November 19, 2019

VIA E-FILING

BCPIAC
Public Interest Advocacy Centre

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

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

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 the British Columbia Utilities Commission (BCUC) 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 the BCUC 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.

A. CAPITAL

1.0 Reference: CAPITAL
Exhibit C7-5, BC Old Age Pensioners' Organization Et Al (BCOAPO) Evidence, p. 7 and p. 12
Controllable Capital

In Q/A #7, Mr. Bell states that, conceptually, the structure of the Multi-Year Rate Plan (MRP) does not need to change from the last one. Mr. Bell also states, "this is particularly true if, going in, O&M and Capital are correctly set upon rebasing."

Q/A #12, states:

> **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.

1.1 Does Mr. Bell agree with FortisBC Energy Inc. and FortisBC Inc.'s (collectively, FortisBC) assertion that actual capital expenditures have significantly exceeded formula amounts during the current Performance Based Ratemaking (PBR) term, and that both FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) have exceeded the capital formula dead bands in certain years of the current PBR?

1.1.1 If yes, please explain in detail how this variance in capital expenditures (formula vs actual) is indicative of an effective capital mechanism for a PBR plan. If no, please explain why not.

Response:

Mr. Bell does not dispute that capital expenditures have exceeded capital formula dead bands in certain years. While this is the case, as demonstrated, FortisBC has achieved it allowed return. As such, one cannot say that the PBR plan as a whole was not successful.

Mr. Bell has been involved in the creation of two-year business plans and five-year strategic plans in his roles in Canadian Western Natural Gas. In his experience, forecasts for outlying years are inflated to ensure that there is sufficient funding available for most contingencies.

1.2 Please discuss in detail how Mr. Bell proposes FEI and FBC's capital should be rebased, if the structure of the MRP were to not change from the last one.

Response:

Rebasing is different that the structure of the base plan. In his evidence, Mr. Bell discusses the structure of the plan. Rebasing is a separate issue. Principles that apply to rebasing include:

- Rebasing is intended 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 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.

In Alberta, the AUC used the lowest O&M year in the PBR term as the basis for setting going in rates.

1.3 Please discuss the effect that exceeding the dead band has on Return on Equity (ROE) in the current model. Does Mr. Bell believe that amounts above the dead band form part of the rate base, and thus earn a return? Please explain why or why not, and how this would affect FortisBC's return in the context of Mr. Bell's statement that *"FEI and FBC were able to earn an adequate return under the old model."*

Response:

To the extent that the regulator finds that the expenditures were prudently incurred, all costs included in closing actual rate base should be included in opening rate base for the following PBR term.

1.4 Please discuss the effect that exceeding the dead band has on the Earnings Sharing Mechanism (ESM) in the current model, including whether Mr. Bell believes amounts spent above the dead band offset any of the potential sharing amounts. Why or why not?

Response:

To the extent that a utility spends more on capital, it mathematically increases rate base, and reduces the achieved ROE' which could reduce the ESM.

1.5 Please discuss whether Mr. Bell believes that a large variance between capital funding provided by the formula and actual capital spent provides a disincentive for companies to invest in long-term projects.

Response:

The intent of PBR is to create incentives to seek efficiencies, both in O&M and Capital costs. Also, there may be opportunities for a utility to invest in capital to save O&M costs. As such, it is difficult to say, categorically, whether a utility would invest less in long term capital.

2.0 Reference: CAPITAL
Exhibit C7-5, BCOAPO Evidence, p. 11
Capital Methodology

In Q/A #10, 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.

2.1 Please explain in detail how changing to a forecast for capital benefits shareholders.

Response:

As the utility earns a return on invested capital (Rate Base), investing in more plant in service generates more profit in dollars. When a utility has increased forecast capital included in rates, it earns a higher return. If the utility then spends less on an actual basis, the utility will earn a return on capital that it has not spent.

2.2 Please clarify whether increased revenues benefits shareholders alone? Do increased utility revenues also benefit ratepayers? Please discuss.

