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British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Ms. Marija Tresoglavic, Acting Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Inc. Annual Review for 2020 and 2021 Rates ~ Project No. 1599119

We enclose for filing in the above proceeding the Reply Argument of FortisBC Inc., dated December 7, 2020.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by]

Christopher Bystrom

Encl.

BRITISH COLUMBIA UTILITIES COMMISSION

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

AND

FORTISBC INC.

ANNUAL REVIEW FOR 2020 AND 2021 RATES

PROJECT NO. 1599119

REPLY ARGUMENT

OF

FORTISBC INC.

December 7, 2020

TABLE OF CONTENTS

PART ONE: INTRODUCTION AND OVERVIEW

1. This is the first annual review for FortisBC Inc. (FBC or the Company) under the 2020 to 2024 Multi-Year Rate Plan (MRP) approved by British Columbia Utilities Commission (BCUC) Decision and Order G-166-20, dated June 20, 2020 (MRP Decision). In its Annual Review for 2020 and 2021 Rates Application (Application) filed on August 19, 2020,[1] as amended,[2] FBC is seeking approval of both 2020 and 2021 rates, and addressing the outstanding items from the now completed 2014-2019 Performance Based Ratemaking Plan (PBR Plan), such as FBC's 2019 Service Quality Indicators (SQIs). FBC submits that it has presented its 2020 and 2021 revenue requirements in a clear and transparent manner and, through its responses to information requests (IRs) and discussion at the workshop, has responded to the concerns raised by the BCUC and interveners in this proceeding. In this Reply Submission, FBC responds to the concerns and comments raised by interveners in their final submissions. FBC submits that it has justified its approvals sought, and the Application, as amended, should be approved.

2. FBC's updated approvals sought are set out in Appendix B of the Evidentiary Update,[3] and include making permanent the 2020 interim rate increase of 1.00 percent, effective January 1, 2020, and a permanent rate increase of 4.36 percent, effective January 1, 2021. These rates reflect additions to the 2018-2019 Revenue Surplus deferral account in the amount of $0.683 million in 2020 and then drawing down the account by $5.420 million in 2021, bringing the account balance to zero.

3. On October 1, 2020, FBC responded to IRs from the BCUC and interveners, including the British Columbia Municipal Electrical Utilities (BCMEU), British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC,

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[1] Exhibit B-2.

[2] On October 9, 2020, FBC filed an Evidentiary Update correcting an error with respect to the in-service date of the Playmor Station Upgrade project. (Exhibit B-10; see also Exhibit B-6, BCUC IR1 14.3.) On October 28, 2020, FBC filed a further Evidentiary Update revising its revenue requirements, which resulted in amendments to the approvals sought. (Exhibit B-14.)

[3] Exhibit B-14, Appendix B.

and the Tenant Resource and Advisory Centre et al. (BCOAPO),[4] BC Sustainable Energy Association and Sierra Club (BCSEA), Commercial Energy Consumers Association of BC (CEC), Industrial Customers Group (ICG), and Canadian Office and Professional Employees Union, Local 378 (known as Movement of United Professionals or MoveUP). On October 8, 2020, ICG filed a letter with the BCUC requesting that FBC be directed to respond to certain IRs which FBC determined were outside of the scope of this proceeding.[5] On November 13, 2020, the BCUC issued Order G-293-20 agreeing with FBC that the information requested by ICG was outside of the scope of the proceeding.[6]

4. A workshop was held on October 21, 2020, and FBC's presentation materials and the transcript of the workshop were placed on the record in the proceeding.[7] FBC filed responses to undertakings from the workshop on October 28, 2021[8] and filed a second Evidentiary Update, as referenced above. FBC also responded to additional IRs from the BCUC, BCOAPO, BCSEA and CEC on November 23, 2020.[9]

5. On November 29, 2020 and November 30, 2020, BCOAPO, BCSEA, CEC, ICG and MoveUP filed final arguments. The submissions of interveners show broad support for FBC's Application. CEC recommends that the BCUC approve FBC's application as filed.[10] BCSEA supports FBC's approvals sought,[11] as does MoveUP.[12] BCOAPO also supports FBC's Application, subject to recommendations in some discrete areas, which FBC addresses in this submission. ICG takes issue with four aspects of the Application, to which FBC also responds in this submission. FBC has sought to respond to the main points in the submissions of interveners. Silence in this

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4 FBC does not accept BCOAPO's contention that it represents all residential ratepayers. BCOAPO clearly represents a select group of residential customers only.

