

November 19, 2019

VIA E-FILING

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



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

Our File: 7300.131

Dear Mr. Wruck,

**Re: FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) Multi-Year Rate Plan Application for 2020 to 2024 ~ Project No. 1598996
Response to Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1 to BCOAPO**

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

Enclosed please find the BCOAPO's Response to CEC IR No. 1 on BCOAPO's Evidence with respect to the above-noted matter.

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

Sincerely,
BC PUBLIC INTEREST ADVOCACY CENTRE

Original on file signed by:

Leigha Worth
Executive Director | General Counsel

Encl.

FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) Application for Approval of a Multi-Year Rate Plan for 2020 through 2024	Submission Date: November 19, 2019
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1. Reference: Exhibit B-1, page 2

I have been involved in over 30 PBR-related proceedings in Alberta and British Columbia. I have extensive experience with PBR in Alberta. I have been involved in the development of the PBR models, in the rebasing proceeding, in the annual filings, as well as Z factor filings. Currently, I am involved in the proceeding before the Alberta Utilities Commission dealing with the definition of an anomaly for use in rebasing. My experience in rebasing is directly applicable to this proceeding.

1.1 Please provide Mr. Bell's experience under cost of service regulation.

Response:

Mr. Bell believes the reference should be to Exhibit C7-5, at A3.

Mr. Bell has extensive cost of service experience. As noted in the first paragraph of A3, Mr. Bell has participated in over 100 files.

Starting on Page 17 of 30 of his evidence, Mr. Bell provides his CV. In his CV, Mr. Bell lists numerous cost of service projects. These are listed under the "Other" category on page 20 of 30. Cost of Service projects include:

- ATCO Electric's 2005 and 2006 General Tariff Application.
- ATCO Electric's 2007 and 2008 General Tariff Application.
- ATCO Electric's 2009 and 2010 General Tariff Application.
- ATCO Electric's 2011 and 2012 General Tariff Application
- ATCO Electric 2013-2014 Transmission General Tariff Application
- ATCO Electric 2015-2017 Transmission General Tariff Application
- Negotiation of non-energy rates for ENMAX Energy for 2007 and 2008.
- ATCO Gas' 2005, 2006, and 2007 General Rate Application.
- ATCO Gas' 2008 and 2009 General Rate Application.
- Negotiation of non-energy rates for Direct Energy for 2005 and 2006.
- Negotiation of non-energy rates for Direct Energy for 2007 and 2008.
- Direct Energy's RRT and DRT Application for 2009 and 2010.
- Direct Energy 2017-18 General Rate Application
- Negotiation of rates for FORTIS Alberta for 2006 and 2007.
- Negotiation of rates for FORTIS Alberta for 2008 and 2009.
- FORTIS Alberta's 2010 and 2011 General Tariff Application.
- Negotiation of rates for FORTIS Alberta for 2012.

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- EPCOR Transmission and Distribution's 2005 and 2006 General Tariff Application.
- Negotiation of EPCOR Transmission and Distribution's 2007, 2008, and 2009 General Tariff Application.
- EPCOR Distribution and Transmission's 2010 and 2011 General Tariff Application.
- EPCOR Distribution and Transmission's 2010 and 2011 General Tariff Application Corporate Cost Module
- EPCOR Distribution and Transmission Inc. 2012 General Tariff Application.
- EPCOR Distribution and Transmission Inc 2014 and 2015 Transmission Tariff Application
- EPCOR Distribution and Transmission Inc 2018 Transmission GTA
- EPCOR Energy Corporation 2007 - 09 Non Energy Application
- EPCOR Energy Corporation 2018 -20 Non Energy Application
- ATCO Pipelines 2013-2014 General Rate Application
- ATCO Pipelines 2017 GRA
- Negotiation of the ATCO Pipelines 2008-2009 General Rate Application
- ALTALink Management Limited's 2009 and 2010 General Tariff Application.
- ALTALink Management Limited's 2011, 2012, and 2013 General Tariff Application
- ALTALink Management Limited's 2017 and 2018 General Tariff Application.
- ENMAX Power Corporation 2014 General Tariff Application
- Direct Energy 2012-2016 Regulated Rate Tariff non energy application
- EDTI 2015-2017 TFO GTA
- ATCO Pipelines 2015-2016 GRA
- Yukon Energy 2017-2018 General Rate Application Yukon Electrical Company Limited 2013-2015 General Rate Application
- Yukon Electrical Company Limited 2016-2017 General Rate Application
- Northwest Territories Power Corporation 2012/2013 to 2013/2014 General Rate Application
- Northwest Territories Power Corporation 2016-2019 General Rate Application.
- Northland Utilities (NWT) 2014 - 2015 General Rate Application
- Northland Utilities (NWT) 2011 - 2013 General Rate Application

