. 58.
[53] Exhibit B-2, BCUC IR 14.4, 14.5.
[54] Exhibit B-1, p. 58.
[55] Exhibit B-2, BCUC IR 17.1.

it does not anticipate the capital cost estimate to change materially based on FEI's familiarity and history with the PRFN system. Furthermore, FEI expects the PRFN's energy demand to remain similar to historical levels, with a potential to decline over time due to access to FEI's conservation programs.[56]

Communication and Consultation with the PRFN

FEI submits that it began discussions with the PRFN in February of 2016 when the PRFN requested that FEI purchase and operate the PRFN gas distribution system, including the installation of gas meters on each premises. The PRFN's Band Manager, Project Manager and Housing Coordinator have been involved in the discussions with FEI.[57]

FEI provided information to the PRFN regarding the change of ownership and the resulting effects for dissemination to its members. This includes information regarding the application process for individual accounts, rate schedules, billing, conflict resolution, and provision of service and education material regarding ways to manage energy costs. FEI submits that it has addressed all known issues and concerns raised during consultation with the PRFN.[58] Although FEI is not aware of the details of the specific information that has been communicated by the PRFN to its members, FEI has expressed to the PRFN its willingness to meet with individual band members to provide information and answer questions.[59]

FEI advises that the PRFN has agreed to backstop its members' payments to FEI, although that agreement will not be reflected in a written contract.[60] FEI explains that the PRFN's stated objective is to not have its members lose gas service as a result of delinquent accounts. Also, FEI and the PRFN have made arrangements in accordance with FEI's policies for the PRFN to backstop its members' accounts and for the PRFN to be set up as a second point of contact in the event of a delinquent payment by an individual member.[61] Furthermore, FEI submits that the PRFN's account with FEI has been in good standing since its activation, and going forward FEI does not anticipate any additional risks with the PRFN's willingness or ability to cover potential delinquent payments of its members.[62]

FEI explains that the PRFN will initially be set up as the account holder for all 59 individual accounts that will be created, and then at the PRFN's discretion, FEI will effect the transfer of the individual account to the individual PRFN member. [63] FEI will be billing the PRFN for the individual accounts until the account is transferred to the individual PRFN member, but will respond to customer service matters individually. Once an individual account is transferred to a member, FEI will respond to billing and customer service related matters with each individual customer. [64] FEI notes that the PRFN plans to provide subsidized energy costs to its members who are low income households.[65]

[56] Exhibit B-2, BCUC IR 17.2.
[57] Exhibit B-1, Appendix C; Exhibit B-2, BCUC IR 16.3.
[58] Exhibit B-2, BCUC IR 16.3.1, 16.4.
[59] Ibid., BCUC IR 16.4; Exhibit B-3, CEC IR 17.3.
[60] Exhibit B-1, p. 61; Exhibit B-2, BCUC IR 16.6.
[61] Exhibit B-2, BCUC IR 16.6.
[62] Ibid., BCUC IR 16.7.
[63] Ibid., BCUC IR 16.4.
[64] Ibid., BCUC IR 16.1, 16.1.1.
[65] Ibid., BCUC IR 16.4.

FEI provided the following table comparing the differences in billing, customer service and operation between the current situation and the situation which would result if FEI is approved to purchase the PRFN's distribution system assets:[66]

