

BRITISH COLUMBIA UTILITIES COMMISSION
IN THE MATTER OF THE UTILITIES COMMISSION ACT
R.S.B.C. 1996, CHAPTER 473

And
FortisBC Energy Inc. and FortisBC Inc. -
Multi-Year Rate Plan Application for 2020-2024

VANCOUVER, B.C.
May 1, 2019

WORKSHOP

BEFORE:

D. Cote,	Panel Chair
A. Fung, Q.C.,	Commissioner
K. Keilty,	Commissioner
E.B. Lockhart,	Commissioner

VOLUME 1

APPEARANCES

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C. WEAVER,	Commercial Energy Consumers
J. QUAIL,	Movement of United Professionals (MoveUP)
L. WORTH,	British Columbia Old Age Pensioners' Organizations, Active Support Against Poverty, Disability Alliance B.C., Council of Senior Citizens' Organizations of B.C., Tenants Resource and Advisory Centre and Together Against Poverty Society (BCOAPO)
T. HACKNEY,	B.C. Sustainable Energy Association (BCSEA)
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FEI/FBC STAFF	D. Roy R. Gosselin J. Martin M. Warren J. Wong D. Slater P. Chernikhowsky J. Green J. Wolfe M. Carmen J. King B. Henderson
BCUC STAFF	S. Walsh Y. Domingo

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1 **VANCOUVER, B.C.**
2 **May 1st, 2019**

3 **(PROCEEDINGS RESUMED AT 9:00 A.M.)**

4 MS. ROY: Good morning and welcome to the FortisBC
5 workshop for the 2002 to 2014 multi-year rate plan
6 application. I'd like to welcome everyone, BCUC
7 staff, BCUC panel, and also all of our interveners
8 that joined us today. Happy to have such a good crowd
9 here.

10 Our goals today with this workshop are to
11 help support and understanding of our proposed rates
12 application and by doing that to bring focus and
13 efficiency to the regulatory process. In addition to
14 today's material, on April 26th we filed responses to
15 seven questions that were set out by the BCUC
16 requesting information and examples on how certain
17 components of our application are working.

18 So our focus today is on highlighting and
19 explaining major changes to the rate framework versus
20 our current plans and, that was as requested by the
21 panel in their letter dated April 18.

22 I'm going to start out with the agenda. As
23 you can see here I'll be providing an introduction,
24 then we'll move on to operations and maintenance,
25 capital expenditures, innovation fund, and service
26 quality indicators. And we'd like to get all of those

1 I before the break. We're planning a break, then
2 moving on to incentives, other MRP framework items,
3 supporting studies, rate impacts and next steps, and
4 we hope to have some time at the end for further
5 questions.

6 But given the limited time that we do have
7 today and that we only had a half day workshop and
8 that there will be opportunity for information
9 requests coming up still, we do ask that there be a
10 focus on clarifying questions on each topic along the
11 way. And because of that I'd actually ask each
12 presenter or speaker to pause at the end of their
13 section before passing it on to the next speaker and
14 at that time we'd invite people to come up to the
15 microphone and ask their questions.

16 We will be doing our best to answer your
17 questions with the information we have with us and in
18 our brains and at our fingertips, but any details or
19 more complex questions we would ask that they be
20 deferred to the information request process that's
21 coming up shortly. And as I said, if we have time at
22 the end we will be accommodating discussion on any
23 further topics that we haven't brought up ourselves as
24 we walk through this morning.

25 We've invited a group of people from
26 FortisBC here to help. And either myself or Doug

1 Slater will be directing questions to the appropriate
2 individuals that may arise. And all of this is a
3 workshop format. Because it is being broadcast, we do
4 ask that speakers come up to the front of the room and
5 speak either questions or responses into the
6 microphone so that they are captured in the
7 transcript.

8 **Proceeding Time 9:03 a.m. T02**

9 **PRESENTATION BY MS. ROY:**

10 So I'm going to start off today providing a
11 bit of background on our application.

12 In developing our proposed application, we
13 considered a number of factors. First we considered
14 changes in our external operating environment. We
15 considered experiences in both performance based, rate
16 making and cost of service plans that we've had in the
17 past. And we also met with both BCUC staff and with
18 interveners, and what we heard was varying views on
19 many aspects of the current PBR plans. But the themes
20 that we did here more generally were concerns about
21 the effectiveness of the capital funding formula, need
22 to address government energy policy, and a recognition
23 that the opportunities to further reduce operating
24 expenses were limited. So we have considered those in
25 developing our application.

26 This slide is going to address the first

1 item, which is changes in our operating environment,
2 and that discussion is found in section B1 of the
3 application.

4 The changes in the operating environment
5 include an increasing focus on decarbonization;
6 changing customer expectations around the type of
7 interactions and service expected from service
8 providers; increased requirements for consultation and
9 engagement; increased focus on the safety and
10 reliability of both the gas and the electric systems;
11 and a shift toward new and innovative technology to
12 assist in the transition to a lower carbon, more
13 customer centric future.

14 And with this environment, our multi-year
15 rate plan needs to continue to achieve regulatory
16 efficiency through a longer term rate plan. And we
17 combine that with annual reviews, and that allows for
18 flexibility and also some opportunity for review and
19 discussion throughout the term of the MRP plan. Also,
20 stable levels of O&M funding and no levels of capital
21 funding to maintain system integrity and reliability,
22 and to allow for a sustained focus on allocating
23 resources to leverage productivity gains, and focus on
24 growing areas of the business.

25 The flexibility to adapt and incentive to
26 innovate, the ability to reallocate resources and find

1 innovative ways to respond to the move towards
2 decarbonization of the energy delivery system.

3 And finally, with this plan we want to
4 achieve a balance between affordability and lower
5 emissions as we work to focus on those areas that will
6 maintain or increase throughput on our system to help
7 keep rates affordable for our customers.

8 **Proceeding Time 9:06 a.m. T03**

9 So in addition to the environment, we've
10 also looked into the past experience with our PBR
11 plans to inform this application and a discussion of
12 our experience with our current PBR plans, which is
13 the ones that are currently in place until the end of
14 this year, is found in Section E2.3 of the
15 application.

16 So we looked at two different ways of
17 reviewing our current PBR plan. One on looking at the
18 numbers, numerical quantitative side and one looking
19 at the qualitative. So on a quantitative side what we
20 experienced were average rate increases at or below
21 inflation, and I'm going to talk a little bit more
22 about this on the next slide. Looking at the
23 expenditures to which the formula applied during the
24 last -- or current the PBR term, despite some
25 challenges related to capital formula, both FEIs and
26 FBC's plans have resulted in O&M savings over and

1 above the productivity improvement factor that was
2 embedded in rates. We had a longer term focus and
3 that achieved efficiencies in both operating and
4 capital areas in the planning side. We had increased
5 flexibility in resource allocation for growing and for
6 innovating. And our current PBR plan safeguard
7 mechanisms did perform as designed and they mitigated
8 the consequences of the capital pressures that we did
9 experience during the current PBR terms. And finally
10 on the quantitative side, in terms of regulatory
11 efficiency, we did experience lower average regulatory
12 expense compared to the cost of service environment we
13 had been in prior to that.

14 And now turning to the qualitative side, in
15 the current PBR plans the primary qualitative measure
16 was really around service quality indicators. And
17 those service qualities -- the service quality was
18 maintained throughout the term of the current PBR
19 plans.

20 Now, when we look at items such as
21 innovation, revenue generation and achievement of
22 energy policy, I would say that the plans were
23 flexible enough to allow both FEI and FBC to bring
24 forward requests related to changes in the environment
25 through the annual review process that we did have.
26 But the plans were not designed specifically to incent

1 the achievement of innovation or of energy policy
2 goals. As such, we believe that the multi-year rate
3 plans can be improved to prepare the utilities for
4 future challenges and to provide more forward looking
5 incentives as well.

6 And I said I would talk a little bit more
7 about the rate experience during the current PBR terms
8 and that's what this slide is showing. And this is
9 really the most important measure of the current PBR
10 plans from the customer's point of view because this
11 is what they see. As you can see on this slide here,
12 inflation averaged 2 percent during the PBR term. The
13 FEI average delivery rate increases was 0.9 percent
14 over the term, and FBC was 2.2 percent over the term.
15 So both of them were at or close to below inflation.
16 And then at the end of the PBR terms we still have a
17 pretax revenue surplus of approximately 42 million in
18 FEI and 5 million FBC and those amounts are available
19 to be carried forward for future rate mitigation.

20 So this slide and the next slide are going
21 to have a table in them and in the table is the
22 current -- all of the details and components of the
23 current PBR plans. And what I'm going to focus on is
24 really just talking about what's changed with this
25 plan and I'm not going to walk through each one of the
26 items that are in here. And I will be discussing and

1 highlighting the changes at a high level because the
2 items are all going to be discussed later on in more
3 detail.

4 The changes that we are proposing reflect
5 our experience with the current and past PBR plans and
6 also some of the themes that were raised in discussion
7 with BCUC staff and with interveners.

8 **Proceeding Time 9:11 a.m. T4**

9 The items that we have proposed revisions
10 to is the term of the PBR -- or the multi-year rate
11 plan. In the past we have consistently had a five-
12 year term, and that is what we have proposed again.
13 And in fact, a five-year term was what was proposed
14 for the current PBR plans, although it was extended to
15 six years because of the timing of the decision in the
16 application, which came late in the first year of the
17 plans.

18 We did discuss a little bit earlier about
19 the benefits of a longer term plan. It does provide
20 for predictability and funding levels which allows for
21 flexibility in allocating resources, and also for
22 achieving efficiencies in our planning areas.

23 Another area, and probably the most
24 significant area of change is on the capital
25 expenditures. The experience in the past PBRs has
26 shown us the challenges in developing a formula to

1 accommodate all of our regular capital, which is what
2 we had in the last PBR plan, the current PBR plan.
3 All of the capital was incorporated into a formula,
4 all the regular capital. And the reasons why there
5 was so much difficulty during the current PBR plans
6 are set out in detail in appendix B8 of our
7 application. But we have heard from some interveners
8 -- in addition to the fact that there was difficulty
9 in accommodating capital in a formula, we have heard
10 from some interveners that they'd like to see a return
11 to a more traditional cost of service environment. So
12 we have done so here. Most of our capital now is
13 under a forecast approach, and the only amount that is
14 under a unit cost approach now is our growth capital
15 for FEI.

16 And moving on to the growth factor, our
17 current method for a growth factor is a LAG actuals,
18 and what we've discovered or realized during the
19 current PBR terms is that they've not provided proper
20 matching, I guess, of funding between the years that
21 we're spending the capital and the years that that
22 customer growth is occurring. That has caused us some
23 issues with a mismatch there. So we were moving back
24 to a proposal for a forecast growth factor, and
25 because we are proposing a forecast for the growth
26 factor, we are also proposing a true-up mechanism that

1 happens in the next year. We will talk a little bit
2 more about that later on. That true-up, though, is to
3 address concerns that were raised in the last PBR
4 proceeding around a potential for bias in forecasting.
5 So that was the reason that we put forward a true-up
6 mechanism.

7 And then the X-factor, we are not proposing
8 an X-factor in this application. The current
9 application for the formula amounts does have an X-
10 factor in it, and it will be discussed further by the
11 next speakers as far as the reasons for that.

12 Materiality threshold. We continue to
13 believe that a materiality threshold is not required
14 for Z-factors. So in the current PBR plan there is a
15 materiality threshold and one of the criteria for Z-
16 factor treatment that exists today is that there has
17 to be -- have to reach a certain threshold, and we're
18 proposing to remove that materiality threshold with
19 this application.

20 I think this is what we proposed in the
21 last application, and we continue to believe that a
22 materiality threshold is not required. And given the
23 recent experience we've had over the past five years
24 where everybody has had the opportunity to see us
25 bring forward Z-factors and understand the process
26 around reviewing and approving those, we think that

1 process it is a good process and it will work for any
2 Z-factor no matter the amount of it.

3 And on this slide -- this slide is the
4 earning sharings mechanism. We have -- the current
5 earning sharing mechanism is quite limited and it only
6 is confined to a certain number of items. So our
7 proposal is to move to a simpler and somewhat broader
8 calculation of earnings sharing which is just based on
9 a sharing of the bottom line return on equity. This
10 is what is used in other jurisdictions, it's what has
11 been used in the past for our applications before the
12 current PBR plan, and it also was what was proposed in
13 the current PBR plan by the utilities.

14 Okay, and then the last page of the changes
15 here, this is a continuation of the previous slide. I
16 did mention already about the dead band in this
17 application, we are removing the dead band. Primarily
18 because there is no longer a need for a dead band when
19 most of our capital is not under formula anymore, it
20 is on a forecast basis. And we do have an opportunity
21 to bring forward for review capital in the year three
22 of the plan, for the last two years of the plan. And
23 that is another safeguard mechanism that helps offset
24 the removal of the dead band.

25 **Proceeding Time 9:16 a.m. T5**

26 We also found in the last PBR application

1 that the dead band was complicated, and it was a
2 source of confusion in the last plan among everybody
3 that participated in that proceeding.

4 And moving on to the efficiency carryover
5 mechanism, the efficiency carryover mechanism is a
6 widely accepted approach to continue to incent
7 achievement of productivity in the last year of multi-
8 year rate plans. And we did propose one last time.
9 It was denied. But the one we're proposing this time
10 is simpler, and it is much more similar to what we see
11 in other jurisdictions in Canada.

12 And the other change is to service quality
13 indicators. These are mainly just some changes to
14 update them, and that will be discussed in detail
15 later on this morning.

16 So, overall, when you look at the changes
17 that we've proposed here, they reflect our experience
18 with the current and prior PBR plans. We did consider
19 if there were items that were overly complicated and
20 whether a return to the more accepted and simpler
21 methods of calculating a number of items would be
22 better.

23 We have not changed the fundamental natures
24 of the plans. The only exception I think to that is
25 that we've added two new items that we haven't had in
26 the past. One is the clean growth innovation fund,

1 and the other one is targeted incentives. And you
2 won't see these on these two slides because they are
3 new, but we will be talking about them this morning.

4 And the balance of the presentation is
5 going to walk through the changes shown here, as well
6 as the innovation fund and the targeted incentives.
7 So I will pause here for questions before I hand it
8 over to Rick who is our next speaker.

9 No questions? Okay, great.

10 **PRESENTATION BY MR. GOSSELIN:**

11 My name is Richard Gosselin, manager in the
12 regulatory affairs with Fortis. With the next few
13 slides I'll discuss the company's proposed base O&M
14 and the inflation index mechanism that we have
15 proposed to fund O&M over the MRP period. Both the
16 base and the inflation index mechanisms are included
17 in the approvals sought.

18 The company has imbedded into their base
19 O&M the existing operational savings over the term of
20 the current PBR. The companies have achieved
21 operational savings and pass these on to our customers
22 of approximately 77 million for FEI and 15 million for
23 FBC.