1.2 Does Mr. Bell have experience with regulation which alternates between cost of service and PBR?

Response:

Yes.

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1.2.1 If yes, please describe.

Response:

Mr. Bell was involved in the proceedings related to the ENMAX Power 2007-2016 FBR application. As noted in Decision 2009-035 at paragraph 118 while EPC applied for a 2007-2019 PBR, the AUC only allowed the PBR through the end of 2013. The EPC FBR was a PBR model that included EPC distribution and transmission. Then Mr. Bell was involved in the ENMAX Power Corporation 2014 General Tariff Application which was used to bridge EPC to its start in the Alberta First Generation PBR plan for distribution utilities.

1.3 Please briefly highlight differences between PBR as it is implemented in Alberta and the PBR that has been implemented in BC.

Response:

In the first generation PBR plan in Alberta, electric distribution utilities were subject to a price cap plan, where prices were inflated by I-X. natural gas distribution utilities were subject to a revenue requirement per customer cap. The largest issue during the plan was the provision of incremental funding for capital expenditures. Ultimately the AUC approved the use of capital trackers to provide incremental funding for capital.

In the second PBR, the basic structure remained the same, with electric distribution still being under a price cap plan, and natural gas distribution utilities still being under a revenue requirement per customer cap. The largest change was the introduction of a K-Bar for incremental funding for capital expenditures. The K-Bar provides a formulaic basis for incremental funding for capital additions based on the first four years of the first generation PBR capital additions.

The MRP in BC adjusts going in O&M and Capital by I to arrive at a forecast for O&M and capital in each year of the MRP, and then applies cost of service methodologies to derive forecast revenue requirement for each year of the MRP.

1.4 Please provide the principles which should guide a proper rebasing for the utilities.

Response:

Rebasing principles should include:

- Rebasing is to relink costs and revenues.
- Rebasing must ensure that all efficiencies achieved in the first generation PBR are passed on to customers in the second generation. Under a PBR plan, the

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link between revenues and costs is broken, and any efficiency gains are to the credit of the shareholder. Upon rebasing, all efficiency gains are passed to customers in the setting of new going in rates.

- Rebasing must ensure that any adjustments to second generation going in rates do not claw back any of the achieved efficiencies.
- Rebasing must be done so that there is no incentive for a utility to game the results. As an example, if the utility knows in advance that the last year O&M of a PBR term were to be used to set PBR going in rates for the next term, it could manage discretionary expenditures to inflate that year, and set up future gains.

2. Reference: Exhibit C7-5, BCOAPO Evidence, page 3

The evidence will also examine the prior FortisBC plan, which was successful in totality and provided a reasonable opportunity to recover prudently incurred costs and achieve a fair rate of return, although some components, such as capital may have been under-funded.

- 2.1 Please provide Mr. Bell's definition of 'successful in totality'.
- 2.2 How does Mr. Bell define 'under-funded'?
- 2.3 How would Mr. Bell define 'over-funded'?
- 2.4 How would Mr. Bell define 'properly funded'?

Response 2.1-2.4:

Mr. Bell will respond to all parts to this question in one response.

Mr. Bell understands that utilities are entitled to a reasonable opportunity to recover prudently incurred costs and earn a reasonable return. When Mr. Bell is referring to being over funded or underfunded, he is referring to whether the utility has been granted a reasonable opportunity to recover prudently incurred costs and earn a reasonable return.