5 Exhibit C4-3.

6 Exhibit A-8.

7 Exhibit B-13. The Workshop Transcript is available on the Commission's website at: https://www.bcuc.com/Documents/Transcripts/2020/DOC_59591_2020-10-21-Revised-TranscriptVolume1-Workshop.pdf.

8 Exhibit B-15.

9 Exhibits B-18, B-19, B-20 and B-21.

10 CEC Final Argument, p. 1.

11 BCSEA Final Argument, p. 8.

12 MoveUP Final Argument, p. 1.

submission on a particular statement in an intervener submission does not indicate FBC's agreement.

6. In the remainder of this Reply Submission, FBC responds to various comments and recommendations of interveners, making the following points:

(a) FBC will continue with its best efforts to manage the impacts of the pandemic.

(b) FBC's deferral of the 2019 revenue surplus has smoothed rates.

(c) FBC's load forecast is reasonable.

(d) FBC's formula O&M is correctly calculated.

(e) The Playmor Project capital expenditures are in the public interest.

(f) Rate base treatment of deferral accounts is just and reasonable.

(g) Working capital was recently updated and approved in the MRP Decision.

(h) The return on equity (ROE) of BC utilities is out of scope.

(i) The components of Taxes and Other Revenue subject to earnings sharing was determined in the MRP Decision.

(j) Service quality indicators demonstrate FBC is providing a high level of service quality.

PART TWO: REPLY TO INTERVENER COMMENTS

A. FBC WILL CONTINUE WITH ITS BEST EFFORTS TO MANAGE THE IMPACTS OF THE PANDEMIC

7. Interveners are generally supportive of FBC's efforts to mitigate the impacts of the COVID-19 pandemic. Given the impact of the COVID-19 pandemic, it should be recognized, and

the BCUC can take notice, that the governments of Canada and British Columbia continue to develop and implement economic stimulus and related support programs intended to mitigate the pandemic's adverse economic effects. For its part, FBC has taken steps to ensure the safety and well-being of its customers and employees,[13] including by maintaining the operational safety and reliability of its system.[14] FBC has suspended disconnections,[15] offered bill deferrals and credits, promoted and expanded energy savings opportunities and community support, and worked individually with customers to find solutions that work for them.[16] FBC has seen minimal impact to its demand forecast,[17] offset O&M costs with savings,[18] continued with its capital program with minimal impact,[19] and kept service quality high.[20] Ultimately, FBC recognizes that the impacts of the COVID-19 pandemic remain uncertain and these impacts may have unanticipated impacts on the utility and its customers. However, FBC will continue with its efforts to manage those impacts, which to date have been effective.

8. The CEC, however, states that it finds FBC's adjustments to its DSM programs to account for the pandemic "to be less than appropriate" and "would support FBC exceeding its planned efforts, going into a DSM growth period".[21] FBC has already enhanced its DSM programs in response to the pandemic, including by increasing incentives to encourage increased participation. FBC described its enhanced measures as follows:[22]

> To help meet approved DSM expenditure and energy savings levels, FortisBC is supporting the BC Restart Plan, collaborating with program partners BC Hydro and CleanBC, and enhancing incentives to financially support all customers. In the Residential Program Area, FBC is launching a time-limited, pre-qualification period for enhanced heating system incentives from October 1 to December 31, 2020, with the opportunity for equipment installation by March 31, 2021.