	If CPCN is not approved (Current condition)	If CPCN is approved
Billing	One bill to PRFN for all gas consumed under Rate Schedule 3	53 individual residential bills under Rate Schedule 1 and six individual commercial bills under Rate Schedule 2. As discussed in response to BCUC IR 1.16.4, PRFN will be the initial account holder for all individual premise. PRFN will, at its discretion, work with individual PRFN members to establish individual gas accounts with FEI
Customer Service	FEI has a relationship with one customer/account. FEFN responds to billing and customer service related matters associated with a single customer account.	Once individual PRFN members establish individual gas accounts with FEI, FEI will have a relationship with each individually metered customers and will respond to billing and customer service related matters with each individual customer. As discussed in response to BCUC IR 1.16.4, prior to the individual PRFN members establishing individual gas accounts with FEI, FEI will respond to customer service matters individually, but will respond to billing matters with PRFN as the account holder.
Operational	FEI maintains and responds to odor/emergency calls to PRFN including within the PRFN boundary. As discussed in FEI's response to BCUC IR 1.14.4.1, FEI has been involved in the ongoing operation and maintenance of PRFN distribution system.	FEI will maintain and respond to odor/emergency calls to PRFN including within PRFN boundary. FEI will be responsible to the operation and maintenance of the PRFN distribution system as the owner.

Asset Purchase Agreement and Right of Way Permit

An Asset Purchase Agreement has been executed by the PRFN, which is currently awaiting execution by Canada,[67] after which it will be executed by FEI.[68] The Asset Purchase Agreement is subject to FEI receiving a CPCN for the PRFN Extension, and conditional upon FEI obtaining a right of way permit pursuant to Section 28(2) of the *Indian Act*.[69] FEI does not expect any material conditions or costs to obtain the right of way permit as the PRFN gas distribution system is not a new installation and the PRFN has not requested compensation or rent in exchange for the permit rights. [70] FEI anticipates obtaining the right of way permit by June 2019 and to begin installing individual meters that summer.[71] In the event that the right of way permit takes longer to obtain than

[66] Ibid., BCUC IR 16.1.1.
[67] Her Majesty the Queen in Right of Canada, as represented by the Minister of Indian Affairs and Northern Development
[68] Exhibit B-6, Panel IR 2.1.
[69] Exhibit B-1, pp. 58, 61.
[70] Exhibit B-2, BCUC IR 15.1.1, 15.6.
[71] Ibid., BCUC IR 15.5, 15.7.

anticipated, the installations might be delayed until 2020, but FEI does not anticipate that this would result in adverse financial implications.[72] FEI notes that the Asset Purchase Agreement provides that FEI has the option to decline purchasing the gas distribution system if the right of way permit contains terms that are not satisfactory to FEI.[73] FEI submits that the executed Asset Purchase Agreement will be filed with the BCUC.[74]

Position of the Parties

FEI submits that the PRFN Extension is in the public interest and the CPCN should be granted as requested.[75]

The transaction requested by the PRFN:

- Will provide benefits to the PRFN and its members;
- Will have little to no impact to existing FEFN customers in the current test period; and
- Has the potential for future positive rate impacts as the PRFN expands its community.[76]

Furthermore, FEI submits that "the assets are a natural fit into FEFN's existing assets, which are of similar type, and within FEFN's existing service area."[77]

FEI is confident in the integrity of the PRFN gas distribution system, and does not believe the timing of the leak survey should be a concern.[78] With respect to the risks and costs related to the PRFN Extension, FEI submits that they are "minimal and have been appropriately managed by FEI."[79] FEI does not anticipate additional risk from delinquent payments of PRFN members moving forward, nor does it anticipate any customer service issues from the PRFN members receiving individual energy bills.[80] Furthermore, FEI submits that all known issues and concerns raised during the consultation process have been addressed.[81]

The CEC recommends that the BCUC approve the CPCN application as proposed by FEI. With respect to the leak survey, the CEC accepts FEI's argument as being reasonable. With respect to the $104,000 cost estimate for construction work on the project, the CEC agrees with FEI that the actual costs would not change significantly. With respect to the PRFN's energy demand, the CEC submits that as customers have more information and are more directly impacted by the cost of their energy use, a long term decline in energy consumption is "very possible". However, in the CEC's view, the increase in the 2019 and 2020 cumulative annual average rate resulting from a combined effect of a 20 percent increase in capital costs and a 20 percent decline in annual energy consumption is "not overly significant". The CEC further submits that it is "very appropriate for FEI to undertake to accommodate customers, such as PRFN, who wish to relay the responsibilities for the gas distribution where it is reasonable and cost effective to do so." The CEC further submits that there is no evidence to suggest there would be "detrimental effects" from the acquisition.[82]