Response:

Additional capital for needed repairs generates incremental revenue. The utility will earn a return on that investment and customers will benefit from a well-maintained system. To the extent that the utility forecasts capital that may be discretionary, the utility benefits but customers are paying for costs that may not be needed. In addition, if the utility spends less than forecast, the savings are to the utility credit.

3.0 Reference: CAPITAL
Exhibit C7-5, BCOAPO Evidence, p. 14
Incremental Capital

In Q/A #15, Mr. Bell states:

> 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. 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.

3.1 In Mr. Bell's opinion, has the K Bar method in Alberta been proven to be an effective method for providing incremental capital funding for the Fortis utility? Please provide any documentation to support your response.

Response:

While it is Mr. Bell's opinion that the K Bar method is an improvement over the Capital Tracker method, Alberta has not completed the second year under the K Bar method, so it is too early to say if the K Bar method is superior.

Mr. Bell notes that Fortis Alberta earned a return of 8.9% in 2018 compared to 9.2% in 2017. Mr. Bell notes that 2017 was the last year in generation 1 and 2018 was the first year in generation 2. As through rebasing, the intent was to pass efficiencies gained in generation 1 on to customers in generation 2, it would appear that the Alberta PBR model was successful.

3.2 Please discuss other formulaic approaches that could be used for providing incremental funding, including those used by other jurisdictions. Does Mr. Bell recommend the use of any one over another? Why or why not?

Response:

In Alberta, generation 1 used capital trackers for incremental capital and generation 2 uses the K Bar method.

3.3 Please discuss the advantages and disadvantages for each of the alternative methods.

Response:

The capital tracker model is the least preferred as it promotes utilities to maximize capital additions, as they are compensated for increased spending, and not incented to minimize capital. In addition, the regulatory burden under a capital tracker is excessive.

The K Bar is similar to the prior MRP capital where base capital is inflated by I-X and a growth factor. The key difference is that the K Bar base is established based on historical actual capital, adjusted for inflation.

The FortisBC proposal is a move away from a formula based approach to capital and more in keeping with the capital tracker model.

A formula-based capital component, similar to that in the last PBR plan would suffice.

B. O&M

4.0 Reference: O&M
Exhibit C7-5, BCOAPO Evidence, p. 8 and 9;
Exhibit B-10, FortisBC response to British Columbia Utilities Commission (BCUC) IR 21.1
O&M

In Q/A #9, Mr. Bell states, “the change to O&M per customer enhances the MRP in the favour of the utilities.”

In response to BCUC IR 21.1, FortisBC states, “Using O&M per customer as proposed in the Application or applying a growth factor to total O&M as in the Current PBR plan produces the same resulting total O&M.”

4.1 Does Mr. Bell disagree with FortisBC’s statement in response to BCUC IR 21.1? Why or why not? Please explain the statement in Q/A #9 with reference to FortisBC’s response in BCUC IR 21.1.

Response:

No, Mr. Bell does not agree with the FortisBC response. In the response, both the current and proposed PBR assume a 100% growth factor. Under the current PBR, the Forecast of AC, on line 5 should include a 50% reduction to the growth factor. When one corrects the response to IR 21.1 there is a difference:

Line	Particulars	Reference	2019	2020	2021	2022	2023	2024
1	O&M ($000)		256,000					
2	AC		1,024,000					
3	O&M per Customer	Line 1 / Line 2 * 1000	250					
4								
5	Forecast of AC	Random	1,024,000	1,034,000	1,047,000	1,058,000	1,067,000	1,080,000
6	Grwoth Factor	Line 5 / Prior Year Line 5 divided by 2		100.49%	100.63%	100.53%	100.43%	100.61%
7	Inflation (CPI & AWE)	Random		2.10%	1.80%	2.30%	2.20%	2.00%
8								
9	**Current PBR Method**							
10	Total O&M ($000)	Prior Year Line 10 * Line 6 * (1 + line 7)	256,000	262,652	269,061	276,695	283,985	291,429
11								
12	**Proposed Method**							
13	O&M per Custoemr Inflated	Prior year Line 13 x (1+Line 7)	250	255.25	259.84	265.82	271.67	277.10
14	AC	Line 5	1,024,000	1,034,000	1,047,000	1,058,000	1,067,000	1,080,000
15	Total O&M ($000)	Line 13 x Line 14 / 1000	256,000	263,929	272,057	281,239	289,871	299,271
16								
17	Difference	Line 10-Line 15	-	(1,276)	(2,996)	(4,543)	(5,886)	(7,841)

There is a clear benefit to the shareholder.