24 In the 2014 PBR decision, the utilities
25 were ordered to undertake a benchmarking study. You
26 can find this in section C2.4 for a summary of this

1 study. The study undertaken by Concentric concluded
2 that the company's O&M metrics were efficient relative
3 to peers, and the studies showed that the utilities
4 have a continued trend toward becoming more efficient
5 relative to their peers over time.

6 An inflation index approach for O&M will
7 provide stable and predictable funding for the
8 utilities to address both foreseeable and
9 unforeseeable changes coming forward in the next few
10 years. The mechanism incents FortisBC to maintain
11 costs below inflation.

12 The following slide is a graphic
13 representation of how the companies have determined
14 their proposed 2019 base O&M. The graphical
15 representations of tables C2-1 and C2-14 in the
16 application.

17 Before I'll start, I'll identify the
18 components to the graph. The Y-axis is in millions of
19 dollars, and it is to represent the total gross O&M.
20 The X-axis is the various components that we've used
21 and included to determine the base O&M for 2019.

22 **Proceeding Time 9:20 a.m. T06**

23 The graph starts with the 2019 actual
24 formula O&M, which includes savings carried over from
25 the current PBR. The first adjustment are for
26 temporary savings imbedded in 2018 actuals that are

1 added back. Embedded in the 2018 actuals O&M are
2 savings that will require funding through the MRP --
3 sorry, rather through the MRP term. The details can
4 be found in Section C2.4.2.1 of the application.

5 Because we're starting with our 2018
6 actuals and using them to derive a 2019 base, the 2018
7 dollars must be inflated into 2019 value. The
8 inflation adjustments that we use were the approved
9 growth factors from the company's 2019 annual reviews.

10 The next bucket is exogenous factors,
11 approved exogenous factors. Both the utilities
12 experience exogenous events -- or factors, rather, in
13 2019 that will require funding through the next MRP
14 term. The first was a switch to employer's health tax
15 from MSP, medical services plan. FBC also included a
16 base level of mandatory reliability standards, MRS,
17 costs in their 2019 base that was previously treated
18 as exogenous.

19 The next item is for deferral and flow-
20 through. There are a number of items for both
21 utilities that either reduced or increased base O&M
22 and they can be found in Section C2 of the
23 application. For example, FEI removed integrity degs
24 from its base and added a base level of LNG production
25 cost. For FBC they removed BCUC levies from the base
26 O&M and, as proposed, deferral to account for those.

1 is related to this slide, but it's -- actually might
2 be easier if you're able to refer to table C2-1 of the
3 application, which is the FEI 2019 base O&M
4 calculation.

5 MR. GOSSELIN: Okay.

6 MS. WALSH: And this might be something to take away
7 and look at because -- maybe I'll explain it and then
8 see if you can follow what I'm saying.

9 I'm wondering if there's a couple
10 calculations in this table that are -- where inflation
11 has either been applied incorrectly or hasn't been
12 applied in the right place. As an example, for the
13 corporate shared services studies impact of the 0.455
14 million, in the footnote it breaks that number down
15 and refers to them being comprised of 2019 amounts.
16 But you can see in the table that these numbers up
17 here are actually before you apply the 2019 inflator.
18 So I'm wondering if you've essentially inflated it
19 twice to get to 2019?

20 **Proceeding Time 9:25 a.m. T7**

21 MR. GOSSELIN: That I'll have to take away.

22 **INFORMATION REQUEST**

23 MS. WALSH: Thank you. And they are pretty much -- you
24 would apply the same thinking to FBC as well. I am
25 not going to go through the FBC table.

26 MR. GOSSELIN: Okay.

1 MS. WALSH: A couple other ones where I've notice
2 potentially the reverse is for example the BCUC levies
3 amount of 2.778 million. In the description for the
4 BCUC levies, which is on page C20-C22, it talks about
5 -- that 2.778 million is the 2018 amount. Well, the
6 2013 base amount multiplied by the formula to get to
7 the 2018 amount.

8 But here in the adjustments, these
9 adjustments, my understanding would be essentially
10 2019 adjustments? So, I'm wondering if perhaps either
11 the BCUC levies should have been taken out at the top,
12 before you applied inflation, or you could do the
13 opposite and just add inflation to this amount?

14 MR. GOSSELIN: That's a good question, but I'd like to
15 take that in IR.

16 **INFORMATION REQUEST**

17 MS. WALSH: So for BCUC levies in the NGIF funding,
18 those are the two that I identified that appear to be
19 referring to 2018 amounts. The other adjustments it
20 seems like you are already referring to 2019 amounts.
21 So inflation wouldn't be an issue.

22 MR. GOSSELIN: Okay.

23 MS. WALSH: Thank you.

24 MR. GOSSELIN: All right, where was I? Yes, so I think
25 I'll just repeat my last point where when you sum
26 across, and you take the right-hand column there and

1 divide it by the 2019 customers, we get our unit cost
2 O&M as in approvals sought.

3 Moving on to the next slide is to discuss
4 FEI's incremental request for funding in this MRP
5 term. The following two slides will give some context
6 to the funding that we proposed.

7 Customer expectations, offering cost
8 effective, accessible and innovative energy solutions
9 is a focus for FEI through this MRP term. And FEI is
10 requesting \$1.4 million to support this key priority.

11 Engagement, that's in section C2.4.2.3.2.
12 As energy and environmental policy shift, and the
13 company's operating environment evolves, expectations
14 for public consultation and engagement increases.
15 Educating customers and the public on the important
16 role of natural gas, and FEI's infrastructure is
17 necessary to maintain and stimulate new demand while
18 meeting our customers energy needs. FEI is requesting
19 \$3.4 million to support this key priority.

20 Next is indigenous relations. That can be
21 found in section C2.4.2.3.3. Indigenous relationships
22 are critical to continue to provide safe and reliable
23 utility service through capital infrastructure
24 projects. This incremental funding is required to
25 renew and strengthen the relationship, particularly
26 with respect to land access.

1 going into the MRP on the far right-hand side. The
2 blue bars show total O&M and the orange line is a per
3 customer amount, both in real dollars.

4 In 2014 FBC had a change in their
5 capitalized overhead rate from 20 to 15 percent and
6 that's why we see a bit of a bump in the blue bar from
7 '13 to '14. What the figures show is that O&M on a
8 per customer basis, in the orange line, has declined
9 over the term of the PBR and lower O&M per customer
10 becomes the going in amount for this MRP.

11 On this next slide I'll discuss the
12 mechanism that we have proposed for O&M funding. The
13 panel in their letter dated April 18th expressed some
14 interest in the mechanisms that the companies have
15 proposed and this slide will walk you through the O&M
16 mechanism.

17 So O&M is determined on a per customer
18 basis and is indexed by inflation. The I-factor is
19 not changing. It's the same lagging mix of CPI,
20 consumer price index, and average weekly earnings,
21 AWE. The growth factor is the same and that is based
22 on average customers. The utilities has proposed
23 using a forecast and a true-up as opposed to a lagging
24 growth factor. So the AC at the end of this formula
25 is the growth factor, average customers.

26 So going through an example, I'll use a

1 year one type example, we'll forecast for our test
2 year. So the first item is the unit cost per
3 customer, approved unit cost per customer. In this
4 example it's \$250 per customer. The I-factor is
5 derived from the mix of CPI and AWE assumed to be 2
6 percent in this example. We will multiply the 250 by
7 the 1 plus 2 percent and come to \$255 per customer.
8 That is the unit cost per customer that would be the
9 result for the test year.

10 We would then forecast our customers and
11 multiply the \$255 times the forecast of customers – in
12 this case 1.1 million customers – to derive the O&M
13 funding required for the test year. In this case it's
14 \$280.5 million. I'll speak to the O&M adjustment in a
15 minute. And the sum -- it sums down to, again, \$280.5
16 million.

17 The company has recognized that no forecast
18 is perfect. So in this application we're proposing a
19 true-up to O&M and similarly for FEI's growth capital
20 that will adjust the following years' O&M to reflect
21 the forecast variance.

22 The table below demonstrates how the
23 true-up of the forecast variance is calculated. First
24 we compare the actual number of customers with the
25 forecast customers that were used to set rates. In
26 this example the actual customers were 1,000 less. So

1 we see actual customers at 1,099,000 versus a forecast
2 of 1.1 million customers. We multiply that by the
3 approved unit cost per customer, the \$255, same as
4 what was used to determine the test year O&M, and we
5 get an O&M adjustment in this case of \$255,000.

6 This adjustment eliminates any forecast
7 variance it will have on customers and keep them
8 whole. So in the next rate setting years -- year
9 rather, we would of course bring the 255 over as the
10 base, \$255 per customer. Again, we multiply it by an
11 I-factor. In this example we've just assumed the I-
12 factor is 2.2, to get an approved unit cost per
13 customer for year two of \$261.

14 Again we forecast customers, in this case
15 1.105 million, and multiply those together to get
16 \$287.9 million O&M. And then we adjust that downwards
17 by the forecast variance amount.

18 **Proceeding Time 9:35 a.m. T9**

19 So if the difference was the other way
20 around it would be an adjustment upwards in this case,
21 and the example shows an adjustment downward. So the
22 O&M that we would have approved in the annual review
23 would be the \$287.719 million.

24 It is a fairly simple approach to
25 determining O&M each year. The mechanism allows for
26 the utilities to forecast growth to ensure that we

1 have adequate funding, but also keep customers whole
2 through the true-up mechanism. And finally, provide
3 the utilities adequate funding to address evolving
4 operating challenges.

5 Before I move and pass this off to Joyce
6 Martin for capital, is there any questions on the
7 mechanisms or anything else I've spoken to?

8 **PRESENTATION BY MS. MARTIN:**

9 Thanks, Rick. I'll be reviewing the
10 capital expenditures forecast for the MRP term, which
11 is found in section C3 of the application.

12 Diane spoke earlier about the challenges of
13 the capital formula approach under the current PBR
14 plan, and the interest that was expressed by some
15 participants for a return to the cost of service
16 approach for capital expenditures. For this MRP we
17 are proposing to change the way that we forecast
18 capital expenditures. The capital forecast combines a
19 unit cost approach with a bottom up forecast approach.
20 The unit cost approach is applied to FEI's growth
21 capital. This is the bucket of capital that is used
22 to connect new customers and to make system
23 improvements on the distribution system to support the
24 customer base.

25 The unit cost approach is appropriate for
26 growth capital because there is a clear and strong

1 correlation between customer additions and the growth
2 capital expenditures. For this category of capital,
3 FEI will forecast its expenditures in each annual
4 review. It will be based on the indexed unit cost,
5 and on expected customer additions.

6 For the rest of regular capital
7 expenditures, we've developed a detailed five-year
8 capital plan. For FEI approximately 75 percent, and
9 for FBC 100 percent of regular capital is now cost of
10 service based. The forecast that we've presented in
11 the application will be the expenditures that are used
12 in the annual rate filings. We will not reforecast
13 these annually, at least for the first three years.
14 As Diane said, we do intend to review our capital
15 requirements in 2022 and if we find that circumstances
16 or conditions have changed that require amendments to
17 the plan, then we'll submit a revised request for the
18 final two years of the MRP.

19 And also, as has been mentioned, there is
20 no dead band around our forecasts. We will record the
21 actual expenditures to rate base in the year in which
22 that plant entered service.

23 The final category of capital is major
24 projects. There is no change to the treatment of
25 these expenditures from the current MRP plan, they
26 will be approved by way of CPCN applications. And as

1 a reminder, these are projects that are greater than
2 15 million in the case of FEI, and greater than 20
3 million for FBC.

4 The next two slides illustrate unit cost
5 approach to FEI's growth capital. Growth capital is
6 being forecast as a function of gross customer
7 additions. A gross customer addition is defined as a
8 new service. So customers moving in and out of
9 premises are not included here because they don't
10 require any capital investment.

11 To determine the unit cost, we started with
12 the three year average of unit cost per gross customer
13 addition between 2016 and 2018. In 2019 dollars, this
14 is 3,323 per addition. On a go forward basis, there
15 are incremental costs of 485 per gross customer
16 addition. These incremental costs are described on
17 page C61. The main reason for the increase is an
18 increase in construction prices which resulted from a
19 competitive bidding process for mains and service
20 contracts. And those cost increases take effect in
21 2019. There are also some other factors included,
22 which include increased testing and field audits, as
23 well as updated materials costs and allocations.

24 **Proceeding Time 9:40 a.m. T10**

25 In total, the unit costs per gross customer
26 addition is \$3,811 in 2019 terms.

1 Similar to the approach for O&M expense,
2 the unit cost for growth capital increases annually by
3 the composite inflation factor, and again we'll
4 forecast gross customer additions annually and true it
5 up in the following year.

6 So the formula for growth capital then is
7 this: growth capital in a given year is the product
8 of the approved unit cost from the prior year, times 1
9 plus the composite inflation factor, times the
10 forecast of gross customer additions.

11 And this example is the same as the O&M
12 example that Rick just walked through. It shows the
13 inflation in the customer growth components, and the
14 customer true-up for the subsequent year.

15 Again, the forecast for the rest of FEI's
16 and for all of FBC's regular capital expenditures is a
17 bottom-up forecast. The planning process that
18 underpins the capital forecast is described in section
19 C3.2 of the application. FortisBC is continuing to
20 focusing on improvements to its asset management
21 strategy. Our asset investment planning process and
22 tools were first introduced in 2017, and we're
23 continuing to expand their use to additional capital
24 expenditure portfolios.

25 In the application we provided a five-year
26 forecast of capital expenditures by category, and we

1 compared the forecast to the most recent three-year
2 average, which is 2017 through the 2019 projection.

3 Turning first to FEI, the two forecast
4 categories are one, capital for the sustainment of the
5 gas transmission and distribution systems, and two,
6 the category of other capital which is the assets that
7 are needed to support the business, being equipment,
8 facilities and information systems.

9 In past annual reviews we have discussed
10 the fact that FEI is experienced higher spending
11 levels in 2017 to 2019 compared to the earlier years
12 of the PBR term. The reasons for those include
13 investments in new stations to support additional load
14 from higher customer growth. It included inline
15 inspection activity and other system improvements, and
16 the factors are summarized both in section 3 and more
17 particularly in appendix B8.1. This graph shows that
18 the forecast expenditure levels over the next five
19 years are quite consistent, with the average
20 expenditures in that 2017 to 2019 period. And in fact
21 going forward the forecast is roughly in line with the
22 expected inflation levels of around 2 percent.

23 Sustainment capital accounts for about 70
24 percent of the non-indexed capital expenditures for
25 FEI. The capital plan as presented in the application
26 is quite detailed, and although we don't have time to

1 review it fully today, the major factors that are
2 driving the sustainment portion of FEI's five year
3 capital plan are summarized in this slide.