---

[72] Ibid., BCUC IRs 15.5.1.
[73] Ibid., BCUC IR 15.4.
[74] Exhibit B-1, p. 58.
[75] FEI Final Argument, p. 18.
[76] Ibid., p. 23.
[77] Ibid., p. 23.
[78] Ibid., pp. 18–20.
[79] Ibid., p. 21.
[80] Ibid., p. 22.
[81] Ibid., p. 23.
[82] CEC Final Argument, pp. 22–24.

Panel Determination

The Panel has reviewed FEI's CPCN request in consideration of the BCUC's 2015 CPCN Guidelines, including the potential impact on FEI's existing customers and FEI's level of consultation with the PRFN. Based on the aforementioned considerations, the Panel finds the CPCN to be in the public interest.

As the Panel has previously discussed, the FEFN ratepayers are experiencing continuing rate pressures due to the declining load and the impact of increased costs such as capital expenditures on the declining load. While the costs forecast by FEI related to the CPCN are expected to have a minimal rate impact on existing customers, the Panel must be reasonably satisfied that the risk of cost overruns have been mitigated by FEI through activities such as due diligence on the condition of the PRFN distribution assets, execution of the Asset Purchase Agreement, securing of the necessary permits and right-of-way approvals, and communication with the PRFN and its members regarding changes to metering and collection.

In the Application, FEI indicated that it would not perform a leak survey and inspection of the pipeline until after it has acquired the distribution assets from the PRFN. However, based on the information gathered through the IR process, as detailed above, the Panel accepts the reasons stated by FEI for not conducting a leak survey prior to the acquisition and finds the estimated capital expenditure of $104,000 to be reasonable.

The Panel also agrees with FEI and the CEC that even under the scenario of a combined 20 percent decrease in energy demand and 20 percent increase in capital expenditures, the rate impact would not be "overly significant". Furthermore, the Panel notes that there is no evidence to suggest that there would be additional risks regarding the PRFN's willingness or ability to cover delinquent payments of its members, should they arise. FEI indicates that the PRFN has stated throughout negotiations that it does not wish members to lose gas service as a result of the transfer of the system to FEI, and the PRFN will assist its members financially, if needed, in relation to their gas service. The Panel is satisfied that FEI and the PRFN have made adequate arrangements to address these risks.

With regard to FEI's consultation with the PRFN, the Panel acknowledges that it was the PRFN which approached FEI to assume the ownership and operation of the PRFN gas distribution system. Since being approached in 2016, FEI indicates that it has had ongoing discussions with the PRFN's Band Manager, Project Manager and Housing Coordinator, with quarterly meetings being held in 2018.

In addition to its consultation with the PRFN, FEI was asked in IRs to explain whether and how it has consulted with individual band members, particularly with regard to communicating the impacts to individual members from the change in ownership and with regard to providing resources for members to understand and manage energy costs.

FEI has stated that it is providing education and material to PRFN members through the PRFN regarding ways customers can manage their energy costs and that it has addressed all known issues and concerns raised during the consultation process with the PRFN. FEI has also stated that it will provide information to the PRFN and its members through the transition process related to construction activities and temporary service outages that will result from the asset transfer and that it will continue to support the PRFN with information, including ways customers can manage their energy costs.

The Panel notes, however, that while FEI has expressed to the PRFN its willingness to meet with band members to provide information and answer questions, FEI is not aware of the details of any information that has been communicated by the PRFN to its members. The Panel encourages FEI to communicate with PRFN band

members directly, where appropriate, to ensure the members are as informed as possible about the potential changes resulting from FEI's purchase of the PRFN distribution system assets.

