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October 28, 2019

BC Public Interest Advocacy Centre
Attn: Leigha Worth, Executive Director
By email: ED@bcpiac.org

Dear Ms. Worth:

Re: Fortis BC Multi-Year Rate Plan Application for 2020 to 2024
BCUC Project No. 1598996
B.C. Sustainable Energy Association Information Request No.1

Pursuant to the regulatory timetable amended by Order G-241-19 [Exhibit A-10], attached please find BCSEA's Information Request No. 1 to BCOAPO. A version in Word format will be provided separately. If you have any questions, please do not hesitate to contact me.

Yours truly,

William J. Andrews

Barrister & Solicitor

Encl.

REQUESTOR NAME:**BC Sustainable Energy Association (BCSEA)**
INFORMATION REQUEST ROUND NO: **1**
TO: **BC Old Age Pensioners Association, et al.**
DATE: **October 28, 2019**
PROJECT NO: **1598996**
APPLICATION NAME: **FortisBC Multi-Year Rate Plan Application for 2020 to 2024**

1.0 Topic: Review of Prior MRP
Reference: Exhibit C7-5, BCOAPO Evidence, A5, Q5, A6, Q6

In A5, Mr. Bell responds to the question "What were the principles for the prior MRP?" In A6, Mr. Bell responds to the question "Did the prior MRP achieve the objectives?" [underline added]

1.1 Is Mr. Bell using "principles" as synonymous with "objectives"?

Mr. Bell states in his last paragraph of A5:

> "While there were many principles discussed in the decision, and throughout the decision, the focus seems to be on providing the utility with a reasonable opportunity to recover its prudently incurred costs including a fair rate of return and incenting sustainable efficiencies, not incenting unsustainable savings and enhancing regulatory efficiency."

1.2 Would it be accurate to summarize that Mr. Bell sees the Commission's decisions approving the FEI and FBC 2014-2018 PBR plans (Prior MRP) as indicating that the main objectives of a performance-based ratemaking plan should be (a) providing the utility with a reasonable opportunity to recover its prudently incurred costs including a fair rate of return, (b) incenting the utility to achieve sustainable efficiencies, (c) not incenting the utility to pursue unsustainable savings, and (d) enhancing regulatory efficiency?

1.3 Are these the objectives of the Prior MRP referred to in Q6?

In the first sentences of A6, Mr. Bell states:

> "One must assume that FortisBC sought efficiencies and achieved them and the objectives of the MRP were achieved. In fact, the only quantitative measure is achieved returns. In each of the five years from 2014 through 2018, both FEI and FBC exceeded the allowed return."

1.4 Does this mean that in Mr. Bell's view, of the Commission's four main objectives of the Prior MRP, only the fair rate of return component of the first objective ("providing the utility with a reasonable opportunity to recover its prudently incurred costs including a fair rate of return") can be quantified, and that achievement of the other stated objectives must be assumed?

Mr. Bell then quotes FEI's and FBC's ROE figures for 2014 to 2018 as demonstrating that both FEI and FBC achieved a rate of return that exceeded the approved rate of return during the period of the Prior MRP. He states:

> "While achieved ROE is not a perfect indicator, it is the only one that one can look at to see if the utility had a reasonable opportunity to recover prudently incurred costs. When a utility earns more than the approved return over the entire term of the plan, one cannot say that the utility did not have a reasonable opportunity to recover prudently incurred costs."

1.5 Is the gist of Mr. Bell's review of implementation of the Prior MRP that the objective of providing the utility with a reasonable opportunity to recover its prudently incurred costs including a fair rate of return was met?

FortisBC sets out five "rate plan principles" in Section C of the Application, pdf pp.136-137.

1.6 In Mr. Bell's view, are these "rate plan principles" (a) appropriate and (b) implemented in the Companies' Proposed MRP?

2.0 Topic: Structure of the MRP
Reference: Exhibit C7-5, BCOAPO Evidence, Q7, A7

"Q7. Does the structure of the MRP need to change from the last one?

A7. Conceptually, no it does not. This is particularly true if, going in, O&M and Capital are correctly set upon rebasing."