In assessing this, the utility must be reviewed in total. One cannot look at each component, such as O&M or Capital in isolation and determine if a plan provided such a reasonable opportunity. It is entirely possible that, under a MRP like used for FortisBC, that it may spend more than the formula for capital, and less for O&M, or less for capital and more for O&M. As such, one cannot determine if the plan provides a reasonable opportunity by looking at actual spending by component compared to the formula.

One indicator of the ability to recover prudently incurred costs it to examine achieved returns. While this is not an absolute indicator, it provides directional evidence. If a

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utility systematically earns less than its allowed return, this is an indicator that there may not be a reasonable opportunity to recover costs, and further analysis would be warranted to understand the reasons for lower returns. Conversely, if a utility systematically earns significantly more than its allowed return, this may be an indication that the plan is over funded, and further analysis is warranted to determine the reasons.

It is Mr. Bell’s view that the main intent of price regulation is to protect customers from the market power of monopolies. Customers have no choice as to who provides utility service, and as such, without regulation, utilities, absent regulation, have the anility to extract excess rents in the form of higher prices.

3. Reference: Exhibit C7-5, BCOAPO Evidence, page 5 and page 6

The Commission Panel is not looking at this Application from a short-term viewpoint. We see an opportunity to make significant change over the long term with the way regulation is conducted in this jurisdiction and the way in which revenue requirements are determined. What form this may take is at this point undecided. **Standing in the way of this is the lack of trust among the parties.** If moving forward with an initiative like this PBR is going to work for the future the level of trust must be addressed and increased. To address this, the Commission Panel, in its Decision, has included a more lengthy discussion of the Annual Review Process than perhaps many of the parties anticipate. We have made significant changes to the purpose, content and process for this important program element. This will be discussed further in Section 2.3.6.

Regardless of the method chosen, to be successful over the longer term the parties need to feel that their concerns are heard and where reasonable, acted upon. To facilitate this, the Commission Panel has taken steps in this Decision to ensure there is ongoing communication between the parties, which will result in greater transparency.³

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- 3.1 Please provide Mr. Bell’s views as to the best methods for establishing trust between ratepayers and the utilities, and how these can best be accomplished.

Response:

In the jurisdictions Mr. Bell has been involved in, there is a level of mistrust by customers toward utilities. This comes, in part from the fact that customers feel they have no control over their energy needs. They have no choice about who they can use for the provision of energy, at least for distribution and transmission, and have no control over price changes.

When a utility, or its parent, takes actions that are seen as questionable, this adds to the frustration. As an example, in proceeding 20514, the AUC examined the sale of an ATCO IT affiliate to a third party. As much of the data is covered by confidentiality undertakings, Mr. Bell cannot discuss much of the details, but this is an example of how the actions of a parent can impact the trust of customer groups of a utility.

It is Mr. Bell’s experience that generally customers want two things, first the lights to go on when they turn them on, and second, not to have a panic attack when they open the bill.

As such, some of the mistrust is structural. As long as customers have no choices, this frustration will continue.

It is imperative that the utility, and its parent avoid restructuring that is obviously an attempt to extract excess profits from customers. It is also imperative that the utility take steps to demonstrate that it has chosen the least cost alternative (over the life of the asset) in its spending choices.

Beyond that utilities must ensure that they are open and not seen to be evasive in providing information to the regulator or other parties.

- 3.2 What opportunities for questioning should be available in an Annual Review in order to establish trust by ratepayers? Please elaborate.

Response:

As discussed above, the utility should provide persuasive evidence that made least cost decisions. Further, the utility should be willing do respond to questions and discuss issues with parties in the Annual Review process.

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Having said that, it is incumbent on parties to ensure that the questions pertain to material issues, so that any process is not bogged down or unnecessarily lengthened.

- 3.3 Does Mr. Bell consider that a final review of a past PBR is useful in identifying areas of weakness or strength? Please explain why or why not.

Response:

Absolutely, a review of the prior PBR is useful in identifying areas that require adjustments. It is only through evaluating the prior plan in operation that strengths or weaknesses can be identified. This is typical of any planning process:

1. Create plan, budget or forecast
2. Operate based on plan
3. Measure results under plan
4. Analysis results and identify variances and causes
5. Update Step 1 and create a new plan.