Based on the evidence provided by FEI regarding its consultation activities and the fact that FEI has indicated the PRFN's intention to support its members financially when needed to ensure that members do not lose gas service, the Panel is satisfied with FEI's consultation with the PRFN with respect to the impacts of FEI's acquisition of the gas distribution pipeline and the transfer of gas service from the PRFN to individual members.

The Panel notes that the final executed Asset Purchase Agreement is still outstanding and is conditional upon FEI obtaining a right of way permit on terms satisfactory to FEI. **The Panel directs FEI to file with the BCUC the final executed Asset Purchase Agreement along with the right of way permit within 15 days of execution by all parties to the agreement. FEI must include a black-lined copy of the Asset Purchase Agreement, which shows the changes from the version submitted as Attachment 15.1.1 to BCUC IR 15.1.1 in Exhibit B-2 of this proceeding.**

The Panel also directs FEI to file the following with the BCUC:

1) **Semi-annual progress reports on the PRFN Extension that show the planned versus actual schedule and costs, and any variances or difficulties that FEI may be encountering with the PRFN Extension; and**
2) **A final report on the PRFN Extension schedule and costs within six months of the end or substantial completion of the PRFN Extension that provides a complete breakdown of the final costs of the extension, compares these costs to the cost estimate in the Application and provides a detailed explanation and justification for all material cost variances.**

For clarity, the first semi-annual progress report is due six months from the issuance of these reasons for decision.

Subject to FEI's compliance with the above directives, the Panel finds FEI's purchase of the PRFN distribution system assets to be in the public interest and accordingly approves the CPCN.

The Panel notes that FEI filed the CPCN request as part of the FEFN revenue requirements application as opposed to filing a separate CPCN application. The Panel accepts that in certain circumstances, including the current one, such an approach is efficient and cost effective, particularly when considering the relatively low acquisition cost of the PRFN system assets and the associated project costs, as well as the limited scope of the project. Nonetheless, the Panel expects all CPCN requests to contain the information identified in the BCUC's 2015 CPCN Application Guidelines, attached as Appendix A to Order G-20-15, regardless of the size of the project or the manner in which the request was filed. The Panel notes that much of the information related to this CPCN request, particularly regarding risk analysis, was obtained following the filing of the Application and only through the IR process, with minimal information contained in the Application itself. For all future CPCN applications, the Panel expects FEI to provide as much detail as possible within the application itself so as to enable a fulsome review of the CPCN request from the outset.

4.0 Deferral Accounts

In the Application, FEI makes the following requests with respect to deferral accounts:

- The creation of a rate base deferral account for the 2019-2020 Revenue Requirement Application costs with an amortization period of two years beginning in 2019;

- Amortization of the 2017 Rate Design Application deferral account, as approved in Order G-162-16, beginning in 2019 over a five-year period; and
- Delay in disposition of the non-rate base Fort Nelson First Nations Right-of-Way Agreement deferral account to the next revenue requirement proceeding.

With regard to the first two deferral account requests, no issues were raised by parties during the IR process and the CEC did not object to the requests in its final argument.

Panel Determination

The Panel finds FEI's request to establish a new deferral account to capture the costs related to the Application and regulatory proceeding and to amortize the costs over two years consistent with past regulatory proceeding cost deferral accounts. Additionally, there has been no evidence put forth in this proceeding which supports a deviation from past practices.

Regarding FEI's request to amortize the 2017 Rate Design Application deferral account, as approved in Order G-162-16, beginning in 2019 over a five-year period, FEI has stated that the treatment is appropriate given that FEI plans to file a new cost of service allocation study within five years of the issuance of the RDA Decision, and the recovery period is consistent with other recovery periods for regulatory proceeding related costs.[83] The Panel finds this rationale reasonable and finds a five-year amortization period appropriately balances the considerations of minimizing the annual rate impact and mitigating intergenerational inequity issues.