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13 Workshop Transcript, Testimony of Ms. Carman, pp. 68 to 71.
14 Exhibit B-13, Workshop Presentation, slides 36-37.
15 Workshop Transcript, Testimony of Ms. Carman, p. 41, ll. 1-2.
16 Exhibit B-13, Workshop Presentation, slide 31. Workshop Transcript, Testimony of Ms. Carman, p. 40, l. 13 top. 41, l. 6.
17 Exhibit B-2, Application, Section 3, Figure 3-1; Exhibit B-13, Workshop Presentation, slide 21.
18 Exhibit B-13, Workshop Presentation, slide 33.
19 Workshop Transcript, Testimony of Mr. Wong, pp. 77, l. 21 to 78, l. 3.
20 Exhibit B-13, Workshop Presentation, slides 36-37.
21 CEC Final Submission, p. 7.
22 Exhibit B-5, BCSEA IR1 1.1.

> To support the construction of high performance homes in an economic downturn, the New Home Program enhanced incentives will remain in the market through 2021. In the Commercial and Industrial program areas, FBC is supporting customers by offering increased incentives through 2021, and modifying the payment structure to support capital project studies and project completion.

9. FBC, however, is limited in its ability to increase uptake in its programs due to the pandemic and other factors.[23] For example, in the context of the commercial programs, Mr. Groves explained at the workshop that FBC has increased incentives, which will continue into 2021, to try to encourage additional participation, but that other factors are inhibiting participation:[24]

> We believe some of the impact has been from COVID, but also just other trends that we've seen. So lower than anticipated participation from municipal and institutional customers, fewer cannabis cultivators have been connecting to our system with new facilities than we expected, and also just a downturn in the wood products manufacturing sector.
>
> It's also led to reduction in the participation in our custom industrial programs.

10. Therefore, while FBC will take CEC's comments into consideration, there are a number of factors beyond FBC's control that may limit increased participation in FBC's DSM programs.

B. FBC's DEFERRAL OF THE 2019 REVENUE SURPLUS HAS SMOOTHED RATES

11. FBC is seeking approval in this proceeding to draw down its 2018-2019 Revenue Surplus deferral account to zero to mitigate the rate increase in 2021.[25] The CEC submits "that deferral accounts carrying significant positive balances forward, essentially become a financing fund for the utility, transferring costs from customers in one year to customers in other years. The CEC finds this to be less than productive for customers."[26] The CEC's submission is misguided. The history of the BCUC's approval of the amounts in the account is described on pages 141-142 of

[23] Exhibit B-5, BCSEA IR1 3.2.
[24] Workshop Transcript, Testimony of Mr. Groves, p. 134, l. 6 to p. 135, l. 18.
[25] Exhibit B-14, Second Evidentiary Update, Appendix B, Draft Order.
[26] CEC Final Submission, p. 23.

FBC's Application.[27] In short, instead of increasing rates in 2018 and decreasing rates in 2019, rates were held steady and the deficiency in 2018 and surplus in 2019 were recorded in the 2018-2019 Revenue Surplus deferral account, which attracted a financing return. The CEC supported FBC's proposal to record the 2019 surplus in the account.[28] This Application has presented the first opportunity for FBC to return the 2019 revenue surplus to mitigate rate increases. As a result, rates from 2018 to 2021 will be smoother than they otherwise would have been.

C. FBC's LOAD FORECAST IS REASONABLE

1. FBC's Forecast Residential and Commercial Customer Counts Are Reasonable

12. BCOAPO submits that the Residential and Commercial customer count forecasts provided in response to BCOAPO IR2 39.5 are reasonable and appropriate.[29] FBC does not recommend the referenced customer count forecasts, which retain the residential and commercial customer growth rates from the Application, as they are not methodologically sound. FBC recommends that the BCUC approve the 2021 year-end residential and commercial customer counts that are supported by FBC's forecasting method.