4 The first factor is the need to maintain or
5 improve the reliability and the resiliency of the
6 transmission and distribution systems. These include
7 new subs -- new stations and station upgrades. Some
8 examples are the addition of a second station to
9 supply the City of Penticton, in order to create
10 redundancy and we're also adding capacity in the Maple
11 Ridge area. Other projects include the installation
12 of redundant line heaters on Vancouver Island, as well
13 as numerous valve addition and automation projects.

14 System integrity projects include pipeline
15 inspections that are based on the age, condition and
16 other attributes of the pipelines. They also include
17 scheduled overhauls of compressor units. The largest
18 of the compressor unit overhauls will be done on the
19 three units at our D1 compressor station in Coquitlam.
20 And we also need to replace aging distribution mains
21 as their conditions dictate.

22 **Proceeding Time 9:45 a.m. T11**

23 Finally, certain expenditures are required
24 to maintain regulatory compliance with CSA standards
25 for oil and gas pipeline systems. These projects
26 include pipeline upgrades to increase the safety

1 factors in populated areas and upgrade to the cathodic
2 protection system which prevents pipeline corrosion.
3 The specifics of FEI's capital forecast can be found
4 beginning on page C63 of the application.

5 The FBC forecast includes all three
6 categories of regular capital expenditures, that is
7 growth, sustainment, and other capital. This graph
8 also compares the five-year forecast to the recent
9 three-year average. Like FEI, FBC's capital
10 expenditures in the later part of the PBR plan were
11 higher than during the 2014 to 2016 period. We talked
12 about those reasons in previous annual reviews and
13 we've updated that discussion in Appendix B83. By far
14 the largest cost pressure during that time has been
15 for system improvements to accommodate customer and
16 low growth, which has been higher than forecast during
17 the PBR term. Customer funded projects and forest
18 line relocations have also contributed to the
19 increased spending.

20 In the case of FBC you can see that there's
21 also a significant increase in capital requirements
22 for 2020 through 2024, even when compared to that
23 recent three-year period. By looking at the coloured
24 segments you can see that the growth capital, which is
25 shown in orange, and the other capital shown in green
26 are more uniform over the forecast period and it's

1 sustainment capital, which is in blue, represents most
2 of the increase.

3 There are quite a number of discrete
4 projects required in the next five years that are
5 contributing to that increase in FBC's capital
6 expenditures. Together, growth capital and
7 sustainment capital account for more than 80 percent
8 of FBC's capital expenditures. We've summarized the
9 main drivers for those categories in this slide.

10 The first driver is load growth. In
11 addition to smaller routine growth expenditures, this
12 capital plan includes four substation growth projects,
13 both in the Okanagan and the West Kootenays.
14 Sustainment capital is largely driven by reliability
15 and by the condition of the plant and equipment. This
16 plan includes projects that are needed to address
17 concrete deterioration and building improvements at
18 our generating plants, all of which are more than a
19 century old.

20 There are another five substations that are
21 to be upgraded or which require transformer
22 replacements because of their age and asset condition.
23 And other line rehabilitation and equipment
24 replacement projects are also set out in the
25 application.

26 Third, various regulatory requirements are

1 also driving capital expenditures for FBC. Some
2 generation projects are for ensuring compliance with
3 BC Dam Safety Regulations and with WorkSafeBC
4 regulation. Federal regulation also requires the
5 remediation of our distribution equipment, which may
6 be contaminated with polychlorinated biphenyls or
7 PCBs. And the specifics of FBC's capital forecast are
8 found beginning on page C80 of the application.

9 Those are some of the more significant
10 elements of the five-year capital plans. And I
11 mentioned earlier that we intend to review our capital
12 requirements again prior to filing for 2023 rates and
13 we may update the plans at that time for the final two
14 years of the MRP.

15 Finally, some of the CPCN projects that we
16 expect to bring forward during the MRP term are also
17 described in the application. I'll note that it's not
18 a complete list of the CPCN projects that we
19 anticipate and those will be identified as they arise
20 over the term of the MRP.

21 Sarah?

22 MS. WALSH: Sarah Walsh at the BCUC. I just have a
23 question just to clarify about how the depreciation
24 interests and interest in income tax will be
25 calculated for the forecast capital during the PBR
26 term. Fortis provided some additional information in

1 Exhibit B-2 related to the regular capital.

2 **Proceeding Time 9:49 a.m. T12**

3 But I was wondering if we could just, maybe
4 for example looking at slide 18, just to look at the
5 example forecast numbers. So, what I'm trying to
6 clarify during the proposed MRP is, for example we've
7 got the forecast for 2020 through 2024 down at the
8 bottom.

9 So, for example, the 163 million. So,
10 going forward, as in the term, when we're looking at
11 calculating for example depreciation expense,
12 understanding that depreciation expense is calculated
13 based on the previous years actuals, when we're
14 actually calculating what the depreciation expense is
15 going to be for the test periods, is it going to be
16 based on what the forecast capital additions are for
17 the PBR term?

18 MS. MARTIN: Yes. On a test year basis we will
19 forecast opening and closing rate base according to
20 the capital plan expenditures, and then apply the
21 approved depreciation rates to the -- rate base.

22 MS. WALSH: So for example say by 2021 -- so for 2021,
23 would the basis on which the depreciation expenses
24 being calculated include now the actual additions say
25 to 2020 for the forecast capital expenditures?

26 MS. MARTIN: Yes, it will be based on the 2020 year-end

1 forecast, plant and service.

2 MS. WALSH: Which will include the actuals from the
3 previous years? Or just the forecast?

4 MS. MARTIN: Just because of the timing of the
5 application, it will be a forecast as of year end.

6 MS. WALSH: I guess what I'm trying to figure out is --

7 MS. MARTIN: By the time you get to 2022, then we will
8 have recorded the actual 2020 expenditures, and they
9 will be included in the opening balance going forward.

10 MS. WALSH: Okay, so at that time when you're looking
11 at the variance between say approved and actual ROE,
12 the only variances will be sort of like the most
13 recent differences between forecast and actual? Like
14 it is not going to be an accumulation of the
15 difference between forecast and actual for capital?

16 MS. MARTIN: That's correct.

17 MS. WALSH: Okay, thank you.

18 COMMISSIONER FUNG: Ms. Martin, I do have a question if
19 I can. I'm just trying to understand, why are you
20 treating FEI growth capital differently from the rest
21 of the capital for FBC and the rest of the FEI capital
22 by adopting a unit cost approach? And where did that
23 come from? That idea comes from FEI itself? Or is it
24 from stakeholders from BCUC? I'm just trying to
25 understand what the thinking is behind that different
26 treatment based on unit costs and then true-up?

1 MS. MARTIN: Certainly.

2 MR. GOSSELIN: Yeah, we looked at the correlation of
3 the actual expenditures for growth capital to the
4 additions, the gross customer additions, and it
5 correlated quite well, I think in the high 90.98 or
6 so. When we add customers, it is frequent that we use
7 contractors to do the work. So, when we add a
8 customer, we incur the cost, and we don't incur the
9 cost per se. So, it correlates extremely well to --
10 the cost correlates really well to the actual
11 additions.

12 So, looking at history and that, that
13 correlation we decided that FEI growth capital would
14 work well under a formula -- rather an index based
15 mechanism. And one other thing is it is very hard to
16 predict five years out the number of additions we may
17 have.

18 So, going forward, we didn't believe it was
19 -- we didn't believe we'd be very accurate at a five-
20 year forecast of the growth capital, and we thought a
21 formula mechanism would work better, because it is a
22 year over year forecast looking for giving the
23 existing state of the additions each year. So, it
24 didn't fit well under a five-year view, it correlated
25 well with costs, so that is why we determined that
26 working under an net based mechanism would work well.

1 MS. ROY: So, if I could just add to that too, even
2 when we're in a forecast or a cost of service type of
3 rate setting mechanism, which we've had in the past,
4 we've always, in my memory anyway, for a number of
5 years, probably 15 years at least, used a unit cost to
6 do the forecast. So in the case of a two year revenue
7 requirement, we would normally do a forecast of the
8 number of customers to be added over the two years,
9 and then multiply it by a forecast of the unit cost.

10 **Proceeding Time 9:55 a.m. T13**

11 So that gave us a similar approach. But
12 when you're looking at a five-year term, it is very
13 difficult to forecast customer growth very accurately
14 over the five-year term. So that is why -- and lends
15 itself well to kind of a review each year and a
16 reforecast of what the customer growth would be.

17 So, really whether under a PBR or MRP type
18 of thing, or a cost of service, we have always had a
19 similar approach, and I think we haven't necessarily
20 heard anybody say that they didn't think the idea
21 behind the unit cost approach was not appropriate.
22 There definitely were some challenges in the last PBR
23 term with the calculation of the growth capital, but
24 it had more to do with the drivers and the way the
25 calculation was set up than with the idea behind a
26 unit cost.

1 COMMISSIONER FUNG: Okay, thank you.

2 COMMISSIONER KEILTY: And why doesn't it work the same
3 way for FBC?

4 MS. MARTIN: FBC doesn't forecast its customer addition
5 costs using a unit cost approach. We forecast based
6 on a historical average, and it has worked well for
7 us, so we haven't had issues with either the forecast
8 being unable to provide the amount of funding that we
9 need.

10 There are some other reasons that we
11 haven't developed a unit cost for FBC. A unit cost
12 analysis for us would require our cost accounts to be
13 segregated in a way that we don't do. We would have
14 to do that analysis for overhead additions,
15 underground additions, substation additions, all of
16 which are very different and historically we don't
17 have that information available in that format. In
18 addition, our load forecast is not forecast the number
19 of new additions, it forecasts only the turnover in
20 customer growth.

21 So, there is some of those kind of reasons
22 why we haven't developed a unit cost approach, but in
23 general, it is because there hasn't been a need to
24 because the forecasting method that we've used has
25 been adequate to forecast the funding that we needed.

26 COMMISSIONER KEILTY: Thank you.

1 MR. WEAFFER: Good morning, Chris Weafer from the
2 Commercial Energy Consumers. Just a high level
3 question, Diane, you talked about the context that you
4 are operating in, and Joyce, you've been talking about
5 capital. And one thing that is a different context I
6 believe in the PBR period, and this relates to FEI and
7 you've got into your gas project to \$364 million CPCN.
8 Does the company look at that project any differently
9 than smaller CPCNs in the context of a PBR period, the
10 expenditures are within the same test period as the
11 PBR period? It's a major utilization of company
12 resources. Just some general comment whether you've
13 considered that in terms of that level of involvement
14 in a major capital project in a PBR period as opposed
15 to your typical -- your threshold is 20 million, this
16 is 364 million. Can you just speak to that?

17 MS. ROY: So --

18 MR. WEAFFER: Do you see a difference?

19 MS. ROY: Do we see a difference in the MRP proposal?

20 MR. WEAFFER: A difference in the sense that there is a
21 significant commitment of resources to the company to
22 that very large capital purchase. I am not aware of
23 any one of that size being done during a PBR period,
24 and I may be wrong, but it is quite a focus of the
25 company in a period where you have got a capital form
26 you are working with, you've also got a significant

1 commitment of \$364 million, assuming approval. Has it
2 been a topic of discussion? Is there anything that we
3 should be hearing from the company in terms of that
4 sort of allocation of resource to a significant safety
5 initiative as I understand it?

6 MS. ROY: Well, we do have to acknowledge I think that we
7 are going into a period where there will be some large
8 capital projects coming up just as you've mentioned,
9 and I think that resources themselves are going to be
10 an issue over the next period of time. It is
11 something we will have to address. But a lot of these
12 larger projects, we rely much more heavily on external
13 consultants and less on internal staff, even though we
14 do have some people of course that are involved and
15 have to be there to manage the projects.

16 And I don't know -- Paul, is there anything
17 you would like to add to that idea?

18 MR. CHERNIKHOWSKY: So, it is Paul Chernikhowsky for
19 FortisBC. First of all, I think we do have examples
20 in the current PBR of major projects on the electric
21 side. We have both the Upper Bonnington refurbishment
22 and the Cora Lynn spill gates projects, which are
23 worth approximately \$100 million. On the gas side of
24 the business, we have the Lower Mainland intermediate
25 pressure system upgrades project, which is in the
26 application was identified at around 260 million, now

1 currently forecast a bit higher.

2 So, it is not unusual for us to have major
3 projects during the term of the PBR or in the MRP
4 going forward. As Diane mentioned, most of those
5 costs are related due to contractors and consultants,
6 external costs, material purchases. The incremental
7 internal costs, so for example if we have additional
8 labour that we bring in in the company to support that
9 project, that would be an incremental cost identified
10 in the CPCN.

11 **Proceeding Time 10:01 a.m. T14/15**

12 Beyond that, if there are overall
13 requirements for increased resources in the company,
14 we have already identified that in the MRP and that's
15 part of our base increase request for 2020 in the O&M
16 costs. And that's primarily due to the system
17 integrity costs in that bucket there.

18 MR. WEAVER: Thank you. That's all.

19 MS. MARTIN: Thank you. If there aren't any further
20 questions then we can move on to our discussion on
21 innovation funding.

22 **PRESENTATION BY MR. WARREN:**

23 Good morning everybody. My name is Mark
24 Warren, I am the director of business innovation at
25 FortisBC. And I'm here to discuss our proposed clean
26 growth innovation fund.

1 Many of you in the room have had the chance
2 to already hear from me about this fund as we were
3 developing it and I've been pleased by the feedback
4 we've had so far. Support for innovative initiatives
5 at FortisBC is nothing new. We've been innovating for
6 many years. Many of you are aware that we were one of
7 the first companies to offer renewable natural gas in
8 North America. We have been innovators in natural gas
9 for transportation in heavy duty vehicles and marine.

10 Those of you that were involved in the
11 company's demand side management applications for both
12 FEI and FBC are aware that we have an innovative
13 initiatives fund established there. And so what we're
14 proposing here is really building on that foundation.
15 And so what we expect to achieve if this fund is
16 approved are what's laid out on this slide,
17 performance breakthroughs with energy technologies
18 both -- at all points on the value chain, cost
19 reductions in those technologies, and we also expect
20 to see new clean energy sources and uses for energy as
21 a result of this fund.

22 So this slide or this diagram is an
23 important one and it's in Section C6 of the
24 application. And for those of you happily following
25 along in the application it's on page ,. It shows
26 where we already have established funding which is on

1 the commercial side really in the natural gas for
2 transportation and renewable natural gas sides. As I
3 mentioned, the innovative technologies funds, which
4 are part of demand side management expenditures,
5 already address many issues or innovations in the end
6 use categories in buildings and in the industrial
7 sector.