Accordingly, the Panel finds the following deferral account requests to be just and reasonable, and approves them as requested:

- **The creation of a rate base deferral account for the 2019-2020 Revue Requirement Application costs with an amortization period of two years beginning in 2019; and**
- **The amortization of the 2017 Rate Design Application deferral account beginning in 2019 over a five-year period.**

FEI's request with respect to the non-rate base Fort Nelson First Nations Right-of-Way Agreement deferral account is addressed in section 4.1. In addition, a number of issues were raised in IRs regarding the EEC deferral account for FEFN, which are addressed in Section 4.2.

4.1 Fort Nelson First Nations Right-of-Way Agreement Deferral Account

In the Application, FEI requests to continue to delay the disposition of the non-rate base Fort Nelson First Nations Right-of-Way Agreement deferral account to the next revenue requirements proceeding.[84]

By Order G-97-15, a non-rate base deferral account was established to capture the actual costs incurred to complete the Fort Nelson First Nations Right-of-Way Agreement, with the disposition of the deferral account to

[83] Exhibit B-1, p. 54.
[84] Ibid., p. 6.

be determined in the 2017 and 2018 RRA. However, due to ongoing negotiations, FEI was approved to delay applying for disposition of that deferral account until the 2019-2020 RRA.[85]

When the deferral account was established, FEI had forecast expenditures of $410,000 to secure an updated Right-of-Way Agreement with the Fort Nelson First Nations. As of November 19, 2018, FEI had incurred expenditures of $111,000 related to the agreement.[86] Based on the most recent appraisal, the remaining fee for a 99-year agreement is $236,000, or a 10-year term prepaid fee at $62,000 with each subsequent 10-year term fee determined by appraisal at the time of renewal.[87]

FEI submits that negotiations had been suspended due to staffing changes in the band administration. However, negotiations have recently resumed, and FEI anticipates the agreement and permit to be finalized in 2019 as most of the substantive terms of the draft have now been accepted.[88]

Position of the Parties

FEI submits that since negotiations are not yet finalized, there is still uncertainty regarding the final amount that will be spent. Accordingly, FEI proposes to continue to record the actual costs in the deferral account, which attracts a weighted average cost of capital return, and apply for disposition of the account in a future revenue requirements application proceeding. FEI explains that this treatment would "ensure that customers only pay for the actual costs incurred related to this agreement."[89]

The CEC submits that FEI's proposal to continue to record actual costs to the deferral account and apply for disposition in a future revenue requirements application is "an appropriate means of recording costs, particularly when there is uncertainty as to how much and when the actual costs will be incurred."[90]

Panel Determination

The Panel notes that negotiations for the right-of-way agreement have been ongoing for a number of years, and the disposition of the related deferral account was originally anticipated to be requested in the 2017-2018 RRA. However, the Panel recognizes that the delay in the finalization of the negotiations has been outside of FEI's control, and the Panel appreciates FEI's and the Fort Nelson First Nations' continued efforts in these matters, noting FEI's statement that it anticipates the negotiations can be finalized in 2019. **Accordingly, the Panel approves FEI's request to delay the disposition of the non-rate base Fort Nelson First Nations Right-of-Way Agreement deferral account to the next FEFN RRA.**

4.2 Energy Efficiency & Conservation Deferral Account

The rate base EEC deferral account was established in 2012. The EEC deferral account captures FEFN's portion of DSM expenditures made by FEI using an allocation factor. The allocation factor is based on the number of FEFN customers divided by the total number of FEI and FEFN customers.[91] The allocation factor for 2019 and 2020 has

[85] Order G-162-16
[86] Exhibit B-2, BCUC IR 13.2.
[87] Exhibit B-1, p. 53.
[88] Exhibit B-2, BCUC IR 13.2.
[89] Exhibit B-1, pp. 53–54.
[90] CEC Final Argument, p. 20.
[91] Exhibit B-6, Panel IR 1.1.