13. FBC explained why its forecast residential customer count is the most reasonable forecast, as follows:[30]

> FBC maintained its 2021 year-end residential customer count because at this time there is insufficient information to conclude that the variation in monthly additions in 2020 is evidence of any sustained trend or step change in customer additions that would warrant varying from FBC's forecast method for deriving the 2021 year-end customer count. Large monthly swings in customer additions are a common occurrence due to factors such as the time of year and changes in the residential housing market. To the extent that the variation in 2020 is due to the impacts of the COVID-19 pandemic, the extent and timing of any continued impacts are highly uncertain. Accordingly, there is insufficient basis to conclude

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[27] Exhibit B-2, pp. 141-142.

[28] FBC Annual Review for 2019 Rates, CEC Final Submission, page 26, para. 180. Online: https://www.bcuc.com/Documents/Arguments/2018/DOC_52781_2018-11-01-CEC-FinalArgument.pdf

[29] BCOAPO Final Submission, p. 17.

[30] Exhibit B-18, BCUC IR2 38.1.

> that customer additions will in fact be higher by the end of 2021 than previously expected. Moreover, even if one were inclined to believe that the 2021 customer count should be higher, there is insufficient information and no proven forecast method on which to forecast a new 2021 year-end customer count.
>
> Using the best information available, the most reasonable approach is to continue to forecast the 2021 year-end residential customer count based on FBC's forecast method that uses the population forecast from BC STATS. BC STATS provides only annual, not monthly, data. Since there is no new year-end actual data and no new annual BC STATS population forecast with which to produce a new 2021 year-end forecast, FBC left the 2021 year-end customer count forecast unchanged from the value submitted in the Application.

14. FBC similarly explained why its revised commercial customer count is reasonable:[31]

> FBC maintained its 2021 year-end commercial customer count because there is no new information on which to update this forecast. The 2021 year-end commercial customer count is forecast in accordance with FBC's demand forecast methodology, which relies on annual actual FBC customer counts and an annual GDP forecast from the CBOC, and has been shown to produce reasonable forecasts. There are no steps or procedures in the customer forecast method to forecast monthly customer growth.
>
> As explained in the Evidentiary Update, FBC updated the December 2020 customer totals using a time series linear regression of actual customers through to September 2020. However, since FBC has no new evidence (in the form of a new year-end actual or a new annual GDP forecast) with which to produce a new 2021 year-end forecast, FBC left the 2021 year-end customer count forecast unchanged from the value submitted in the Application.

15. FBC also explained why the forecast recommended by BCOAPO is not reasonable:[32]

> The alternative method suggested in IRs would be to hold the monthly growth rates at the level reflected in the Application to arrive at a new 2021 year-end customer count. This is not a reasonable or methodologically sound approach because the growth rates are only a by-product of the forecast year-end customer counts. That is, the growth rate is simply the monthly profile needed to get from one year-end point to the next. Consequently, the 2021 growth rate in the Application was a by-product of the projected 2020 customer count, which has now been rejected in light of actual customer counts to date, and the 2021

[31] Exhibit B-18, BCUC IR2 38.4.

[32] Exhibit B-18, BCUC IR2 38.1.

> customer count. As the originally forecast 2020 year-end customer count has been rejected in favour of the actual customer count to date, using a growth rate that is simply a by-product of the rejected 2020 forecast number would not be reasonable.

16. In response, BCOAPO argues that the customer counts experienced in the first 9 months of 2020 "point to a consistent rate of growth that is higher than what has been forecast by FBC" and "there is no reason to suggest that all future customer counts through to the end of 2021 will not be higher than those forecast by FBC."[33] There are a number of flaws with this argument:

- First, BCOAPO's proposed customer counts for year-end 2021 are <u>not</u> based on the first 9 months of actual data in 2020, but are instead based on the growth rates in the Application, which were a by-product of the now revised 2020 year-end customer counts. The result is that the 2021 year-end customer counts proposed by BCOAPO have no reasonable foundation.