4. Reference: Exhibit C7-5, BCOAPO Evidence page 6 and 7

Q6. Did the prior MRP achieve the objectives.

A6. 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. The following tables are taken from the data provided in response to BCOAPO 24.3.⁴

		2014	2015	2016	2017	2018	Average
FEI ROE	Actual	9.20%	9.19%	9.28%	9.04%	8.93%	9.13%
	Formula	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%
	Higher (Lower) than formula	0.45%	0.44%	0.53%	0.29%	0.18%	0.38%

		2014	2015	2016	2017	2018	Average
FBC ROE	Actual	9.22%	9.26%	9.38%	9.31%	9.29%	9.29%
	Formula	9.15%	9.15%	9.15%	9.15%	9.15%	9.15%
	Higher (Lower) than formula	0.07%	0.11%	0.23%	0.16%	0.14%	0.14%

The data clearly demonstrates that for both FEI and FBC, the utility achieved a return that exceeded the allowed rate of return, and on average, FEI exceeded that return by 38 Bp and FBC by 14 Bps.

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- 4.1 Please confirm that the Formula rate of return is considered a ‘fair’ rate of return and assumes prudent management of the utility on behalf of ratepayers.

Response:

Confirmed.

- 4.2 Please confirm that ‘prudent management’ assumes that the managing party will properly seek efficiencies that are available to it in accordance with best business practices.

Response:

Confirmed.

- 4.3 Please confirm that if the MRP is to be successful for all parties, and given that the formula rate of return is ‘fair’, then a greater than ‘fair’ return for the utility paid for by ratepayers should properly be compensated by greater expected cost savings for the ratepayers under PBR.

Response:

Not Confirmed. The size of the efficiencies will depend on a number of factors. During the term of the PBR, any efficiency savings are to the benefit of the shareholder, and it is only in rebasing that the savings are passed on to customers.

- 4.4 In what ways can ratepayers distinguish efficiencies that are or should be undertaken by the utility in achieving its ‘Formula’ or regulated rate of return versus those that are undertaken under PBR and for which the ratepayers pay a greater than ‘Fair’ rate of return.

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Response:

Mr. Bell does not entirely understand the question. As noted above, during the term of the PBR, any efficiency savings are to the benefit of the shareholder, and it is only in rebasing that the savings are passed on to customers. One of the factors of a PBR is that it is a longer term than most cost of service proceedings, allowing utilities a longer time to implement efficiencies and benefit from those efficiencies. Further, Mr. Bell would expect that a utility responding to the incentives, should achieve higher returns, during the PBR plan.

- 4.5 Is it Mr. Bell's contention that a successful PBR should always result in the utility being able to achieve a higher than formula ROE? Please explain.

Response:

No, it is not Mr. Bell's expectation that a utility will always result in higher returns. Mr. Bell expects that a utility operating under PBR incentives, would work to achieve higher returns.

- 4.6 Could a PBR plan that resulted in an average ROE being achieved at formula levels (i.e. 8.75% for FEI and 9.15% for FBC), with some years being above and some years being below, be considered successful? Please explain.

Response:

Yes Mr. Bell expects that there could be some variability around the formula ROE. If the PBR incentives are working properly, Mr. Bell expects that there will be a bias to higher returns.

- 4.7 If ongoing PBR plans continuously exceed the formula ROE, please explain when it could be considered that the utilities have effectively been provided with a higher formula ROE.

Response:

Yes, please see the response to question 2 above.

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5. Reference: Exhibit C7-5, BCOAPO Evidence page 8 and page 9 and page 10

Q9. What are your concerns with the changes to O&M?

A9. 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.

Both utilities have spent less than formula for O&M for each of the years 2014-2018⁵. FEI underspent by \$46 million over the course of the last PBR plan.

Also, FortisBC asserts that because there is a high correlation coefficient between O&M and customers, then the appropriate measure is O&M per customer.

In addition, the incremental cost per incremental customer is not linear. As demonstrated below, the incremental cost per incremental customer fluctuates from year to year.