2.1 Please explain both the question and the answer.

2.1.1 What is meant by, or included within, "the structure of the MRP"?

2.1.2 What is meant by no "conceptual" need for the structure of the MRP to change? Is there a 'practical' need the structure of the MRP to change?

2.1.3 Is Mr. Bell proposing that O&M and Capital should be subject to rebasing in a manner that is different than is proposed in the Application? If so, please explain how he recommends that rebasing be carried out.

3.0 Topic: Prior MRP
Reference: Exhibit C7-5, BCOAPO Evidence, Q8, A8, A14, A16; Appendix 2

Mr. Bell introduces Appendix 2 as follows:

> "A8. In Appendix 2 to my evidence I have prepared a comparison of the terms of the current MRP and the prior one. For the Current MRP, data is taken from Table A1-1: Summary of Proposed MRPs from Exhibit B-1 of the current Application. <u>The data from the prior MRP is taken from Table</u>

B6-1: Summary of 2014 PBR Plan Proposal of the FEI 2014-2018 MRP, Exhibit B-1, and from Table B6-1: Summary of 2014 PBR Plan Proposal of the FBC prior MRP, exhibit B-1.

3.1 Does Mr. Bell's Appendix 2 reflect the elements of the Prior MRP as approved by the Commission, or as originally proposed by FEI and FBC?

Mr. Bell identifies certain differences between the Prior MRP and the Proposed MRP including:

> "Off Ramps include a 2 year offramp of a 150 bp variance and remove the offramp for serious SQI degradations." [underline added]

Similarly, in A14, Mr. Bell says that FortisBC "removed the reopener for a serious degradation in SQIs."

In A16, Mr. Bell states:

> "Regarding the reopener provision, I recommend that the conditions related to SQIs be reintroduced into this MRP."

3.2 Please clarify what "offramp for serious SQI degradations" in the Prior MRP Mr. Bell is referring to, and identify where FortisBC says it would be removed in the Proposed MRP.

3.3 Is Mr. Bell referring to the Companies' proposed "Mid-Term Review" that the Commission in Decision's and Orders G-138-14 and G-139-14 denied in favour of a more comprehensive Annual Review?

4.0 Topic: O&M
Reference: Exhibit C7-5, BCOAPO Evidence, A8, A9

In A8, Mr. Bell says that of the Proposed MRP that:

> "There are changes to the calculation of controllable O&M that effectively reverse the Commission's prior decision about a growth factor." [underline added]

In A9, Mr. Bell says:

> "Both Fortis utilities have changed the structure of the PBR plan related to O&M. The change to O&M per customer enhances the MRP in the favour of the utilities..."

Mr. Bell concludes in A9:

> "In summary, there does not appear to be a need to change the O&M methodology. Both FEI and FBC earned a reasonable return, and in fact spent less than the formula provided for."

In the Application, FortisBC states:

> "Under the proposed unit cost approach to O&M, FortisBC proposes to maintain the average number of customers[106] as the growth factor. For the proposed FEI Growth capital formula, FEI proposes to adopt gross customer additions (instead of service line additions) as the growth factor.[107] For both the index-based O&M discussed in Section C2 and the unit cost approach to FEI's Growth capital discussed in Section C3.3.1, FortisBC is proposing to eliminate the two adjustments to the growth factor that were imposed under BCUC Orders G-138-14 and G-139-14. These two adjustments were:
>
> - a reduction in the growth factor by one half; and
> - the use of lagged actual customer growth."

4.1 For greater certainty, please identify the "Commission's prior decision about a growth factor." Is this same as the "two adjustments" that FortisBC refers in the quote above?

4.2 In Mr. Bell's view, is FortisBC's description of the proposed changes to the approach to O&M accurate, setting aside the merits of the proposed changes?

4.3 What is Mr. Bell's response to FortisBC's stated rationale in section 1.4.1 of the Application for using the forecasted growth factor in the Proposed MRP formula for O&M and Capital?

5.0 Topic: Capital Formula
Reference: Exhibit C7-5, BCOAPO Evidence, A10

Mr. Bell uses the term "appears to be" throughout his discussion of FEI's and FBC's proposed changes regarding Sustainment and Other Capital.