increased from 2017 and 2018; however, the methodology used to calculate the allocation factor remains unchanged.[92]

FEI forecasts additions to the EEC deferral account of $86,000 for each of 2019 and 2020, which is an increase of $56,000 or 187 percent compared to the additions approved by the BCUC for 2017 and 2018. FEI submits that the increased forecast additions for 2019 and 2020 do not include the approvals sought within FEI's 2019-2022 DSM Expenditures Plan Application, but are the result of a change in the allocation base used to allocate costs from FEI to FEFN. FEI explains that prior to 2019, FEI allocated forecast costs to FEFN based on FEI's allowed annual rate base expenditure limit of $15 million multiplied by the allocation factor. [93] However, the forecast additions for 2019 and 2020 are based on FEI's total approved DSM expenditure limit of approximately $36 million for 2018 multiplied by the allocation factor.[94]

In contrast to FEFN, FEI has a rate base EEC deferral account and a non-rate base EEC deferral account. As a result of the DSM Decision, beginning in 2019, FEI is approved to record a forecast amount of $30 million (previously $15 million) to the rate base EEC deferral account, and the difference between the $30 million and the actual expenditures, up to the approved DSM expenditure limit, is recorded in the non-rate base EEC deferral account in the year expended.[95] The amounts recorded in the non-rate base EEC deferral account earn a weighted average cost of capital return. At the beginning of the following forecast year the closing balance of the non-rate base EEC deferral account is transferred to the rate base EEC deferral account.[96]

Position of the Parties

FEI submits that, given that in recent years FEI has been spending up to or near its approved expenditure limit, it would be appropriate to allocate a percentage of the total approved expenditure limit to FEFN. However, FEI also submits that it is amenable to adopting FEI's method for FEFN, namely the use of a rate base EEC deferral account and a non-rate base EEC deferral account to capture DSM expenditures rather than FEFN's current method of a single rate base EEC deferral account. FEI submits that the use of a rate base and non-rate base deferral account would also be appropriate for FEFN, would create administrative efficiencies, and would "eliminate the need for debate in rate proceedings…regarding the appropriate base amount to include in the allocation of EEC spending to FEFN." FEI also notes that the use of a single EEC deferral account for FEFN results in customers in FEFN bearing the risk of variances between the approved amounts and the actual DSM expenditures over the test period.[97]

The CEC recommends that the BCUC request FEI to use the two deferral account methodology for FEFN. The CEC notes that the forecasts have an impact on the test period rate base and earned return even though the opening balance of the EEC deferral account is trued up to the actual deferral account balance.[98]

Panel Determination

The Panel acknowledges that FEI has been spending up to or near its approved expenditure limit in recent years, and as such this may suggest that there is no additional risk to FEFN's ratepayers for FEFN to include in its EEC

[92] Exhibit B-2, BCUC IR 12.1.2.
[93] Exhibit B-2, BCUC IR 12.1, 12.1.2.
[94] Ibid., BCUC IR 12.1.2.
[95] DSM Decision, p. 19.
[96] FEI 2019-2022 DSM Expenditures Plan, Exhibit B-1, Application, p. 36.
[97] FEI Final Argument, pp. 16–17.
[98] CEC Final Argument, p. 19.

deferral account its portion of FEI's total approved DSM expenditure limit. However, in the Panel's view, that risk still exists and can be mitigated through the use of two EEC deferral accounts to capture DSM expenditures, as is utilized by FEI. Furthermore, the Panel agrees with FEI that it would be appropriate for FEFN to adopt FEI's methodology, as it would result in administrative and regulatory efficiencies. **Therefore, the Panel directs FEI to adopt FEI's deferral account treatment for FEFN; accordingly, FEI is directed to establish a non-rate base EEC deferral account, attracting a weighted average cost of capital return, to capture the difference between FEFN's portion of the actual amount spent by FEI and the amount approved for deferral in the rate base EEC deferral account (currently $30 million), in the year expended.**