	2014	2015	2016	2017	2018	2019P
FEI Average Number of Customers	959,196	968,766	983,807	997,380	1,016,353	1,024,962
Actual Formula O&M (\$000)	\$ 223,970	\$ 225,380	\$ 225,930	\$ 232,500	\$ 238,690	\$ 246,940
Incremental Customers		\$ 9,570	\$ 15,041	\$ 13,573	\$ 18,973	\$ 8,609
Incremental O&M		\$ 1,410	\$ 550	\$ 6,570	\$ 6,190	\$ 8,250
Incremental cost per Incremental customer		\$ 147	\$ 37	\$ 484	\$ 326	\$ 958
FBC Average Number of Customers	129,525	131,016	132,480	134,246	137,300	138,649
Actual Formula O&M (\$000)	\$ 52,046	\$ 51,880	\$ 51,839	\$ 52,520	\$ 53,839	\$ 55,581
Incremental Customers		\$ 1,491	\$ 1,463	\$ 1,766	\$ 3,054	\$ 1,349
Incremental O&M		\$ (166)	\$ (41)	\$ 681	\$ 1,319	\$ 1,742
Incremental cost per Incremental customer		\$ (111)	\$ (28)	\$ 386	\$ 432	\$ 1,291

In fact, I note that the incremental cost per incremental customer is the highest in the forecast year and appears to be an outlier.

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5.1 Please confirm that “Incremental Customers” should not be presented in \$.

Response:

Confirmed.

5.2 Please confirm that utility O&M is composed of fixed, variable and semi-variable costs.

Response:

Not Confirmed. It is Mr. Bell’s experience that costs of distribution and transmission do not vary with the volume of energy transported through the system. The main drivers for cost increases are increases in the number of customers and in peak demand, as those drive the need for increased capacity.

5.3 Please provide Mr. Bell’s understanding of the key fixed costs that gas and electric utilities include in O&M.

Response:

Please see the response to question 5.2 above.

5.4 Please provide Mr. Bell’s understanding of the key variable costs that gas and electric utilities include in O&M.

Response:

Please see the response to question 5.2 above.

5.5 Please provide Mr. Bell’s understanding of the key semi-variable costs that gas and electric utilities include in O&M.

Response:

Please see the response to question 5.2 above.

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- 5.6 Please confirm that the timing of many fixed and semi-variable costs can be managed (either brought forward or deferred) at the discretion of management.

Response:

Mr. Bell sees the question as referring to discretionary as opposed to fixed or variable. Mr. Bell agrees that some costs are discretionary, but deferring may result in longer term costs. If vegetation management is curtailed, the long term impact may be more outages over time as there are more tree strikes. It is important that a utility have a well thought out life cycle maintenance plan, and actually implement the plan. To the extent that PBR incentives are working, the utility should find more efficient ways to implement its maintenance plan.

- 5.7 Would Mr. Bell agree that a series of short periods for MRP provides an opportunity for the utility to manipulate the addition of fixed and semi-variable costs to their advantage in short term MRPs? Please explain.

Response:

Please see the response to question 5.6 above.

- 5.8 Would Mr. Bell please explain the Productivity Factor in the former PBR plan, and the use and justification for this under PBR regulation?

Response:

Mr. Bell understands the question to relate to an X factor. Under PBR, the X factor is intended to provide some compensation for expected productivity gains to customers during the PBR plan.

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6. Reference: Exhibit C7-5, BCOAPO Evidence, page 11 and 12

Having one component based on a formula and one component based largely on forecasts may be inconsistent. In my experience there are trade offs between various inputs such as O&M and Capital, and the basis of each should as much as possible be consistent. FortisBC appears to agree with me.

Q12. Does there need to be a change in the way capital is treated in the MRP?

A12. No, as noted above, both FEI and FBC were able to earn an adequate return under the old model. Also, reconnecting the capital to a forecast dulls some of the incentives of the PBR model, as it moves back to a Cost of Service type of rate making. Further, when I have been involved in forecasting, the further out one forecasts, the less reliable the forecast is, and the more an uncertainty premium one puts into the forecast.

This is entirely inconsistent with any intent of a PBR model.