- Second, FBC's revised forecast residential and commercial customer counts in the Evidentiary Update adjusts for the first 9 months of actual data in 2020. The result is that the monthly forecast customer counts are in fact higher in each month of 2021 than were originally forecast in the Application. This shows how FBC's updated forecast has accounted for the most recent information available.

- Third, FBC's 2021 year-end customer count is based on a proven forecast methodology using the BC STATS population forecast data for the residential customer count and the annual GDP forecast from the CBOC for the commercial customer count. This is the best data available, and FBC's forecast methods have been used for many years and have proven to be reasonably reliable.

17. While the pandemic has created greater uncertainty than usual, inventing new forecast methods on an *ad hoc* basis and without any testing, as BCOAPO proposes, can only increase that uncertainty. In the face of uncertainty and lack of any better data or methodology, it is preferable to stick to FBC's proven forecast methodology and retain the 2021 year-end customer count based on the BC STATS and CBOC forecast data.

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33 BCOAPO Final Submission, p. 17.

2. FBC's Forecast Residential and Commercial UPCs Accurately Account for DSM Savings

18. BCOAPO submits that FBC has double-counted DSM savings in its residential and commercial UPC forecast.[34] Contrary to BCOAPO's submission, FBC has accurately accounted for DSM savings from both past programs and new programs.

19. The error in BCOAPO's argument is the failure to maintain the distinction between the continuing DSM savings from past programs and the incremental DSM savings from new programs. While savings from past DSM programs will be reflected in historical actual values, the incremental savings from new programs will not be. Thus, FBC explained that the DSM savings from past programs are embedded in the historical actuals used in the forecast, while incremental DSM savings from new programs are deducted in a separate step. For the residential UPC, FBC explained as follows:[35]

> The cumulative savings per customer are embedded in the historical actuals used to forecast future UPC. As a result, the before-savings forecast UPC slope as shown in Table A3-3 includes the impact of the cumulative DSM. The slope assumes that DSM programs and adoption will continue at historical levels. New DSM programs are accounted for with incremental DSM, which is subtracted from the before-savings forecast to arrive at the after savings forecast.

20. FBC provided a similar explanation for the commercial UPC forecast.[36]

21. Therefore, there is no double counting in FBC's residential and commercial UPC forecasts.

D. FBC's FORMULA O&M IS CORRECTLY CALCULATED

1. The 2019 Base O&M is Correctly Calculated

22. BCOAPO submits that "[n]otwithstanding the Commission's past approval of the 2019 Base O&M and UCOM values, the BCUC should consider revising the 2019 Base O&M to reflect

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[34] BCOAPO Final Submission, pp. 20 and 21.
[35] Exhibit B-4, BCOAPO IR1 8.6.
[36] Exhibit B-4, BCOAPO IR1 9.3.

the actual AMI savings now known."[37] FBC submits that the 2019 Base O&M was approved by the MRP Decision, which has not been the subject of a reconsideration request, and therefore should not be reconsidered or varied in this proceeding.

23. Further, the 2019 Base O&M remains reasonable and BCOAPO's suggestion to update the 2019 Base O&M for one line item of costs is cherry picking the data and is not warranted. FBC explained how the 2019 Base O&M was set in relation to AMI savings, as follows:[38]

> The 2019 Approved Base O&M and UCOM captures the impact of the 2019 Approved AMI costs and savings, rather than the 2019 actual amounts. FBC's 2019 actual information was not available during the MRP proceeding and FBC's best information at the time the MRP Application was filed was that the Actual net savings would equal the Approved. As such, $1.161 million in net AMI savings is embedded in the Base O&M and UCOM approved by the BCUC in the MRP Decision (page 118).