8 So what this fund will address are the
9 remaining gaps. So, for example, on supply side we
10 want to support research into new sources of supply,
11 renewable natural gas. We already have some sources
12 for that that's been commercialized, but we also want
13 to commercialize more, such as wood waste biomass of
14 which there should be an abundance in this province,
15 but which is not yet economic to extract. And we want
16 to look at other sources of renewable gas such as
17 hydrogen and synthetic natural gas as well. So the
18 product flowing through our pipelines in a few years
19 could look very different than it does today.

20 On the transmission and distribution side,
21 in electric we will be focusing on research around
22 strengthening our system through the use of storage
23 technologies, for example, analytics around power
24 quality. On the natural gas side it will be more
25 focused on controlling fugitive emissions and
26 non-destructive testing of our pipelines. As I

1 mentioned, the end-use categories are already quite
2 well covered by our demand side management
3 expenditures, but there are still important new
4 technologies that wouldn't be covered, such as carbon
5 capture, and micro-CHP units, combined heat and power
6 units that create electricity and generate heat from
7 methane and other fuels.

8 **Proceeding Time 10:05 a.m. T16**

9 Moving down to the transportation sector,
10 we'll be looking at new charging technologies for
11 electric vehicles of all sizes, from passenger
12 vehicles right up into heavy duty vehicles. On the
13 natural gas side -- well, not necessarily natural gas,
14 we'll be looking at fuel cells, which is really a
15 hydrogen based fuel source. We'll be looking at
16 improving engine technologies that are already using
17 natural gas and expanding our marine fleet, for
18 example. So, those are the areas in which we intend
19 to invest in innovation over the MRP period.

20 When we looked at the amount of funding we
21 think we'll need as we look at those various segments
22 and the amount of funding requests that we see over
23 the next couple of years, they total up to just under
24 \$5 million for our gas company FEI, and half a million
25 dollars for FBC the electric company.

26 When we move those annual expenditures up

1 into a rate rider, that results in 40 cents per mil,
2 per month, for gas customers, and 30 cents for
3 electric customers.

4 To the extent those monies aren't spent in
5 any particular year, we will be recording those
6 differences in a deferral account, and to the extent
7 that there is anything left at the end of the MRP
8 period we'll be applying for dispensation of those
9 unused funds.

10 In terms of governance, we've established
11 some principles for managing the fund, transparency
12 being one of the key ones. So at the annual review
13 expect to be coming forward to interveners and
14 stakeholders and the Commission to explain where we've
15 spent the money in the previous year, and where we
16 expect to spend money in the following year. We will
17 be pursuing, as I've already discussed, innovations
18 that have a strong customer benefit. We'll be using a
19 portfolio approach when we make investments. So
20 really what that means is we'll be making smaller
21 investments relative to the overall size of the fund
22 in many different kinds of technologies and companies
23 and institutions to ensure that our risk is
24 diversified.

25 In all cases we will be leveraging
26 partnerships. So whatever innovation we're pursuing

1 it will be done in collaboration with an educational
2 institution. If it is fundamental type research, if
3 it is near commercialization it is probably going to
4 be with a start-up, we'll be working with government
5 organizations for both direction and funding all the
6 way along. So, this is something that we'll be doing
7 in close partnership.

8 Importantly we'll be managing all of our
9 innovation expenditures in a central manner go forward
10 to ensure that we don't have overlap and that we're
11 getting maximum value across the expenditures. And
12 finally we'll make sure that we're optimizing the
13 assets we already have, literally in the ground in
14 some cases, and the expertise within the company.

15 How that will be actually managed in terms
16 of governance is, of course, there will be an
17 executive steering committee that sets the overall
18 direction annually for the expenditures. They will be
19 feeding that down to an innovation working group of
20 folks in the company from all the various areas that
21 have an interest in these innovations that will be
22 overseeing the direct expenditures of the funds. As
23 well, we would like to get input from an external
24 advisory council, not dissimilar to the ones already
25 established for our demand side management
26 expenditures. So I am sure some of the groups in this

1 room will be interested in participating in that.

2 And so then, at the bottom there are the
3 two existing funds, or expenditure categories in NGT
4 and RNG of the innovative technologies fund already
5 established for DSM and the proposed clean innovation
6 fund.

7 And with that, are there any questions?

8 MR. WEAVER: Chris Weafer, Commercial Energy Consumers.
9 Has the company come across any precedent for this in
10 any other jurisdiction that has a PBR model?

11 MR. WARREN: In a PBR model specifically? I don't
12 know. We have outlined several categories -- or
13 several similar funds that have been established in
14 other jurisdictions in the application. Whether any
15 of those were specifically in a performance based
16 regulated environment, I cannot say I'm afraid.

17 MR. WEAVER: That's fine, we can follow up, thank you.

18 THE CHAIRPERSON: One question here. I wonder if you
19 have considered working coordination with other
20 utilities beyond yourself to get more power out of the
21 dollars you've got by combining it with others?

22 MR. WARREN: Oh, absolutely, sorry, and I didn't
23 mention that in the list of partnerships that we'll be
24 looking for for these, but absolutely we will be
25 working with other utilities. And in fact the natural
26 gas innovation fund, for example, that we're a part of

1 now is a collection of natural gas utilities across
2 Canada that are all interested, in many cases in the
3 same type of fund, and investing in the same type of
4 technologies. So, absolutely where we have a common
5 interest we'll be partnering.

6 THE CHAIRPERSON: Okay.

7 MR. HACKNEY: Hello, it is Tom Hackney with the B.C.
8 Sustainable Energy Association. And naturally this is
9 an area of great interest for us. I wonder if you
10 could explain why the proposal is to pay for this
11 through a rate rider mechanism as opposed to rolling
12 it into the rate?

13 MR. WARREN: Any volunteers on that one?

14 MR. GOSSELIN: I'll take that one. Richard Gosselin.
15 Tom, we looked at different approaches of rolling it
16 in through rates, but we wanted to ensure that all
17 customers pay a similar amount. And by doing it
18 through a rider approach we were able to do that by
19 attaching it to the basic charge, as opposed to
20 flowing it through delivery rates. And also this
21 enabled the accounting mechanism to be more clear.
22 Run it through a deferral so there is clarity on the
23 funds collected and the funds expended.

24 MS. ROY: And just to clarify, if it did go through the
25 delivery rate, that would mean customers with higher
26 volumes would pay more than customers with lower

1 volumes, and we wanted to keep it even across all of
2 the customers.

3 MR. HACKNEY: Why?

4 MS. ROY: Why? We just thought it was a fairer
5 allocation, because all customers will benefit. And
6 we thought a lot of the benefits from this actually
7 would accrue to some of the residential ratepayers,
8 and so it was more fair in that perspective.

9 MR. HACKNEY: Okay. So, and I understand that this
10 initiative will be handled largely jointly between
11 Fortis Gas and Fortis Electric?

12 **Proceeding Time 10:13 a.m. T17**

13 MR. WARREN: Yeah, we'll be managing the fund centrally
14 for both companies. We're not seeing a lot of overlap
15 in the innovations at this point, but it is possible.
16 We are looking at things like using hydrogen to
17 capture -- it's not a new idea, but using hydrogen to
18 capture excess electricity and then possibly returning
19 that back as electricity. So there is potential
20 overlaps between the two systems. But generally
21 speaking the innovations will be independent.

22 MR. HACKNEY: And how is the overall level of funding
23 determined? What was the sort of criterion that you
24 applied?

25 MR. WARREN: As I mentioned, we totaled up the funding
26 requests we've already seen in these various unfunded

1 categories over the next couple of years. It's
2 difficult with innovation, of course, to look beyond
3 the next couple of years. But when we totaled them
4 up, that's what we came up to is just under 5 million
5 for FEI and a hundred million for FBC.

6 MR. HACKNEY: Thank you

7 COMMISSIONER FUNG: Mr. Warren, just a question to
8 clarify. This innovation fund then, the basic charge
9 rider which is based on a calculation based on a 12-
10 month period, does that remain constant throughout the
11 entire five-year term or is it subject to escalation
12 during the term?

13 MR. WARREN: It's expected to remain constant throughout
14 the term.

15 COMMISSIONER FUNG: Okay, thank you.

16 MR. QUAIL: Jim Quail on behalf of MoveUP. Would there
17 be any provision for modifying or escalating it during
18 the five-year term if that appears to be a prudent
19 thing to do?

20 MR. WARREN: We have left it open in the application to
21 come forward and request more funds, yes.

22 MS. DOMINGO: Good morning. It's Yolanda Domingo with
23 the BCUC. I'm just curious in terms of customer
24 engagement for Fortis, what kind of customer
25 engagement have you done in terms of notifying
26 customers? Not necessarily the interveners in this

1 room, but specific customers in each of the service
2 territories of this proposal for the innovation fund,
3 and are you able to gauge their desire, their customer
4 acceptance of the fund?

5 MR. WARREN: Aside from the stakeholder engagement we've
6 already undergone, we haven't gone out and reached out
7 to the public broadly. We do know that customers
8 support clean technologies overall and so -- and you
9 know, our polling shows that customers, obviously, are
10 interested in keeping rates reasonable but they are
11 also interested in their utilities pursuing clean
12 innovations. And clearly that's supported by the
13 policy environment as well, which is presumably also
14 responsive to customer desire.

15 MS. DOMINGO: And so the proposal is for both utilities,
16 for the gas utility and also the electric, and
17 arguably the electric side is relatively clean to
18 begin with. But I understand you're talking about
19 potentially pursuing innovation in electric vehicle
20 charging, I think is one item that you'd mentioned.

21 MR. WARREN: Absolutely.

22 MS. DOMINGO: So would that fund be used after any
23 potential government grants or any other government
24 subsidies? Is that the idea?

25 MR. WARREN: Yeah, in all cases -- so I mean when we
26 look at the commercial side of electric vehicles, for

1 example, we'll be definitely pursuing government
2 grants and we have received some already for station
3 installation. On the pre-commercial, you know, on the
4 actual R&D activities and demonstration activities,
5 there is government funding available. It's not quite
6 as easy to access but we'll certainly be pursuing it
7 where it exists.

8 MS. DOMINGO: Okay. Thank you.

9 COMMISSIONER LOCKHART: I have a question. So what's
10 the annual funding for the innovation technologies
11 fund, the current fund?

12 MR. WARREN: I was afraid somebody was going to ask me
13 that. I actually don't know off the top of my head.
14 I haven't been involved directly with those
15 applications. I'm afraid we might have to get back to
16 you on that.

17 COMMISSIONER LOCKHART: Any sense of how much? Any
18 proportion?

19 MR. WOLFE: Perhaps -- are you speaking -- it's Jason
20 Wolfe from FortisBC. Are you speaking to the Natural
21 Gas Innovation fund? The one that is with the
22 Canadian Gas Association?

23 MR. WARREN: I think the DSM fund.

24 COMMISSIONER FUNG: It's the DSM.

25 COMMISSIONER LOCK: Any sense of whether the --

26 MS. ROY: We might be able to find that out before we

1 finish this morning, so.

2 COMMISSIONER LOCKHART: Okay, thank you.

3 MS. WORTH: Leigha Worth here from the BCOAPO,
4 representing the low and fixed income residential
5 ratepayers. I'm wondering if Fortis could speak to
6 the ability of the client groups that I'm here
7 representing, the people who don't have the money to
8 pay a premium for solar power or for renewable natural
9 gas as sort of an example of opportunities that have
10 been found in other jurisdictions to access these
11 types of innovative technologies and the benefits that
12 you've said accrue to all of your ratepayers equally?

13 MR. WARREN: So, many technologies are focused on end
14 uses, right? And so many innovations are focused on
15 end uses and those, over the years, have really driven
16 down the cost, for example, of heating your home. The
17 efficiencies of furnaces have risen and risen over the
18 years due to this type of innovation funding, a lot of
19 which came from utilities and driven down the costs
20 and increased the efficiency of heating your home.
21 And there are many examples like that, where the cost
22 reductions often apply directly to things that
23 consumers will apply. Sometimes they apply to the
24 utility itself. But in either case, the customers are
25 going to benefit from those kinds of cost reductions
26 and performance increases.

1 MS. WORTH: We'll be pursuing that more in IRs. Thank
2 you.

3 MR. WARREN: If there are no further questions -- is it
4 break time or is it James' time?

5 COMMISSIONER FUNG: James.

6 MR. WARREN: There we go.

7 **PRESENTATION BY MR. WONG:**

8 Good morning. My name is James Wong,
9 director of budgeting and strategic initiatives. The
10 focus on my presentation is to provide a brief recap
11 of the SQIs, focusing on where we're proposing changes
12 to the current suite of SQIs.

13 Now, in reviewing the SQIs we took into
14 consideration the feedback provided by stakeholders.
15 That's part of the annual review process.
16 Additionally, instead of looking to add more metrics,
17 our focus was on refining the existing suite of SQIs.
18 For example, updating the benchmark and the
19 thresholds, which will work well in providing an
20 appropriate balanced set of metrics that measures
21 reliability, safety and responsiveness to customer
22 needs.

23 **Proceeding Time 10:21 a.m. T18**

24 In our most recent full year of results,
25 the 2018 SQI results, the SQIs all met or exceeded the
26 benchmark and thresholds, except for SAIDI, due to the

1 impact of the outage management system and adverse
2 weather events. We also recognized there are already
3 a number of other metrics and indicators that are
4 being introduced elsewhere in the application to
5 monitor performance. For example in the incentive
6 section, will be discussed shortly.

7 So in terms of the proposed changes they
8 are grouped into the following categories: new
9 metric, annual results, and updates to the benchmark
10 and thresholds. For the first category in terms of
11 new metrics we're proposing two additions. One of
12 them is actually of replacement of an existing one.
13 The first one called interconnection utilization, who
14 supplies the FBC only and is proposed to be an
15 informational indicator to measure reliability.

16 So in response to feedback from BCMEU
17 regarding reliability of service, we're proposing a
18 new metric to monitor the level of service provided to
19 wholesale municipal customers, including the city of
20 Penticton, Summerland, Grand Forks and Nelson.
21 Information in this new metric is provided on page C-
22 154 of the application. In terms of feedback we've
23 been receiving, discussions with the BCMEU regarding
24 this metric have been positive with the BCMEU
25 commenting on the simplicity.

26 The second metric we're proposing is a

1 change from an existing one. So the new metric is
2 called average speed of answer, this is both for FEI
3 and FBC, and is proposed to be an informational
4 indicator to measure responsiveness to customer needs.
5 This measure is defined as the time, for example, in
6 second, to answer a telephone call. The average speed
7 of answer is more directly related to the customer
8 experience of shorter wait times, of course preferred
9 some customers.

10 Also, the company is better able to analyze
11 trends in this metric compared to the existing metric,
12 the telephone abandonment rate, which as in past
13 discussions we've said is difficult to tell why a
14 caller is being abandoned from a customer perspective
15 and whether it is truly indicative of the customer
16 experience. So this metric replaces the existing one
17 called telephone abandonment rate and the results are
18 reported on an annual basis.