- 6.1 Please provide a discussion of the appropriateness of removing capital from PBR models altogether.
- 6.2 If capital were removed from the PBR model altogether, what would be the likely impact on O&M? Could it be expected to decline if the utility were incented to use capital projects instead of O&M? Please explain.

Response 6.1 & 6.2:

Mr. Bell will respond to both questions together. It is Mr. Bell's expectation that there is a link between O&M and Capital, and that there is an opportunity for a utility to spend capital to save O&M, or to incur O&M instead of capital. If capital is outside of the PBR plan and O&M is include, it would create a perverse incentive to incur capital, which is funded outside of the PBR plan, and save O&M, which is included in the PBR plan. This would result in customers paying higher costs of new capital, and the utility benefiting from lower O&M.

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7. Reference: Exhibit C7-5 page 13

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.

7.1 Please elaborate on how the double counting could occur and provide a hypothetical example.

Response:

Let us consider a utility implements a productivity improvement in year 1 that generates a 50 bp ROE gain in years 1, 2 and 3, then implements another productivity improvement in year 4 that provides an additional 50 bp ROE gain in years 4 and 5.

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	Year 1	Year 2	Year 3	Year 4	Year 5	ECM
Authorized ROE	8.5%	8.5%	8.5%	8.5%	8.5%	
Productivity Gain 1	0.5%	0.5%	0.5%	0.5%	0.5%	
Productivity Gain 2	0	0	0	0.5%	0.5%	
Achieved ROE	9.0%	9.0%	9.0%	9.5%	9.5%	
ECM as calculated						1.0%
Notional Achieved ROE, based on Productivity Gain 1	9.0%	9.0%	9.0%	9.0%	9.0%	
Incremental impact of Productivity Gain 2				0.5%	0.5%	
ECM related to Productivity Gain 2						0.5%

As demonstrated in the table above, to the extent that there are savings related to productivity gains that are implemented in the early years, these will be compounded with late measures. The utility has been fully compensated for efficiency gain 1 during the PBR term, and to include the impact in the ECM amounts to double counting.

- 7.2 Please provide a discussion of the various types of treatments for ECM that occur in different PBR models.

Response:

Mr. Bell's experience with ECM is limited to the Alberta PBR.

- 7.3 Are there any jurisdictions that do not include an ECM at all?

7.3.1 If yes, please list.

Response:

Mr. Bell's experience with ECM is limited to the Alberta PBR.

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8. Reference: Exhibit C7-5 BCOAPO Evidence page 13

Q14. What are your concerns with the changes to off ramps and reopeners?

A14. FortisBC added a reopener for 150 Bps for two consecutive years and removed the reopener for a serious degradation in SQIs. While I have no issue with the inclusion of the second level for returns, the removal of SQIs is a concern. If there is a serious degradation of service levels, customers may suffer. As an example, if there are serious and prolonged outages, and SAIDI and SAIFI increase dramatically, there should be an understanding of the reason for the outage, and if it relates to delayed or avoided maintenance or inspections, that should be a reason to reopen the PBR plan.

8.1 Please comment on the current ‘threshold’ and ‘benchmark’ format for the two utilities (e.g. what role should a ‘benchmark’ play vs a ‘threshold’)?

Response:

A benchmark may be useful in assessing the state of the industry for setting a threshold, but historical experience should play a part. As an example, if the SAIDI achieved for a utility is much better than the utility benchmark, it would be inappropriate to use a benchmark as a threshold. Customers are already paying for the achieved SAIDI in rates, and to allow the utility a lower standard would imply that customers would accept a lower service level than what they are paying for. Conversely, if the utility is achieving a poorer SAIDI than the benchmark, one must understand why it is lower, and what the utility is doing to improve the performance, and the cost of such improvements.

8.2 Please comment on the addition of the Interconnection Utilization SQI.

Response:

Mr. Bell believes in cost causation. In Exhibit B-1, Page A-13, Fortis indicates this it to measure the reliability of service for Wholesale Municipal customers. To the extent that the SQI requires costs, or drives system costs, the customers that benefit from the SQI should pay all costs.