24. As indicated above, the 2019 Base O&M was based in part on 2019 Approved amounts, which was the best information available at the time. The fact that there was a minor variance between forecast and actual AMI savings is to be expected, and does not undermine the reasonableness of the BCUC's determinations setting the 2019 Base O&M. The 2019 Base O&M was set in a fair and reasonable way and is part of an overall formula that will provide a reasonable level of funding to FBC over the 5-year MRP term. Updating singular line items that happen to go in a direction that favours BCOAPO's interest would be cherry-picking, as there is a much more complex set of forecasts and calculations that would have to be considered to truly update the 2019 Base O&M for 2019 actual amounts. In FBC's submission, the 2019 Base O&M remains reasonable and BCOAPO's request should be rejected.

2. The Inflation Factor Is Correctly Calculated

25. As part of FBC's formula O&M, FBC has used an inflation factor (I-factor) based on the June AWE-BC results from Statistics Canada, calculated in accordance with the MRP Decision.[39]

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[37] BCOAPO Final Submission, p. 37.
[38] Exhibit B-4, BCOAPO IR1 16.1.
[39] Exhibit B-14, p. 3.

The CEC[40] supports FBC's calculation of the I-Factor, and MoveUP,[41] and BCSEA[42] each support FBC's proposed rates for 2021. However, BCOAPO recommends "adjusting the AWE for 2021",[43] and the ICG recommends the use of the 2020 AWE in place of the 2021 AWE.[44] FBC submits that the I-factor should not be varied from the formula approved by the BCUC for three reasons.

26. First and foremost, the I-factor formula was specifically approved in the MRP Decision. In the MRP Decision, the BCUC set out the I-factor formula precisely, as follows (at page 48):

> **Based on these findings the Panel determines that the I-factor formula will be as follows:**
>
> $$\mathrm{I} = \mathrm{X}\ \ x\ AWE{:}BC_{t-1} + \mathrm{Y}\ \ x\ CPI{:}BC_{t-1}$$
>
> **Where:**
>
> - **I = Inflation Factor**
> - **AWE:BC = labour index**
> - **CPI:BC = non - labour index**
> - **t - 1 = most recent July to June value**
> - **X = the previous year's labour ratio; and**
> - **Y = the previous year's non-labour ratio.**

The approved I-factor is also interconnected with the approved productivity factor, which may also be negatively impacted by the pandemic.[45] The MRP also has approved "off-ramps", and there is no indication that these "off-ramps" are even close to being reached.

27. Second, any adjustment to AWE-BC would be arbitrary. While it is clear that the pandemic has impacted AWE-BC, it is not possible to quantify that impact.[46]

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40 CEC Final Submission, p. 12.
41 MoveUP Final Submission, p. 6.
42 BCSEA Final Submission, p. 8.
43 BCOAPO Final Submission, p. 14.
44 ICG Final Submission, pp. 7 to 8.
45 Exhibit B-15, Undertaking No. 1.
46 Exhibit B-4, BCOAPO IR1 4.2.

28. Third, any impact of COVID-19 on AWE-BC is likely to be offset in future years and insignificant over time. FBC explained:[47]

> …while in 2021 the increase to Formula O&M has been higher due to the higher I-Factor, this trend will likely reverse in 2022 as the labour impacts from COVID-19 lessen and AWE returns to more normal levels. The potential decrease in BC-AWE in 2021 will reduce, or potentially even create a negative I-Factor, which when applied to the calculation of 2022 Formula O&M would result in a smaller increase or decrease to the 2022 Formula O&M amount relative to 2021. Therefore, the impact on 2021 revenue requirements may be offset in subsequent years.