19 Now, in terms of discussions on this
20 metric, stakeholders in the past commented on the
21 usefulness of the existing metric, including
22 discussions as part of the 2017, 2018 and 2019 annual
23 review process. In terms of the second category
24 changes, that's the annual results. For the metric
25 "public contacts with gas lines," and that's for FEI
26 only, for SAIDI that applies to FBC only. And for

1 more broader description.

2 The next metric, and this applies to FEI
3 and FBC, and this is called the billing index. The
4 benchmark is being lowered from less than equal to 5,
5 to less than equal to 3, with the threshold remaining
6 at 5 to reflect improved performance in recent
7 history.

8 The next two metrics applies to only FBC,
9 that is the first contact resolution and the meter
10 reading accuracy. So for the first contact
11 resolution, the threshold is being changed from 72
12 percent to 74 percent, and then the meter reading
13 accuracy is being increased from 97 percent to 98
14 percent, and also the threshold has been adjusted from
15 94 percent to 95 percent.

16 And finally in terms of benchmark threshold
17 updates, for SAIDI and SAIFI for FBC, we propose to
18 set the benchmark and threshold for these two measures
19 in the year 2020 when FBC will have three full year
20 results, that being 2017, 2018 and 2019.

21 Incorporating the impact of the outage management
22 system, which have influenced the comparability and
23 historical results.

24 So, please note that 2017 was the first
25 year for the implementation of the outage management
26 system, that's why we are suggesting 2017 is the first

1 year.

2 So that concludes the SQI highlights and
3 the changes that we're proposing.

4 COMMISSIONER LOCKHART: I have a question regarding the
5 proposed average time to answer. Will that reflect
6 abandoned calls? Will that include abandoned calls?

7 MR. WONG: Michelle?

8 MS. CARMAN: Michelle Carman, FortisBC. No, the
9 average speed of answer, it is only going to count
10 from when the call enters the queue to when the call
11 is answered. Now, we still will have our eye on
12 abandon rate, it's not something we'll stop looking
13 at, but in terms of something that we felt was a
14 compliment to the SQIs and the informational
15 indicators, average speed of answer seems something to
16 be more what the stakeholders were curious about.

17 COMMISSIONER LOCKHART: Thank you.

18 MR. QUAIL: Jim Quail on behalf of MoveUP. First of
19 all, following up on the last question, I assume that
20 the utilities will continue to accumulate the data
21 related to abandonments, and that this could be
22 produced in response to information requests, for
23 example?

24 MS. CARMAN: Michelle Carman, FortisBC. Yes, we will
25 continue to monitor abandon rate and have that data
26 available.

1 MR. QUAIL: Sorry, from the perspective of the union
2 and the workforce that represents the average speed of
3 answer is seen as a much more useful metric in terms
4 of the adequacy of resources in the customer service
5 area.

6 On the issue of the annual results, I am
7 asking why in the case of the all injury frequency
8 rates, you appear to be retaining a three-year rolling
9 average. And why the same logic would not apply to
10 that metric as to SAIDI and SAIFI?

11 MR. WONG: James Wong, FortisBC. We've looked at all
12 the metrics, and particularly for AIFR we believe the
13 current benchmark and threshold remain appropriate to
14 assess the trend and the sustainability in recent
15 years performance. So, consistent with that
16 rationale, the safety results are more to be looked at
17 from a long term, over a long term and a trend basis,
18 rather than perhaps an individual year's results. So
19 that's why we feel in AFIR in particular the three
20 year rolling average that is currently being used
21 today still remains appropriate.

22 **Proceeding Time 10:30 a.m. T20**

23 MR. QUAIL: How is that logic not applicable to the other
24 indicators that you are proposing to annualize now? I
25 have difficulty seeing why being graded according to
26 performance from year to year when it comes to

1 injuries in the work force is different in principle.
2 Trends are obviously discernible from annual reporting
3 and annual benchmarking.

4 MR. WONG: You raise a fair point, but however I note in
5 the ones that we're proposing to move towards annual
6 results, sometimes it's easier to affect performance
7 where it is more visible and more clearer lined rather
8 than perhaps in those particular cases, a three-year
9 rolling average which kind of, in some ways, kind of
10 masks some of the immediate impact in that sense.

11 MR. QUAIL: I'll save the cross-examination for another
12 forum, but I just wanted to note that point.

13 MR. SWITLISHOFF: Elroy Switlishoff, Industrial
14 Customer's Group. James, has FortisBC always used a
15 three-year rolling average for SAIFI and SAIDI?

16 MR. WONG: For the current PBR we have, but of note, just
17 for context, as part of the decision for the current
18 PBR, originally that FortisBC had proposed AIFR as a
19 more initial indicator, but through the decision
20 process from the Commission it was determined that it
21 would be better suited to have a benchmark set and
22 then the direction was a three-year average. So
23 there's a bit of history behind that, in a sense. But
24 currently it is being measured for the current PBR
25 that way.

26 MR. SWITLISHOFF: But my question was, has SAIFI and

1 SAIDI always been a three-year rolling average --

2 MR. WONG: For the current PBR?

3 MR. SWITLISHOFF: No, going back further.

4 MR. WONG: I don't recall.

5 MR. SWITLISHOFF: Okay, I'll save that for the IRs and
6 ask when it changed to a three-year rolling average
7 and why. Thank you.

8 MR. CHERNIKHOWSKY: Actually, I can address that, I
9 think. So again, Paul Chernikhowsky from FortisBC.

10 In the 2014 PBR application we actually
11 proposed an annual reporting of SAIDI and SAIFI.
12 However, in the decision the Commission chose to use a
13 three-year rolling average. So historically we
14 actually have used an annual numerical report.

15 MR. SWITLISHOFF: Thank you.

16 THE CHAIRPERSON: Can I ask a question about average
17 speed events and primarily, why have you chosen to
18 make it an informational metric rather than just a
19 regular SQI? Seems like an important thing.

20 MS. CARMAN: Michelle Carman, FortisBC. So average
21 speed of answer is one data point that we look at when
22 we're looking at the overall service provided. Within
23 the SQIs you may recall that we have our telephone
24 service factor and our first contact resolution
25 metrics. So the telephone service factor is a measure
26 of -- it's the same idea. It's got a bit of a time

1 component there. The percentage of calls that we
2 answer within a certain amount of time. And then our
3 first contact resolution is the percentage of
4 interactions that we actually resolve the customer's
5 concern in the first contact with us.

6 And what we found is that resolution of an
7 issue is more closely related to overall customer
8 satisfaction than say necessarily wait times.
9 Certainly shorter wait times are preferred to longer
10 wait times. I think we all live that and know that,
11 but in terms of overall satisfaction, resolution is
12 more closely tied.

13 So the fact that our TSF, or telephone
14 service factor, already has a component of wait times
15 embedded within it, as well as the idea that
16 resolution is key to our customers, average speed of
17 answer is kind of just one factor that we keep our
18 eyes on but not crucial, I think, to the overall
19 experience.

20 THE CHAIRPERSON: Okay, I accept what you say, that
21 you've thrown out the abandonment rate and there's
22 some issues you have with being able to identify, as I
23 understand reading the application, but it seemed to
24 me that a customer, if you're really interested in
25 customer satisfaction, that a customer who abandons a
26 call usually isn't very satisfied. Not in all cases

1 abandon --

2 MS. CARMAN: Yeah, we were typically -- so what we were
3 seeing is we were seeing a bit an increase and that's
4 some of the things we were getting into in the last
5 couple annual reviews, an increase particularly on the
6 electric side and the abandonment rate. But we were
7 also seeing an increased use of our IVR system for
8 messaging. So it was difficult for us, as James
9 noted, to really analyze exactly what was happening.
10 And it seemed to be a lot of the questions were around
11 wait times, "Was it wait time?", and we couldn't say
12 for sure. So by using average speed of answer we'll
13 get a sense if we can see trends in average speed of
14 answer conversely with potentially trends that we're
15 seeing in the TSF, or customer satisfaction, or even
16 first contact resolution, that maybe have us dig in a
17 little bit further in one area or the next. Because
18 -- so if we see say an increasing trend in abandonment
19 rate, but we don't see a decreasing trend in
20 satisfaction or decreasing ability to meet our
21 targets, then to me that's maybe an indicator that it
22 may not actually be an issue, it may be a positive
23 reason that people are abandoning calls.

24 THE CHAIRPERSON: Thank you.

25 MR. LOVE: Alex Love with the B.C. Municipal Electric
26 Utilities. And, James, I was wondering if Fortis had

1 ever considered having an SQI related to cost, like
2 say perhaps the O&M cost per customer or something
3 like that, as an alternative to a productivity
4 improvement factor?

5 MR. WONG: Just so I understand the question, you're
6 proposing --

7 MS. ROY: I mean I don't mind taking that, James. I'd
8 say that O&M cost per customer is in fact what is
9 embedded in this MRP, that is what we're going to be
10 measured on during the term of the MRP. So it's not
11 identified as a service quality indicator because we
12 already have it as part of the plan and we're being
13 measured on it already.

14 MR. LOVE: Okay, so you'd say it's measured in another
15 section?

16 MS. ROY: It is measures in a key part of the plan and
17 indeed even the current PDR plans, although it wasn't
18 specifically shown on a per customer basis. As you
19 can see from the evidence we've provided in our
20 application we saw that declining trend in O&M costs
21 per customer over the PBR term and that was -- in our
22 minds that's a key measure of whether or not the PBR
23 plans did work as intended.

24 MR. LOVE: Okay, thank you for that.

25 MS. ROY: Thank you.

26 MR. WEAVER: Chris Weafer. James, just dealing with

1 the SQI and particularly the one for the wholesale
2 customers, the BCMEU members, and I think you said
3 there was discussion with -- I just want to be clear,
4 I don't think we've necessarily got what we were
5 looking for, what's on the table, so I just -- and
6 given that you've adopted the informational metric,
7 how do you think this changes things in terms of if
8 there are continuing outage issues and duration of
9 outage issues and we come into the annual report --
10 annual review and say, "There's the information,"
11 what's impact of that? What do you do in response?

12 MR. WONG: I can comment on just maybe perhaps what we
13 tried to do in getting feedback from BCMEU. And I'll
14 perhaps allow Paul to address it from a more technical
15 aspect.

16 And what we heard in the annual review is
17 -- over the last couple we've heard that the BCMEU had
18 some concerns about reliability. So what we did as
19 part of this MRP application, be engaged
20 representatives from BCMEU and went through some
21 discussions with them and I think the feedback I heard
22 was quite positive that the representative at that
23 time -- you know, it's going to work and let's see how
24 it works. So that's kind of the context in which
25 we're proposing this from a stakeholder engagement
26 perspective. And I'll pass it on to Paul.

1 MR. CHERNIKHOWSKY: Right. And I think we need to be
2 cognizant of why SAIDI and SAIFI even exist and again,
3 they're to represent the reliability experience by the
4 average customer in the system. And of course between
5 both direct and indirect customers we have around
6 174,000 customers I believe. The indirect customers
7 that are served by the BCMEU utilities are still
8 recorded in our stats as the supply to the municipal
9 customers and that's conventional with all electric
10 utilities.

11 We do understand the BCMEU's concerns of
12 our stats don't necessarily fully reflect it because
13 our single supply point may supply multiple thousands
14 of customers on their end. But the thing to keep in
15 mind that's different between the vast majority of our
16 customers and the municipal electric utilities is they
17 have contract agreements with us, and so there's
18 mechanisms under those contracts. If any municipal
19 electric utility feels that their service isn't of an
20 adequate level, there's mechanisms provided in those
21 contracts. And so those customers have an avenue open
22 to them that the vast majority of our customers don't.

23 And so we report SAIDI and SAIFI, again, to
24 reflect the performance of the overall utility so that
25 it can be reviewed in this forum. But, again, the
26 BCMEU utilities, they do have another avenue open to

1 say is that it will raise the profile of the concern
2 if that concern does exist, and if it is occurring
3 then the Commission panel will be understanding that
4 that is a concern, and that there is a degradation
5 happening there. Or a potential degradation happening
6 there.

7 So, I don't want to overreact to something
8 that we don't know yet is actually going to be a
9 concern. I think it's the first step in a process and
10 as things unfold during the MRP term we can discuss
11 that and see where it goes, but it's really difficult
12 to say at this point what is going to happen without
13 prejudging what might materialize.

14 MR. WEAVER: Right, and all we're trying to have is
15 that opportunity in the sense of this doesn't
16 necessarily answer the concern, and we don't want to
17 hear the annual review, "well that is a contractual
18 issue, we're not prepared to discuss it." What we're
19 saying here with this SQI is we're open to discussion
20 if there is a particularly problematic, evidence of
21 problematic either outages by number, duration, that
22 may have an impact on the company in terms of the
23 evidence of its performance during the period.

24 MS. MARTIN: Sure, and I'll also address the ways in
25 which we are already approaching that issue from the
26 City of Nelson's perspective. We do have capital

1 projects underway to deal with our supply into the
2 City of Nelson. You've got rehabilitation and rights
3 of way projects surrounding Three Line, and around the
4 Coffee Creek substation area which are already on the
5 books.

6 MR. WEAVER: No, and to be fair, I mean there has been
7 some very positive comment, as well as still some
8 challenges amongst various wholesale customers, so we
9 are just trying to keep the door open to the
10 discussion that improvement and recognize there has
11 been some efforts particularly in Nelson. So that is
12 helpful, thank you very much.

13 MS. MARTIN: Thank you.

14 MS. ROY: Okay, are there any more questions? Okay, we
15 had scheduled a 15 minute break at this point. I see
16 we are running about 15 minutes earlier than we
17 thought, so that is a positive thing. So, how about
18 we take a 20 minute break, and I think that puts us at
19 five after 11:00? Sorry, back here right at 11:00 and
20 if we could do that, and that will keep us right on
21 schedule. Sorry, 15 minute break. Thank you very
22 much.

23 **(PROCEEDINGS ADJOURNED AT 10:45 A.M.)**

24 **(PROCEEDINGS RESUMED AT 11:00 A.M.)**

T23/24

25 MS. ROY: Okay, I am just going to start by responding
26 to the question we had earlier from Commissioner

1 Lockhart, and it was regarding the amount of
2 innovative technology funding that was in the DSM
3 portfolio. Also for gas, FEI in 2019 there is about
4 \$2 million and that increases until the end of the
5 currently approved portfolio term which is 2022. And
6 by 2022 it raises to about \$3 million.

7 And on the electric side, it's same time
8 period, it starts at \$100,000 and by the end it is
9 raising to about \$200,000.

10 COMMISSIONER LOCKHART: Thank you very much, I
11 appreciate that.

12 MS. ROY: And I am going to turn it over to Doug
13 Slater.

14 **PRESENTATION BY MR. SLATER:**

15 Good morning everybody, my name is Doug
16 Slater, I'm the director of regulatory affairs at
17 FortisBC. And I will be walking us through the
18 incentives section which is C-8 of the application,
19 along with some of the other framework items, which
20 are found in section C-4.