5.1 In Mr. Bell's view is there uncertainty about what exactly FEI and FBC are proposing in terms of changes regarding the formula for Sustainment and Other Capital? If so, please explain in more detail the source of the uncertainty.

Mr. Bell states:

> "There appears to be a step change in the level of capital funding for FEI and FBC in their forecasts. I point this out, as it appears that the change to a forecast for much capital benefits the shareholder through increased revenues."

5.2 Is Mr. Bell's concern focused on the size of the forecast capital expenditures, or the use of a forecast instead of a formula (or both)?

5.3 When Mr. Bell refers to the shareholder benefiting through increased revenues is this a reference to increased rate base and increased return on equity?

6.0 Topic: Recommendations
Reference: Exhibit C7-5, BCOAPO Evidence, A11, A12, A15, A16

In A11 and A12, Mr. Bell says that there is no need to change the way capital was dealt with in the Prior MRP. He says there should be consistency in both O&M and Capital being based on a formula rather than one being based on a formula and the other being based on forecasts. He says the Companies were able to earn an adequate return under the Prior MRP.

In A15, Mr. Bell discusses the Alberta Utilities Commission's approach to PBR. He states in part:

> "In Alberta the issue of incremental funding for capital was an issue in the first generation PBR. In the second generation the AUC moved to a more formulaic method of providing incremental capital funding known as the K Bar model[17]. In the K Bar model, incremental capital funding is determined by averaging the first four years of capital on an inflation adjusted basis."

In A16, Mr. Bell recommends "that the same determination of O&M and Capital as was used in the 2014-2018 [sic] MRP be used in this 2020-2024 MRP."

6.1 Is it Mr. Bell's view that the Capital formula under the Prior MRP worked well? If so, why? If not, why should it be used in a 2020-2024 MRP?

6.2 Please confirm, or otherwise explain, that Mr. Bell is not recommending the "K Bar model" for the next FortisBC MRP.

7.0 Topic: Efficiency Carryover Mechanism
Reference: Exhibit C7-5, BCOAPO Evidence, Q13, A13; Exhibit B-5, FortisBC Response to BCUC 1.26.1

Mr. Bell states:

> "Q13. What are your concerns with the ECM?
>
> A13. FortisBC appears to have changed the ECM to be based on two years data, and not a five-year rolling average. This change seems to place more reliance on the last two years of data. My concern with any ECM is that it does not reward a continuation of performance that has been ongoing but be based on truly new innovations that have occurred in the last two years of the plan. If the ECM is to be based on the last two years data, then the base should be the achieved return for the first three years of the MRP. In this case, it would only be additional efficiencies that are achieved that exceed the achievement in the first three years that would be rewarded. If the base is the allowed ROE, there is the potential for double counting, where the utility is compensated for efficiencies found in the early stages of the PBR, and then again in the ECM. If the average achieved ROE for the first three years is used as the base for calculating the ECM calculated in the last two years, then this double counting is eliminated."

In A16, Mr. Bell states:

> "Regarding the ECM, I recommend that the same ECM be used as was used in the 2014-2018 MRP. If the BCUC desires to adopt the revised ECM, then the base for the ECM should be the higher of the average of achieved ROE for the first three years of this ECM, or the approved ROE." [underline added]

7.1 Should "ECM" read "PBR" in the above quote? If not, please explain.

In the Application, FortisBC states:

> "FortisBC proposes an ECM in the form of an add-on to the approved ROE for two years after the end of the Plans' term. The ROE add-on is equal to one-half of the difference between the average achieved and authorized ROE, to a maximum of 50 basis points, over the last two years of the Plans (providing the difference is positive)." [Exhibit B-1, p.A-5]

In its response to BCUC IR 26.1, FortisBC provides what it characterizes as a full explanation of "how the FortisBC proposal for an ECM **excludes** the impact of efficiencies that were implemented in years 1-3 of the multiyear rate plan and have simply carried over to the last two years of the plan."

7.2 What is Mr. Bell's response to FortisBC's response to BCUC IR 26.1?