On page 9 of Exhibit C7-5, Mr. Bell then states:

> The use of forecast data is problematic. Forecast data can be manipulated to the advantage of the utility. This issue was addressed by the Alberta Utilities Commission (AUC) in its Second Generation PBR decision. In that process there was a concern that the use of forecasts would provide improper incentives in rebasing. The AUC then confirmed that rebasing on actual results minimizes those concerns. Similarly, using forecast 2019 data to measure the relationship between customers and costs can be misleading as the full incentive properties of the PBR can be muted.

4.2 Does Mr. Bell agree that the starting point for 2019 base O&M is 2018 actual base O&M? Please explain what “forecast data” Mr. Bell is referring to, and explain in detail how this can cause the full incentive properties of the PBR to be muted.

Response:

Mr. Bell was referring to rebasing and the use of forecasts to update the new base O&M or going in rates. To the extent that there are updates that claw back any efficiencies, customers are harmed.

4.3 Please explain whether Mr. Bell believes that each of FBC's proposed adjustments between 2018 actual base O&M and 2019 base O&M are warranted.

Response:

Mr. Bell takes no issue with the adjustments listed in Table C2-14 of Exhibit B-1. Mr. Bell is concerned with the new funding for MRP term of $0.763 million. The majority of the costs relate to System Operations, Integrity and Safety. Surprisingly, Cyber Security is the smallest cost in the Operations area. Much of the costs look like an attempt to claw back savings achieved in the PBR term.

4.4 Please explain whether Mr. Bell believes that each of FEI's proposed adjustments between 2018 actual base O&M and 2019 base O&M are warranted.

Response:

Mr. Bell takes not issue with the adjustments listed in Table C2-1 of Exhibit B-1. Mr. Bell is concerned with the new funding for MRP term of $10,416,000. This is comprised of:

- Customer Expectations - $ 1.360
- Engagement - $ 3.360
- Indigenous Relations - $ 0.880
- System Operations, integrity and Security - $ 4.808
- Total - $10,416

The majority of customer expectations seems to relate to the effort to connect new customers. To the extent this is successful, new load should pay for this.

Customer engagement is comprised largely of a program for Raising Awareness of Consumers in a Lower Carbon Future and a Climate Action Partners program. I am not sure this will be of benefit to FEI customers, and is not just another form of advertising.

Indigenous Relations may be required to facilitate building on Indigenous lands.

Surprisingly, Cyber Security is the smallest cost in the Operations area. Much of the costs look like an attempt to claw back savings achieved in the PBR term.

C. GENERAL

5.0 Reference: GENERAL
Exhibit C7-5, BCOAPO Evidence, p. 7; Appendix 2
Comparison of MRP and PBR plans

In Q/A #8, Mr. Bell states:

> 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. The data from the prior MRP is taken from Table 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.

5.1 Please confirm that the comparison provided in Appendix 2 does **not** compare the current proposed MRP to the **approved** elements of the PBR plans currently in place for both FEI and FBC.

Response:

Confirmed.

5.1.1 If confirmed, please explain why the proposed MRP was not compared to the approved elements of the PBR plans in place, including an explanation of what value the BCUC should place on a comparison to elements that were not approved.

Response:

Mr. Bell recognizes that the BCUC made changes to the as applied for plan. Despite those changes FortisBC was able to recover prudently incurred costs and earn a reasonable return. Had the changes not been made in the BCUC decision, the FortisBC returns would have been even higher.

Mr. Bell compared the as applied for plan from the last plan to the as applied for plan in this plan to demonstrate that even if there are changes to the plan Fortis BC earned a reasonable return in the last plan, and in this plan, the BCUC can be comfortable in making changes.

5.1.2 If not confirmed, please explain, for each element presented in the table, whether the data presented from the prior MRP column is the same as the current approved plan in place. If not the same, please explain the difference.