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9. Reference: Exhibit C7-5, BCOAPO Evidence page 13 and 14

Q15. Are there sufficient reasons to change the basic inputs to the MRP.

A15. No. I look at this as a form of rebasing. In Alberta, when the AUC rebased its PBR, it looked at a narrow set of issues.

3. In particular, this decision deals with four main next generation PBR plan parameters: (i) rebasing and the going-in rates for the next generation PBR term, (ii) the X factor, (iii) the treatment of capital additions, and (iv) the calculation of the return on equity (ROE) for reopener purposes.¹⁶

The AUC did not change all components of the plan, but only examined specific issues. The one that most closely relates to this MRP is item (iii). 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 model¹⁷. In the K Bar model, incremental capital funding is determined by averaging the first four years of capital on an inflation adjusted basis.

It is interesting that in Alberta, the AUC is moving to a more formulaic approach to get away from testing forecasts, while in BC, both Fortis utilities are moving away from a formulaic approach.

9.1 Please provide further details as to why the current plan may be considered a form of 'rebasings'.

Response:

The prior MRP was set for the years 2014-2018, and then extended to 2019. This MRP starts in 2020. The expectation is that in setting 2020 costs, O&M and capital will be based on actual experience. In fact, in its application, Fortis states:

FEI's and FBC's proposed 2019 Base O&M requirements for the Proposed MRPs are reasonable and necessary. Both FEI's and FBC's proposed 2019 Base O&M are lower than the O&M levels prior to the start of the Current PBR Plans 115,

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due to permanent savings from the Current PBR Plans being embedded in the O&M levels going forward.¹

This appears to be a form of rebasing to Mr. Bell

9.2 Please provide further details of the K Bar model.

Response:

The K Bar model is described in Section 6.4.3 of Decision 20414-D1-2016 (Errata) at paragraph 254 which states:

To summarize, the calculation of interim base K-bar will involve the following steps:

Step 1: Calculate the projected revenue requirement for Type 2 K-bar projects or programs for 2018.

(i) Distribution utilities on the 2013-2017 PBR plans will determine the capital additions for each K-bar project for each of 2013 to 2016, and ENMAX will determine the capital additions for each K-bar project for 2015 and 2016. K-bar projects include all capital projects or programs that have historical rate base associated with them at the time of the rebasing applications. For non-capital tracker programs from the current generation PBR plans, use the actual capital additions as determined to be prudent in the rebasing application, and for capital tracker projects or programs from the current generation PBR plans, use the actual capital additions approved in the capital tracker decisions. As 2016 actual capital tracker additions will not have received Commission approval at the time of the rebasing application, use the 2016 applied-for actual costs from the 2016 capital tracker true-up application. The 2016 actual costs will be trued up to the amounts approved in the 2016 capital tracker true-up decisions at a later date. ENMAX will not have Commission approval for any of its capital tracker actuals. As such, ENMAX will use the applied-for actuals from its recent capital tracker true-up application for both 2015 and 2016. These amounts will be trued up at a later date.

(ii) Inflate the capital additions to 2017 dollars using the I-X methodology with the approved I factor for each year and the approved X factor for the 2013-2017 PBR plans, which is equal to 1.16. As ENMAX

¹ Exhibit B-1, page C-14, lines 20-23

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was not on the 2013-2017 PBR plans, it will use the X factor approved for ENMAX's 2015-2017 PBR plan, which is equal to 0.3, as noted in Section 5.5.

(iii) Calculate the average K-bar capital additions, by project, in 2017 dollars for the 2013 to 2016 period, or the 2015 to 2016 period for ENMAX.

(iv) Inflate the average K-bar capital additions by project to 2018 dollars using the I-X methodology with the approved I factor for 2018 and the X factor for the next generation PBR plans.

(v) Calculate the amount of K-bar capital cost incurred for 2018, by program or project, based on the 2018 capital additions from Step 1(iv) and the 2017 mid-year rate base using the method for calculating incurred capital costs from the capital tracker accounting test approved in Decision 2013-435.

Step 2: Calculate the revenue requirement that is recovered in the base rates under the I-X mechanism for Type 2 K-bar projects or programs for 2018.