21 So in terms of incentives, FortisBC has
22 proposed a mix of traditional and targeted incentives.
23 Traditional incentives are those that are built into
24 the overall rate framework to promote capital and
25 operating cost efficiency. Traditional incentives
26 have been a successful component of FortisBC's

1 previous performance based rate frameworks in the
2 past. In the case of this MRP, traditional incentives
3 are designed to assist in containing annual unit cost
4 to O&M expenditures at or below inflation, and
5 containing regular capital spending at the approved
6 level or in the case of FEI's unit cost of growth
7 capital at or below inflation.

8 The risk and reward flowing from
9 traditional incentives is proposed to be shared
10 equally between the customer and the companies through
11 the earnings sharing mechanism. We've prepared an
12 example of the earnings sharing mechanism which Rick
13 will walk us through towards the end of this
14 presentation. We've also proposed targeted incentives
15 in recognition of the need to address longer term
16 challenges and opportunities in the operating
17 environment. These challenges and opportunities
18 require FortisBC to achieve goals other than cost
19 reduction and increased efficiency.

20 Specifically, FortisBC has proposed to add
21 targeted incentives which increase O&M interest
22 between shareholder and customers, in areas such as
23 growth and renewable gas supply, growth and clean
24 transportation, reduction in GHG emissions, and
25 enhancing our customer engagement.

26 Targeted incentives have been designed as

1 reward only. This approach recognizes that targeted
2 incentives represent performance above and beyond
3 conventional service and creates positive outcomes for
4 customers. The reward only approach also recognizes
5 the requirement to expend effort towards achieving the
6 targets within O&M and capital funding constraints. I
7 will talk a little bit more about the need for
8 targeted incentives on the next slide.

9 So in order to ensure the long term health
10 utility, Fortis must expand its focus, and targeted
11 incentives have been added, as I've mentioned, in
12 support of addressing the longer term challenges and
13 opportunities, namely climate change. They also
14 foster innovative approaches to resolving issues as
15 they are outcome based and not prescriptive. Finally,
16 they encourage achievement of specific outcomes which
17 would not otherwise be attained.

18 On that point, regulators are increasingly
19 recognizing that targeted incentives, by their design
20 address newer aspects of utility performance,
21 including areas such as customer engagement,
22 minimizing environmental impacts and aligning with
23 clean energy policy goals.

24 Some of the jurisdictions incorporating
25 targeted incentives include the UK RIIIO framework,
26 California, New York with the REV framework, Illinois,

1 and Hawaii.

2 **Proceeding Time 11:05 a.m. T25**

3 For FEI we have proposed five targeted
4 incentives. The first is growth in renewable gas.
5 Renewable gas provides our customers with a cost
6 effective means of reducing their carbon footprints.
7 The benefits, including those that flow to end-users,
8 ratepayers and society include reducing emissions for
9 the use of carbon neutral renewable gas. This is an
10 area of importance within the CleanBC, plan which
11 includes a 15 percent target for the inclusion of
12 renewable gas in the buildings and industry before
13 2030. In addition, customers are also provided with
14 increased options to address emissions and can avoid
15 more costly alternatives including electrification.
16 Targets for this incentive is therefore based on
17 increasing a renewable gas supply.

18 The next is growth in natural gas for
19 transportation or NGT. NGT includes compressed and
20 liquefied natural gas and provides an effective energy
21 solution for our customers by lowering their costs
22 while at the same time lowering their emissions and
23 improving local air quality. NGT is an important part
24 of addressing emissions in transportation through its
25 ability to lower emissions by 15 to 25 percent
26 relative to diesel fuels. Moreover, every unit of NGT

1 consumed contributes positively towards customer's
2 rates. The target for NGT is therefore based on
3 increasing annual NGT volumes.

4 Greenhouse gas emissions for the customer,
5 disincentive is based on increasing natural gas
6 conversion activity. That is fuel switching from
7 higher carbon sources of energy to natural gas.
8 Similar to NGT, conversions to natural gas in the
9 building sector also reduce emissions over other
10 sources such as propane and heating oil while also
11 lowering customer costs at the same time. With
12 respect to heating oil, natural gas can lower
13 emissions by up to 27 percent. Natural gas
14 conversions also benefit customers more generally as
15 each conversation provides a positive contribution
16 towards rates.

17 Greenhouse gas emissions, internal.
18 Lowering FortisBC's internal emissions on its gas
19 system aligns with climate policy and benefits
20 customers and society. FortisBC has undertaken a
21 number of initiatives since 2009 and reduced its
22 emissions by 15 percent. The target is based on
23 further lowering emissions over the MRP term.

24 The final one for FEI is customer
25 engagement. As was mentioned earlier, customer
26 expectations are changing, and specifically there is

1 an increased expectations by customers to be able to
2 engage with FortisBC on their own terms and FortisBC
3 has expanded its digital communication channels to
4 provide customers with convenient access to services
5 and information. FortisBC proposes to continue to
6 enhance its digital offerings in an effort to meet
7 this expectation and continue to engage our customers.
8 Thus the target is based on increasing digital channel
9 adoption over the MRP term, and this metric is the
10 same for both FEI and FBC, which I'll speak to in a
11 moment.

12 Next, I would like to walk you through a
13 calculation of targeted incentives using the natural
14 gas for transportation example.

15 As noted in the slide, targeting incentives
16 represent stretch outcomes. In the red box is the
17 proposed targets for NGT growth in petajoules. For
18 context, the current consumption of NGT is
19 approximately 2 petajoules in 2018, and over the
20 course of the MRP we are proposing a target that
21 reflects an increase in NGT consumption of 350 percent
22 representing a stretch target.

23 So let's walk through an example of how
24 this calculation works. So focusing on 2020, the
25 target in this year is to achieve 3 petajoules and in
26 this case, that target has not been met so the

1 calculation is two-fold. There is no reward in 2020.

2 However, looking ahead to 2021, the target
3 of 4 petajoules has been exceeded with actual volumes
4 of 4.1 petajoules. The reward in this case is equal
5 to the basis point incentive times the 2021 approved
6 rate based times the equity thickness. For this
7 example I've used a hypothetical rate base of 5.1
8 billion. So multiplying ten basis points by 5.1
9 billion times 38 and a half percent equity thickness
10 is a reward of 1.96 million. And as you can, the
11 target in this example is achieved again in 2022, 2023
12 and 2024 with a total volume consumed of 27.2
13 petajoules over the MRP period.

14 The final step is to calculate whether the
15 MRP target is achieved and the purpose of the MRP
16 target is to recognize performance on an overall
17 basis. More specifically, the MRP target recognizes
18 achievement of the overall objective to grow NGT
19 volumes or consumption even though the annual pattern
20 did not follow the straight line as we see here.

21 **Proceeding Time 11:11 a.m. T26**

22 So, the MRP target, if achieved, allows the
23 utility to earn the annual incentive that was not
24 earned so long as the overall performance objective is
25 met.

26 In this example we can see that the total

1 volume exceeded the MRP target by 2.2 petajoules. The
2 reward therefore is equal to any NGT incentive missed
3 and in this case only the 2020 incentive was missed.
4 So we take the 10 basis points times the 2020 approved
5 rate base. In this case I've assumed hypothetical
6 number of 5 billion times 38 and half percent equity
7 thickness for a reward of 1.93 million.

8 The other incentives are calculated using
9 this same methodology with the exception of the PSI
10 and I'll go through PSI in a couple of slides.

11 So continuing on to FortisBC -- or sorry,
12 FortisBC, we've proposed three targeted incentives.
13 The first is customer engagement, and as I mentioned
14 FBC's customer engagement metric is the same as FEI's.
15 However, due to differing adoption rates of digital
16 channel use the targets are different.

17 The next is growth in electric vehicle
18 transportation. So subject to the outcome of the
19 Electric Vehicle Charging Inquiry, FortisBC proposes
20 an incentive based on the role it plays in supporting
21 the deployment of EV charging infrastructure. And
22 while this role is yet undetermined, FortisBC proposes
23 to develop targets following the conclusion of the
24 Inquiry. EV charging infrastructure itself is a key
25 component of the CleanBC plan which includes a zero
26 emission vehicle mandate, which is to be fully

1 implemented by 2040.

2 EV charging also reduces emissions and
3 related carbon taxes while also contributing to load
4 growth for the benefit of our customers.

5 The final incentive is the power supply
6 incentive, and over the past 20 years the BCUC has, at
7 times, approved incentive mechanisms that support
8 FortisBC's efforts to mitigate power purchase expenses
9 for the benefit of its customers. FortisBC proposes
10 an incentive to increase efficiency, reduce cost and
11 enhance performance with respect to its power supply
12 portfolio management.

13 Specifically FortisBC has identified 3
14 opportunities in the PSI, including the displacement
15 of higher priced energy, the displacement of higher
16 price capacity and release of surplus capacity.

17 The mechanism is designed to share the
18 benefits of these activities between the customer and
19 the utility. So let's take a look at how it works.

20 So as I mentioned, the power supply
21 mechanism is designed to share the benefits of
22 optimization activities between a customer and the
23 utility, and at a high level the mechanism compares
24 FortisBC's active strategies to the passive
25 alternative and shares the benefits with the customer
26 above the threshold.

1 incremental costs of 140,000. We add all the benefits
2 and the costs together for a net total of 11.6
3 million.

4 The final step is to determine the sharing.
5 So to determine the customers portion, we take the
6 first 7.5 million and 90 percent of any benefit above
7 7.5 million. So in this case, 11.19 million flows to
8 the customer. The remaining 410,000 flows to
9 FortisBC. So that's a PSI calculation, and before I
10 move on to the other framework items, I think this is
11 a good place to pause to see if there are any
12 questions.

13 COMMISSIONER FUNG: I have a question, Mr. Slater. When
14 you look at these targeted incentives and what they
15 are meant to address, and I'll use one example that
16 leapt out at me. One of them says, addresses customer
17 engagement. Now, earlier this morning we heard from
18 Mr. Gosselin according to slides 11 and 12 that FEI
19 has allocated \$3.4 million already in O&M costs or
20 engagement, and FBC similarly \$100,000 for engagement.
21 Are we not double counting here? Why we are now
22 suddenly giving you a targeted incentive for something
23 that you already should be doing as part of your
24 business?

25 MR. SLATER: So maybe I'll answer that in sort of two
26 components. The first -- sorry, the last part of the

1 question was around the theme that these are things
2 that we should be doing, and that is correct. These
3 are all activities that the utility is pursuing, and
4 the targeting incentives themselves seek to create
5 greater alignment between the shareholder and the
6 customers' interest in order to promote performance
7 that is above and beyond what is normally expected.

8 I think the second part of your question
9 was around whether or not there was some duplication
10 in those activities and my understanding of FEI's
11 engagement incremental funding ask is they're related
12 to different initiatives. So the first is raising
13 awareness for consumers in a low carbon future,
14 climate action partners program and other supporting
15 resources. This is -- I'm looking at page C33 of the
16 application. Those programs are different than
17 digital service channel adoptions, so they are
18 separated.

19 COMMISSIONER FUNG: I don't think that was what I heard,
20 though, from Mr. Gosselin earlier this morning. I
21 have a note on slide number 12 in particular that in
22 referring to the engagement of \$100,000 -- not that
23 that's a lot of money -- but he did refer specifically
24 to web-based platforms, which to me is a digital
25 platform.

26 MR. SLATER: The 100,000, I believe, may have been a

1 comment around FBC.

2 COMMISSIONER FUNG: Yes, that's correct.

3 MR. SLATER: I'd have to double check on what web-based
4 platforms that refers to.

5 COMMISSIONER FUNG: Okay, if you could do that, that
6 would be great. You don't need to answer it today.

7 **INFORMATION REQUEST**

8 I do have a follow-up question, though,
9 with respect to the other jurisdictions that you have
10 cited as using targeted incentives, and I note that
11 they are primarily from the UK and the United States.
12 Are they also -- do they have the same type of
13 features that you are proposing for the targeted
14 incentives that you are putting forward today, in that
15 they are only based on positives and that there's no,
16 I guess, offsetting -- you know, if you don't meet
17 your targets you get penalized for them. What are the
18 features of these similar plans that you are citing as
19 examples of why we ought to be doing this?

20 **Proceeding Time 11:20 a.m. T28**

21 MR. SLATER: So to best answer that, I would say that the
22 framework we are proposing is probably most similar to
23 the New York Rev framework, who also has positive only
24 incentives, and on page -- I think it's D74, there's a
25 few -- both points speak to this particular topic.
26 And I think just more generally, the reason for the

1 positive incentives kind of goes back to, you know,
2 that these activities create positive value for
3 customers and they're suppose to represent performance
4 above and beyond what is expected in the normal
5 course.

6 It's not necessarily analogous to say a
7 situation like SQIs, for example, which I would sort
8 of describe as negative only, rather than positive
9 only, where if there's a failure to achieve SQIs, that
10 could represent a material degradation in service and
11 therefore there would be a potential penalty for the
12 utility.

13 These targeted incentives, on the other
14 hand, are on the other end of the scale, that
15 achievement of them represents positive outcomes. And
16 so for example, to boil that down using the NGT, if we
17 were only to achieve half of the target, FortisBC
18 would not receive the incentive. However, those
19 benefits would flow to the customer, and it would be
20 more than what they would have achieved without them.

21 COMMISSIONER FUNG: And then under the issue of
22 philosophical question, to end my questions, and that
23 is you've now created two classes of incentives. One
24 that you've called traditional incentives, which has
25 both a positive and a negative from the utility
26 perspective. And now you've got a second class, which

1 is positive only.

2 Does that not create an incentive for the
3 utility to focus on the latter group and favour them
4 over the traditional incentives, that are needed in
5 order for you to carry on the business that you do.

6 MR. SLATER: I would add that there's probably that
7 third group. So, the SQIs, being a negative only,
8 traditional incentives being in the middle at plus or
9 minus, and then the targeted incentives at positive
10 only. And I guess similar to the service quality
11 indicators that FEI would -- and FBC would need to
12 expend resources in order to achieve those outcomes.
13 And so there is an inherent balance between those, in
14 that, you know, in order to promote, for example,
15 achievement of a target incentive we're going to need
16 to put resources towards that particular area, which
17 may consume what are otherwise O&M and capital funding
18 constraints -- or constraint funding that we're
19 operating within.

20 So I do think it represents a balance that
21 doesn't necessarily shift the utility's focus one way
22 or the other.

23 COMMISSIONER FUNG: Thank you.

24 MR. LOVE: Thank you. It's Alex Love with the B.C.
25 Municipal Electric Utilities, and I was just wondering
26 if you could explain on the FBC power supply incentive

1 -- we found met that balance and results in a fair and
2 reasonable incentive.