Response:

Please see the attached updated comparison.

6.0 Reference: GENERAL
Exhibit C7-5, BCOAPO Evidence, p. 13; 2014 FEI Decision[1]; 2014 FBC Decision[2]
Efficiency carry-over mechanism

In Q/A #13, Mr. Bell states that FortisBC appears to have changed the Efficiency Carry-Over Mechanism (ECM) to be based on two years data, and not a five-year rolling average. Mr. Bell then proposes that 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 both the 2014 FEI Decision and the 2014 FBC Decision, the BCUC stated:

> Given these reasons, the [BCUC] Panel denies the Fortis request for the proposed ECM methodology.
>
> …
>
> Accordingly, the [BCUC] Panel determines that the following steps are required in order for Fortis to receive approval for an ECM initiative;
>
> …
>
> Based on these submission, the [BCUC] will make a determination as to the justification of each ECM proposal on a case-by-case basis.

6.1 Please provide reference to previous decisions and quote the sections that state the current approved ECM is based on a five-year rolling average.

Response:

Mr. Bell acknowledges that the approved PBR plan did not include an ESM.

[1] FortisBC Energy Inc. Multi-Year Performance Based Ratemaking Plan for 2014 Through 2018 Decision, September 15, 2014.
[2] FortisBC Inc. Multi-Year Performance Based Ratemaking Plan for 2014 Through 2018 Decision, September 15, 2014.

6.2 Please provide a comparison of Mr. Bell's ECM proposal to ECM's approved in other jurisdictions, including advantages and disadvantages.

Response:

Mr. Bell is aware of the ESM include in Alberta. Under the Alberta plan, a utility is compensated for efficiency gains achieved early in the PBR term, throughout the PBR term. If the efficiencies are carried throughout the PBR term, they form part of the ECM as well, which seems to be counter intuitive, as the savings related to the early term efficiencies benefit the utility for the entire term and should not require any additional compensation.

7.0 Reference: GENERAL
Exhibit C7-5, BCOAPO Evidence, p. 13;
2014 FEI and FBC Decision
Off-ramps and reopeners

In Q/A #14, Mr. Bell states that FortisBC added a reopener for 150 Basis Points (Bps) for two consecutive years and removed the reopener for a serious degradation in Service Quality Indicators (SQI).

In both the 2014 FEI Decision and the 2014 FBC Decision, the BCUC stated:

> The [BCUC] Panel further directs that should earnings average more than +/- 150 basis points (post sharing) from the approved ROE for two consecutive years, the off-ramp will be triggered.

7.1 Please provide reference to previous decisions and quote the sections that show that the reopener for 150 Bps for two consecutive years did not exist in the previously approved plan.

Response:

Mr. Bell notes that there is was the provision for a two year off ramp.

Mr. Bell goes on to state:

> 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 reason to reopen the PBR plan.

7.2 Please discuss whether the use of the Annual Review process provides parties with the opportunity to understand the reasons for increased outages. Does Mr. Bell believe that the BCUC could examine the reasons for increased outages on a case-by-case basis within the annual review? Why or why not?

Response:

Yes, the annual review process provides parties with an opportunity to understand increased outages. Mr. Bell agrees that each incident should be examined on a case by case basis.

Mr. Bell would point out that, even with adequate explanations, significant widespread outages will cause issues between parties and the utility. An understanding of why a significant widespread outage occurred would not suffice, and parties will expect an action plan to provide speedy restoration.

7.3 Please discuss if there are any other mechanisms that can be used by regulators to ensure that there are no serious degradation of service levels. Please include in your discussion a description of how other jurisdictions, which are under PBR, ensure that there is no degradation of service levels, and how these are linked to plan reopeners.

Response:

In Alberta, there was an extensive process to set service quality metrics and measures, with the establishment of thresholds. Each year, in Alberta, each utility will review its service quality report (AUC Rule 002 reporting) with the AUC and customer groups. In that review there is an opportunity to understand changes in service quality metrics.

The metrics are not linked to reopeners, but in Alberta, there is a provision for specified penalties, where the AUC can order penalties for serious breaches of service quality thresholds.