(i) Calculate the amount of revenue requirement by program or project recovered in base rates under the I-X mechanism for 2018 using going-in capital-related revenue requirement by program or project, using the method for calculating recovered capital-related revenue requirement from the capital tracker accounting test approved in the current generation PBR plans. There will, however, no longer be a materiality threshold in the accounting test, and the accounting test must be applied to all Type 2 projects or programs, not just those with positive accounting test results. Distribution utilities should use a four-year average of inflation-adjusted retirements from 2013 to 2016 as an assumption in the accounting test.

Step 3: Calculate the base K-bar.

(i) Calculate the difference between the 2018 K-bar capital-related revenue requirement required on a projected basis by program or project (from Step 1) and the 2018 K-bar capital-related revenue requirement recovered in the base rates by program or project (from Step 2). The result is the capital funding shortfall or surplus amount for each program or project for 2018.

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(ii) Sum the capital funding shortfall and surplus amounts, including both negative accounting test results and positive accounting test results without any materiality considerations, for all Type 2 projects and programs from Step 3(i) to get the total interim base K-bar for 2018.

10. Reference: Exhibit C7-5 pages 14 and 15

Q16. What are your recommendations?

A16. Regarding O&M and Capital, I recommend that the same determination of O&M and Capital as was used in the 2014-2018 MRP be used in this 2020-2024 MRP.

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.

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

10.1 Mr. Bell does not address the utilities' proposed 'targeted incentives'. Please provide an overview of Mr. Bell's views of these incentives.

Response:

Mr. Bell was only retained to comment on the structure of the PBR plan. As such, his comments will be at a high level.

Mr. Bell understands that the targeted incentives include²:

² Exhibit B-1, Table C8-1

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Item	Applicable to	Opportunity	Proposed Incentives
Growth in Renewable Gas	FEI	Incentive to exceed forecast renewable gas volumes	10 BPS
Growth in NGT	FEI	Incentive to exceed load growth forecast for transportation customers	10 BPS
GHG Emissions Reduction (Customer)	FEI	Incentive to exceed forecast natural gas conversion activity	5 BPS
GHG Emissions Reduction (Internal)	FEI	Incentive to reduce internal GHG emissions below targeted levels	5 BPS
Customer Engagement	FEI / FBC	Incentive to increase the adoption of digital service channels	5 BPS each
Growth in Electric Vehicle Transportation	FBC	Incentive to support the deployment of EV Charging infrastructure (subject to EV Inquiry)	5 BPS
Power Supply Incentive	FBC	Incentive to optimize power purchases	PSI calculated Separately

While the objectives may be laudable, Mr. Bell is not convinced that all customers should pay for incremental returns to achieve the goal.

Growth in Renewable Gas – It is not Clear what benefits there are to use more renewable gas.

Growth in NGT – To the extent that there is growth in NGT, Fortis will be compensated through incremental transportation tolls, and no additional incentive should be required.

GHG Emissions Reduction (Customer) – This cost should be paid for by the customers who use the service, and in fact if additional customers convert to natural gas, there should be load growth which will compensate Fortis.

GHG Emissions Reduction (Internal) – The targets must be rigorously tested to ensure that they will require material investment and effort. It is not appropriate to reward for achieving easy targets.

Customer Engagement – To the extent that customers convert to digital service channels, there should be cost savings to Fortis, and there is no need for additional compensation.

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Growth in Electric Vehicle Transportation – Those that use EV infrastructure should pay any incentives.

Power Supply Incentive – FortisBC should optimize power purchases as a normal course of business. The inclusion of the target would seem to imply that Fortis does not optimize the purchase of power at present, which would cause a concern to customers.

- 10.2 Mr. Bell does not address the utilities’ proposal to remove the materiality threshold from the proposed MRP. Please comment on this proposal.

Response:

Mr. Bell notes that the proposal is to remove materiality from exogenous factors.³ From an administrative perspective, this will create additional regulatory burden. The intent of a materiality threshold is to reduce regulatory burden, and ensure that only material issues are included. Mr. Bell notes that the Alberta PBR plans include a materiality threshold for Z Factor adjustments.

³ Exhibit B-1, page A-10, line 19