3 MR. LOVE: Great, thank you.

4 COMMISSIONER LOCKHART: I'm wondering if there's a risk
5 that the same achievement could qualify as both an
6 SQI, specifically responsiveness to customer needs, as
7 well as the targeted incentive of enhancing customer
8 engagement? It's seems to me that there might be a
9 bit of grey area, there could be some grey between
10 them.

11 MR. SLATER: So the question was would there be a
12 potential of overlap between a targeted incentive and
13 an SQI?

14 COMMISSIONER LOCKHART: Yeah, and therefore double
15 counting, duplication.

16 MR. SLATER: Yeah, I'm going to have to maybe ask
17 Michelle if any of the other SQIs that we use for FEI
18 or FBC would be impacted by the digital channel
19 adoption.

20 MS. CARMAN: Yeah, Michelle Carman, FortisBC. So
21 certainly, kind of taking it back a step in terms of
22 thinking about, you know, the responsiveness to
23 customers' needs and some of the things we measure,
24 one of those is that informational indicator around
25 the customer satisfaction index. So I think to the
26 extent that there's a portion of our customers'

1 satisfaction that's associated with the suite of
2 services and channels that we provide. And part of
3 those surveys getting at understanding -- to the
4 extent that they have access to those, how satisfied
5 are they, how important is that to them?

6 So, I certainly would think as we grow
7 adoption of digital channels and the use of them,
8 might that impact us doing better or worse on the CSI?
9 Potentially, but I think it would be difficult to say
10 there was a crossover or that one was directly
11 affecting the other. Because we have to keep in mind
12 that our customers' expectations are also always
13 changing. And they're not comparing us, FortisBC, or
14 other utilities for that matter, just to utilities,
15 they're comparing us to all other organizations out
16 there, retail, financial institutions. So a measure
17 of CSI also is how we do relative to others out there
18 providing any kind of service.

19 So, I think it would be difficult to say
20 whether our advancements in digital -- enhancing sort
21 of digital interactions would affect it versus kind of
22 their overall view of where the world is going with
23 those. So I would say --

24 MS. ROY: Sorry. Just to confirm though, the metric
25 you're talking about, the customer service index,
26 which is the one you think might be impacted, is only

1 an information --

2 MS. CARMAN: Yes.

3 MS. ROY: Yeah. So it does not actually affect the
4 incentives that we receive.

5 MS. CARMAN: Yeah.

6 MS. ROY: Whereas the ones that when I look down the list
7 of SQIs that have an incentive impact, nothing jumps
8 out to me that would be impacted by increased adoption
9 of digital communications.

10 MS. CARMAN: All right, okay, that's really was I was
11 getting at.

12 COMMISSIONER LOCKHART: Sorry. Thank you.

13 MR. SWITLISHOFF: Elroy Switlishoff, ICG. The surplus
14 capacity sales, are those all as a result of the
15 Waneta expansion project capacity?

16 MR. SLATER: I'm ask Jamie King --

17 MS. ROY: He's saying yes.

18 MR. SLATER: Yes.

19 MR. SWITLISHOFF: And the PPA energy displacement, so
20 this will be energy purchased at market, mid-C, U.S.
21 energy?

22 MR. KING: It can be either U.S. or Canadian, but --
23 sorry --

24 COMMISSIONER FUNG: Could you come to the microphone,
25 please?

26 MR. KING: It's Jamie at Fortis again. Yes, it'll be

1 incent exceptional performance, not mediocre or low
2 performance in this activity. Because presumably that
3 is an activity that you undertake in the normal course
4 of business.

5 So, I am just wondering why there is that
6 disparity between this sort of exceptional performance
7 and then choosing the lowest experience that Fortis
8 has had?

9 MR. SLATER: So I am going to direct that one to Jaime
10 as well.

11 MR. KING: It's Jaime at FortisBC. So, yeah, so as
12 Doug was saying, that really represents the lowest
13 we've seen out of the PBR period. If we look at it --
14 if we took the proposed incentive program that we were
15 presenting here today, and you applied it to the last
16 PBR period, it would average just over 10 basis points
17 of an incentive. So we think that the results of this
18 deal are reasonable.

19 The ability for us to achieve these savings
20 is very complex, and it takes a lot of work, and we've
21 got a small but dedicated team that does this. We are
22 constantly adapting to changing market conditions. So
23 it does take a significant amount of effort to even
24 get that 7.5 million. And again we think that that is
25 a fair and reasonable incentive, and it still will
26 encourage us.

1 And the other point to make is the
2 PowerPoint portfolio is the single largest line item
3 on the revenue requirement. So our 2019 forecast is
4 161 million. That represents 43 percent of our
5 revenue requirements. This is a very important piece
6 of what we do, and this is a very direct impact to
7 customers. So we are not seeing anything unless we
8 achieve results. And that 7.5 million, that
9 represents about a 2 percent rate reduction.

10 So before we start to see any benefit from
11 the company side, the customers have already benefited
12 by about a 2 percent rate decrease in that year. So
13 again, we think that is a fair and reasonable
14 incentive and a fair baseline.

15 MS. WORTH: Thank you.

16 MS. WALSH: Hi, Sarah Walsh with the BCUC. I just
17 wanted to go back to a question -- or I guess a
18 comment that Commissioner Fung had raised earlier,
19 around how the sort of incremental funding that Fortis
20 is requesting ties in or doesn't tie in with some of
21 these targeted incentives. And I believe, Mr. Slater,
22 that you had mentioned that sort of the offset to the
23 target incentive might be the additional resources
24 that Fortis is going to be requiring, or managing
25 within the formula in order to try and achieve the
26 targeted incentives.

1 IR.

2

INFORMATION REQUEST

3 MS. ROY: It sounds like a complicated answer to that and
4 so I think we'd like to talk to other people in the
5 company before we respond to that.

6 MR. HACKNEY: Okay. Thank you.

7 MS. DOMINGO: Hi there, it's Yolanda Domingo, BCUC staff.
8 On this slide I just have a couple of questions just
9 for my understanding.

10 So at line 4 you've got offsetting
11 incremental costs and I understand that to be some
12 additional administrative costs in order to manage
13 this portfolio, this program that you're proposing.
14 So to what extent are those costs already included in
15 base O&M or they would be additional resources that
16 you would need?

17 MR. SLATER: I'll again ask Jamie King to come up to the
18 microphone.

19 MR. KING: It's Jamie with Fortis again. Yeah, so there
20 is no O&M or administration costs in that. Right now
21 the only component that's included in that offsetting
22 incremental costs would be short-term transmission we
23 use as part of our overall portfolio optimization and
24 the other examples we suggest was maybe if we were
25 purchasing some additional market intelligence to help
26 us increase our mitigation we would include that, but

1 there would be no O&M in that bucket.

2 MS. DOMINGO: (inaudible)

3 MR. KING: No.

4 MS. DOMINGO: Also had another question in terms of --
5 because the benefits that you're proposing in this
6 table you've got potentially energy displacement,
7 capacity displacement and surplus capacity sales. Is
8 there a relationship? I think that there is. Is
9 there not a transfer pricing agreement or some kind of
10 agreement with Powerex to sell or offload surplus
11 sales and then to what extent -- how does that
12 relationship work and to what extent is Powerex
13 already doing some of that for you?

14 MR. KING: Hi, Jamie again. So our agreement with
15 Powerex was approved by the Commission. It's not --
16 they don't make any decisions for us. It's a
17 mechanism for how we operate or how we access the
18 market in both making our purchases and making our
19 sales. If that agreement were to go away we would go
20 back to doing it the way we used to do it with
21 multiple marketers in the States and in Canada.

22 That agreement, like I said, it's just an
23 access agreement. It's not a decision. So we're the
24 ones making all our decisions and that agreement
25 currently -- it's an annual renewal. I think we've
26 just done an amendment that's going to be a three-year

1 period, but during the term of the PBR this also take
2 that into account. Make sure, you know, that our
3 interests are aligned with the customers if we need to
4 renew that or if there's a better way that we can do
5 this that would create more value for everyone we
6 would obviously do that and --

7 MR. WEAVER: Chris Weaver, Commercial Energy Consumers.
8 Just with respect to the incentives in slide 30, I
9 take it these are opportunities that Fortis would
10 pursue whether there was an incentive or not. I mean
11 these are logical, sensible business steps for Fortis
12 to take on as a gas utility. Would you agree with
13 that?

14 MR. SLATER: The targeted incentives are indeed areas
15 where the utility is -- that the utilities are
16 pursuing, rather. Yes.

17 MR. WEAVER: Okay, and so to the extent that your present
18 guaranteed rate of return rewards you for those
19 efforts, to go further you need more. Is that what
20 you're saying?

21 **Proceeding Time 11:39 a.m. T32**

22 MR. SLATER: Well we -- to answer that I would say that
23 the targets are set above and beyond what utilities
24 can be expected to achieve in the ordinary course, and
25 so for this reason the incentives are set in order to
26 align interests further and create those outcomes that

1 might not be achieved in their absence.

2 MR. WEAVER: We will pursue that in IRs. The last
3 point, and this may have been asked and answered, and
4 I apologize, but when we look in growth and natural
5 gas -- and I feel like I'm moving into hearing mode,
6 and I don't mean to, sorry. But I look at the check
7 marks in growth and natural gas transportation, O&M
8 reduced operating costs, GHG emission reductions
9 reduced operating costs. Those reduced operating
10 costs would also flow through in terms of the earnings
11 sharing mechanism as well, wouldn't it?

12 MR. SLATER: Sorry, I didn't hear the last part?

13 MS. ROY: Sorry, I think I can answer that. Those
14 types of costs are actually flowed through -- natural
15 gas for transportation, for example, are outside of
16 the index based O&M, so they don't go through the
17 earnings sharing mechanism. They are flow through.
18 If there is a reduction in those costs or an increase
19 that flows through to customers.

20 MR. WEAVER: Okay, we might deal with that in IRs as
21 well. Thank you.

22 The last, going to -- and this has had some
23 discussion already, about the power supply targeted
24 incentives. And just to understand if -- again from a
25 customer perspective, it looks like we are being asked
26 to pay more to do something we think we're already

1 paying you to do, which is manage power supply cost
2 effectively for the ratepayers.

3 There is now a proposed incentive -- or a
4 proposal in the table to incent better results. Are
5 we covered on the upside? If you take a risk and say
6 buy long in a higher price, you could have saved more
7 and as a result the customers are paying or overpaying
8 your passive portfolio. I'm not sure what the passive
9 portfolio is, but if you fail, if you take risk and
10 now you're on the high side, is the shareholder
11 bearing the risk of that as well? Or just the
12 ratepayer?

13 MR. SLATER: The program has not been designed to put
14 that risk on shareholders, but I'll pass that to
15 Jaime.

16 MR. KING: Sorry, Jaime again. The way that that
17 calculation would be worked -- well first off, it
18 doesn't incent us to take risks. But, if for some
19 reason we took the market price we ended up paying was
20 high, we would net that out to zero, and there would
21 be -- it would flow through this calculation whether
22 there is any potential savings. You know, you look at
23 it in multiple deals throughout the year, if we
24 screwed up on some, it would be captured in this.

25 But again, we wouldn't be taking those
26 risks. Our strategy now is very low risk, but it is

1 high --

2 MR. WEAVER: So, I think the answer is the customer
3 pays for the -- if you are over your passive portfolio
4 estimate, the customer will pay the costs? It's a
5 flow through? So it is only on savings that has a
6 sharing. If you get it wrong, and you say there is no
7 risk, but clearly there is an incentive to take more
8 chance in order to hit the incentive. That is the
9 point of incentive. We could deal with it in IR,
10 sorry. That's fine. Thank you.

11 MR. QUAIL: Jim Quail from MoveUP again. On the power
12 supply incentive, to what extent is this analogous to
13 the gas supply mitigation incentive program on the gas
14 side? Is it similar -- notionally? I know that they
15 are different in the way that they are executed, but
16 is the justification analogous to the one for GIZMEP?

17 MS. ROY: I'm sorry, Jim, I don't know if we have
18 anybody here that could specifically answer that
19 question, but I'd welcome an information request on
20 that.

21 **INFORMATION REQUEST**

22 MR. QUAIL: Okay.

23 MR. SLATER: Okay, so if there is no other questions,
24 I'll move on to the other items.

25 Okay, so we're back to section C-4 of the
26 application here, and FortisBC is proposing to

1 continue with the annual review process to provide an
2 opportunity to evaluate performance during the prior
3 year and file forecasts of annually forecasted items.
4 This also recognizes that the annual review process
5 has been a successful tool in communicating the
6 company's performance and activities, and also for
7 understanding issues and challenges facing the
8 companies.

9 **Proceeding Time 11:44 a.m. T33**

10 The annual review is proposed to also
11 include discussion of targeted incentive results and
12 reporting on innovation funding. In terms of
13 forecast, revenue and margins, as part of the annual
14 review process FortisBC will continue to forecast
15 revenues each year for rate setting purposes. And the
16 companies will also continue to flow variances and
17 revenues through the flow-through deferral account.
18 FBC will continue to flow variances in power supply
19 cost through the flow-through deferral account as
20 well.

21 In terms of non-controllable expenses, so
22 similar to the current PBR plans, if certain O&M and
23 capital expenditures, interest rates and tax rates
24 outside of the control of the companies we forecast
25 annually as part of the annual review process
26 variances will flow-through rates. These non-

1 controllable expenses again include income tax rates,
2 interest rates, as well as O&M for things like pension
3 and OPED, insurance premiums, BCUC levies, FEI
4 integrity digs, and investments in a clean growth
5 future. Non-controllable expenses for O&M and capital
6 also include investments and legislatively mandated
7 compliance with climate policy and new mandatory
8 reliability standards.

9 FortisBC is proposing to maintain exogenous
10 factor treatment in this MRP. However, as noted
11 earlier, it proposes to eliminate the materiality
12 threshold. FortisBC proposes that it simply bring
13 forward exogenous factors for discussion at the annual
14 review for the BCUC to determine appropriate
15 treatment.

16 In terms of off-ramps, FortisBC is
17 proposing to maintain the off-ramps in this MRP, that
18 is a plus or minus 200 basis point post sharing off-
19 ramp in any one year or 150 basis points on average
20 for two consecutive years.

21 With that I'm now going to pass it over to
22 Rick to walk you through some further illustrative
23 calculations.

24 MR. GOSSELIN: On April 18th, 20019, the BCUC issued a
25 letter, Exhibit A-3 in the record, requesting
26 additional materials to be filed in advance of the

1 workshop to clarify elements of our application.
2 Included in the letter was a request to explain how
3 variances in capital expenditures will be treated
4 during the MRP term, including the impact of the
5 calculation on annual return on equity, ROE, and the
6 earning sharing mechanism.

7 The next three slides illustrate how
8 variances in capital and other non-flow-through items
9 affect ROE and are shared through the proposed ESM.

10 The first slide illustrates the treatment
11 of variances in regular capital spending. First of
12 all, I'll just refer to all these numbers as millions,
13 although they appear as thousands, because millions is
14 more representative of the magnitude that the
15 utilities experience. So I'll just call the hundred,
16 a hundred million instead of a hundred thousand.

17 So during the rate setting process the
18 utilities use the forecast of capital to determine the
19 revenue requirement and ultimately customer rates.
20 The forecast column here shows that the depreciation,
21 interest and income tax expense on a forecasted
22 capital of \$100 million is about 5.316 million.
23 You'll see that at the bottom line there.

24 The \$5.316 million of costs of service or
25 revenue requirement is imbedded in customers' rates
26 through the approval of revenue requirement.

1 The only other item that is subject to
2 earning sharing is some of the components in other
3 revenue. Line 9 shows a variance -- sorry, shows a
4 forecast of other revenue of \$40 million, and let's
5 assume in this case actual other revenue came in at
6 \$38 million. In this case the variance of \$2 million
7 would actually reduce earnings and achieved ROE.

8 The companies are proposing to a return of
9 a more simplified and common earning sharing
10 mechanism. The mechanism that we propose in this
11 application is the accepted method and used elsewhere,
12 such as in Alberta and Ontario. It is similar to what
13 FEI had approved in its 2004 PBR and that the
14 company's requested in the 2014 PBR application.

15 And ESM is usually something simple like
16 this and we calculate the actual ROE and compare it to
17 the approved ROE and any variances and convert it to a
18 dollar value and share it out. The variances I spoke
19 about in the last couple of slides fall to earnings
20 and effect the achieved ROE. If actuals -- sorry, if
21 the actuals are higher than forecast, the variances
22 reduce earnings and reduce ROE. Conversely, if the
23 variances -- or rather, if the actuals are less than
24 forecast then the variance increase earnings and
25 achieved ROE. In this example the achieved ROE is
26 greater than approved.

1 The earnings sharing mechanism works in the
2 following way: First, we determine the equity portion
3 of actual rate-base. Line 3 is the actual rate base,
4 in this example, multiplied by the approved equity
5 ration of 40 percent. So you see line 3 we have \$2
6 billion as the equity component of rate base.

7 Second, we determine the ROE surplus or
8 deficit by comparing the achieved ROE with the
9 approved ROE. Again, the variance is discussed in the
10 last couple of slides affect earnings in achieved ROE.

11 In this example we assume the achieved ROE
12 is 10 percent. When we compare it to the approved
13 ROE, line 7 shows a 1 percent ROE surplus. We then
14 multiply the ROE surplus by the equity component of
15 rate base and then multiply that by 50 percent to
16 determine the amount we will return to, rather, or
17 recover from in the case of a deficit in ROE customers
18 -- sorry, return to or recover from customers. In
19 this example the result is a \$10 million earning
20 sharings that would be returned to customers.

21 Very exciting, I know.

22 The ECM. Utilities are incented to invest
23 more in efficiencies early in the years of an MRP and
24 less in the last few years. The reason for this is
25 that typically capital efficiencies can take a number
26 of years to pay back and due to rebasing at the end of

1 an MRP term, these efficiencies are returned to
2 customers.

3 **Proceeding Time 11:53 a.m. T35**

4 Efficiency carry over mechanisms are
5 designed to increase the incentive to invest in
6 efficiency throughout the entire term of the MRP.

7 The proposed ECM is simple and balanced. I
8 will walk through an example calculation, but before I
9 do, I want you to keep in mind that the calculation
10 will be used to determine an ROE adder, which is an
11 additional earnings amount that will be added to the
12 revenue requirement for two years after the MRP term
13 has ended. The first table shows an example of the
14 last two years of an MRP, say years 4 and 5.

15 The first item of note is that the earnings
16 that are used to calculate the ROE adder are already
17 after sharing. So in this case, it is \$190 million
18 and 200 million that will be used. And those numbers
19 are already after sharing has been dispersed to
20 customers through years 4 and 5.

21 The second item of note is that we are only
22 using the last two years. This is to incent the
23 companies again to continue finding efficiencies
24 through the entire term of the MRP.

25 The next table is similar to the one that
26 we looked at for the ESM. First we determine the

1 equity portion of actual rate base by multiplying the
2 actual rate base by the approved equity ratio for the
3 last two years of the MRP. In this example, the
4 result is \$2 billion for both years 4 and 5.

5 Second, we divide the earnings after
6 sharing, by the equity proportion of actual rate base
7 to determine the achieved ROE after sharing. In this
8 example, the achieved ROE after sharing equals 9.5 and
9 10 percent for MRP's year 4 and 5 respectively.

10 Then in the third calculation we determine
11 the earnings amount that will be added to the revenue
12 requirement for two years after the end of the MRP
13 term. First we compare the achieved ROE after sharing
14 to the approved ROE. In this example the difference
15 is a half a percent and one percent. This difference
16 is the surplus ROE after sharing, and the ECM is
17 designed to carry over a portion of this for two more
18 years. Provided that the after sharing ROE surplus is
19 positive, an average of the two ROE surpluses is
20 calculated. It is a simple average, and this example
21 it's .75 percent. It is just simply a simple average
22 of the half and the one.

23 This average is then divided by two, and
24 the results are what we call the ROE adder, and it is
25 subject to a maximum of 50 basis points, or a half a
26 percent.

1 Finally, the ROE adder, .38 in this case,
2 is multiplied by the equity proportion of actual rate
3 base from the last year of the MRP term. To determine
4 an earnings amount to be added to the revenue
5 requirement in the following two years. In this
6 example we multiply .38 percent by \$2 billion, and the
7 result is \$7.5 million. The \$7.5 million will be
8 added to the revenue requirement for two years after
9 the end of the MRP term.

10 This approach incents the company to invest
11 in efficiencies through the entire five-year term, and
12 also limits the efficiency carry over by using
13 earnings after sharing and then dividing that ROE
14 surplus in half.

15 Before I move on to the studies, are there
16 any other questions on the ESM variances? And the
17 ECM?

18 In preparation for this application,
19 FortisBC refreshed five studies, including a
20 depreciation study, a league lag study for cash
21 working capital, a shared services study, a corporate
22 services study, and a capitalized overhead study.
23 I'll cover the high level results of these studies and
24 how they effect the revenue requirement over the next
25 two slides.

26

Proceeding Time 11:58 a.m. T36

1 The depreciation study. FEI's change in
2 aggregate rates for depreciation, net salvage, and
3 CIAC is a 0.08 increase, which represents a one-time
4 increase in the revenue requirement of \$3.5 million.
5 B.C.'s aggregate changes plus 0.12 percent, and this
6 is a one-time increase in the revenue requirement for
7 FBC of \$2.2 million.

8 The next study was a lead lag study for
9 cash working capital. There's a lag between when the
10 companies provide services and are paid for those
11 services and the days in between are called the lead
12 lag days. The lead lag study is undertaken to
13 determine the cash working capital required to bridge
14 the gap between the time expenditures are provided and
15 collections are received.

16 FEI's lead lag days decrease by 0.7 days as
17 a result of a 1.7 day increase in expenditures --
18 sorry, expenditure lead days offset by a one day
19 increase in revenue days. This resulted in a revenue
20 requirement change of \$0.2 million negative, it goes
21 down. FBC's net day change was plus 2.8 and resulted
22 in a small increase to FBC's revenue requirement of
23 \$0.1 million.

24 The companies undertook a review of the
25 shared services model and updated it to include a cost
26 driver approach using the Massachusetts former --

1 formula, rather. This approach is more simple to
2 understand and easier to administer and has a minimal
3 impact for FEI and FBC. As you can see, FEI's revenue
4 requirement went down by \$0.3 million and conversely
5 FBC's went up by \$0.3 million.

6 Corporate services study. FortisBC
7 proposes a methodology for allocation of corporate
8 service using the Massachusetts formula. You can see
9 the impacts on the slide there. So the net revenue
10 requirement impact from these two studies is a
11 decrease for FEI of 0.4 million and an increase for
12 FBC of \$0.7 million.

13 And the utilities also undertook a
14 capitalized overhead rate study. The utility -- or
15 FortisBC proposes to move FEI to a 16 percent
16 capitalized overhead rate, this is an increase of 4
17 percent, and leave FBC unchanged at 15 percent.
18 Capitalized overhead rates increased for FEI in
19 alignment with capital activity rates while there was
20 no change for FBC. The methodology use is consistent
21 with prior years' studies and filings. The impact is
22 a one-time decrease in the revenue requirements for
23 FEI of \$13 million and no change for FBC.

24 Before I move -- or before rather I move --
25 pass off the control to Diane, is there any questions
26 on the studies and the revenue requirement impacts?

1 MS. ROY: Thank you, Rick, for that exciting walk
2 through the calculations.

3 MR. GOSSELIN: They're all still awake.

4 MS. ROY: Just a couple about items I noticed I wanted
5 to clarify for the transcript. First of all, I
6 believe I heard Rick say that there was an earning
7 sharing mechanism in Alberta, Ontario and Quebec and
8 in fact there's only earing sharing in Ontario and
9 Quebec, although Alberta does have an efficiency carry
10 over mechanism. So just to clarify that.

11 And I think I also heard him say that the
12 shared services study was done using a Massachusetts
13 method and that is true for the corporate services
14 study, but the shared services study was actually done
15 using a cost driver approach which is more internal to
16 how FortisBC does it.

17 And now I'm going to move on. Oh, you have
18 a question?

19 MR. LOVE: It's Alex from BCMEU again. It says there's
20 five studies updated but we only see four in the --

21 MS. ROY: Yes, so you can see in this table, the first
22 table on slide 40, "Shared study and corporate
23 services study", there's two lines in that table so
24 we've put two studies into one table.

25 MR. LOVE: Okay, thanks.

26 MS. ROY: Thank you. Okay, so moving on to rates. So

1 not been earning a return on during the term of the
2 current PBRs because they fell between the formula and
3 the threshold amounts.

4 And when we look at the O&M side the
5 rebasing means those amounts that Rick walked through
6 on the earlier slide, mostly to do with bringing the
7 2018 amounts into the 2019 base amounts.

8 So those two together -- those amounts
9 together for FEI amounts to \$1.3 million increase into
10 revenue requirement and for FBC it's a 1.5 million
11 increase in the revenue requirement.

12 Second, move onto those studies that Rick
13 just walked us through. Those items when you add them
14 all up will come to \$2.9 million to FEI and \$3 million
15 for FBC.

16 Next, here's the estimate of the items that
17 we'll be bringing forward in our 2020 annual review
18 and a lot of those items I would mention have actually
19 already been approved. So although you see them
20 hitting rates in 2020, they are things that have
21 already been approved.

22 So when you see, for example, the \$39.1
23 million for FEI, that seems like a large number.
24 \$32.2 million of that is for the already approved
25 Burnaby and Coquitlam portions of our Lower Mainland
26 Intermediate Pressure System upgrade CPCN, and

1 similarly for FBC there are other items in there that
2 have already been approved such as Cora Lynn and other
3 deferral account flow-through items that will be
4 appearing in rates in 2020.

5 And then finally we add in here to get a
6 rate impact or a bill impact look, we're adding in the
7 Clean Growth Innovation Fund which we talked about
8 earlier. \$4.9 million for FEI and half a million for
9 FBC. And that gives us our 2020 indicative rates for
10 FEI of 3.2 million -- or sorry, 3.2 percent -- I wish
11 it was \$3.2 million -- and 4.5 million -- percent for
12 FBC. Now those amounts are before consideration of
13 the revenue surpluses that exist at the end of the PBR
14 terms and I think I mentioned those earlier. And so
15 when we take those into consideration there's a
16 potential to reduce the rates for FEI by 4.8 percent
17 and for FBC by 1.3 percent.

18 And just before I move into kind of the
19 wrap-up slide I'd like to pause here. Yes, Sarah?

20 MS. WALSH: Hi, Sarah with the BCUC. I know in your
21 next wrap-up slide you actually mention about the
22 potential interim rate request to be filed in October
23 2019. I'm just wondering if you can maybe give us an
24 idea of what that application might look like and sort
25 of the anticipated level of review, for example. I'm
26 just thinking as one example if you decide to request

1 interim rate approval that incorporates some
2 amortization of the revenue surpluses. You know,
3 would there be -- yeah, I'm just wondering what kind
4 of review process you'd be envisioning.

5 MS. ROY: I don't know if I have a really good answer to
6 that. I know we will be providing summary level
7 financial schedules showing how we've come up with the
8 rate impacts we are proising.

9 **Proceeding Time 12:07 a.m. T38**

10 As far as what kind of a review process,
11 I'm going to have to probably leave that in the hands
12 of the Commission to determine whether it's something
13 the Commission would be comfortable approving on a
14 interim basis without a process or whether that's
15 something we would have to have a process around.

16 I know in the past we've often had interim
17 rate approvals without a process around them.

18 MS. WALSH: Okay, thanks Diane.

19 MS. ROY: Any other questions on the rates slide?

20 Okay, and the final slide here. Next steps
21 in the regulatory process. These are the steps that
22 have already been laid out so far. On May 15th we
23 received BCUC Information Request Number 1; May 23rd is
24 Intervener Request Number 1. Our responses are due on
25 June 17th and we have scheduled a procedural conference
26 at July 9th -- on July 9th, sorry, at which time we will

1 hear from everybody on what the rest of the process
2 should look like.

3 And Sarah already helped me out with this,
4 but as a reminder we will need to set 2020 rates
5 before we get to 2020, so we will have to have interim
6 rates in place because I suspect we will not have a
7 decision in this process before then. So we will try
8 to file -- we will be aiming to file that by the end
9 of October 2019 and then an annual review for 2020
10 rates is going to follow a decision in this
11 proceeding.

12 And I'm going to -- we have some time for
13 questions if there's anything else that anybody else
14 would like to ask about.

15 COMMISSIONER FUNG: I have a question, Ms. Roy. Is
16 Fortis intending to or has already done a
17 comprehensive either internal or external review of
18 the performance of the current PBR?

19 MS. ROY: We have -- I believe we have and that has been
20 filed in Section B2.3, I think. B2.3 of the
21 application, and it spans a number of pages and covers
22 both -- all of the different items that we could think
23 of think of that would be considered in evaluating the
24 current plans.

25 COMMISSIONER FUNG: Okay. Great, thank you.

26 MS. ROY: Any other questions? No?

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Well, that's greater. Thank you all for coming today and appreciate your time and attention to us and looking forward to receiving those information requests.

(PROCEEDINGS ADJROUEND AT 12:10 P.M.)

I HEREBY CERTIFY THAT THE FORGOING is a true and accurate transcript of the proceedings herein, to the best of my skill and ability.



A.B. Lanigan, Court Reporter

May 1st, 2019