More generally, it should be expected that the I-factor in any given year may be different from the actual inflationary pressures experienced by the utility; however, variances will tend to be insignificant when looked at over a longer period of time.[48]

29. FBC submits that the I-factor as approved by the BCUC in the MRP Decision should be followed.

E. PLAYMOR PROJECT CAPITAL EXPENDITURES ARE IN THE PUBLIC INTEREST

30. FBC is seeking to recover capital expenditures of $10.331 million associated with the Playmor Station Upgrade project (Project) pursuant to section 44.2 of the UCA.[49] In the MRP Decision, the BCUC approved a CPCN threshold for FBC of $20 million and, as such, a CPCN is not required for the Project.[50] BCOAPO, BCSEA, CEC and MoveUP broadly support the need for the Project,[51] as described in the business case provided in the Application and in response to

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[47] Exhibit B-15, Undertaking No. 1.
[48] Exhibit B-15, Undertaking No. 1.
[49] Exhibit B-10, Evidentiary Update, p. 1.
[50] MRP Decision, pp. 132-133.
[51] BCOAPO Final Argument, p. 47; BCSEA Final Argument, p. 8; CEC Final Argument, para. 125; MoveUP Final Argument, p. 4. In reply to BCOAPO's submission (at p. 47-48) that clarity is required "as to when and under what conditions back up capacity should be available to restore power to all customer in the event of a single contingency such as the outage of a distribution station transformer", FBC applies the Distribution Planning Criteria set out in its tariff (Exhibit B-8, BCUC IR1 30.4) as described by Mr. Corbett at the workshop (Transcript, p. 126, l. 1 to p. 127, l. 13).

IRs.[52] FBC submits that the Playmor Project is in the public interest and that it is just and reasonable for the Playmor Project's capital expenditures to be approved for recovery in rates as of its in-service date of January 1, 2022.

31. ICG submits that the Playmor Project's capital expenditures should not be approved by the BCUC because FBC ought to have forecast the Project as part of its forecast Regular capital expenditures approved in the MRP Decision.[53] In FBC's view, it is unreasonable to expect FBC to have forecast uncertain growth-driven projects such as the Playmor Project.[54] In particular, FBC does not consider it to be prudent or in the best interest of customers to include expenditures related to potential undefined projects within the forecast of Regular capital expenditures.[55] FBC recognized the possibility of additional capital expenditures as part of the MRP proceeding, stating that it "may identify new projects and programs that need to be added over the term of the Proposed MRP".[56] The MRP Decision does not prevent FBC from applying for approval of capital expenditures as part of the Annual Review process.

32. Furthermore, it is unreasonable for FBC to be strictly "held" to its capital forecasts to accommodate a growth-driven project in its approved forecast, where the project's need has materialized after the capital forecast has been approved.[57] While FBC does not agree with CEC's characterization that seeking approval for the Project amounts to "another failing of the MRP regime",[58] especially as this is only the first year of the MRP term, CEC is correct that a utility's ongoing activities cannot always be accommodated within approved forecast amounts.[59] As Ms. Roy explained during the workshop, the cost of the Project places it "well in excess of any other larger projects we have in that envelope" and as a result FBC is unable to

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[52] Exhibit B-10, Evidentiary Update, p. 1; Exhibit B-6, BCUC IR1 14.1-14.3, 14.4, 30-34.5; Exhibit B-4, BCOAPO IR1 21-23; Exhibit B-7, CEC IR1 14-17.1; Exhibit B-8, ICG IR1 9-10.1.

[53] ICG Final Argument, p. 6.

[54] Exhibit B-6, BCUC IR1 14.1.

[55] Exhibit B-6, BCUC IR1 14.1.

[56] Exhibit B-6, BCUC IR1 14.1; see also FortisBC Multi-Year Rate Plan Application for 2020 to 2024, p. C-106. Online: https://www.bcuc.com/Documents/Proceedings/2019/DOC_53564_B-1-FortisBC-2020-2024-Multi-YearRatePlan-Application.pdf

[57] ICG Final Argument, p. 6.

[58] CEC Final Argument, para. 123.

[59] CEC Final Argument, para. 123.

include these expenditures as part of its Regular capital.[60] Therefore, the magnitude of the capital expenditures associated with the Project cannot be accommodated within the approved Regular capital forecast.

33. ICG disagrees with FBC's characterization of the Playmor Project as being predominantly in response to load growth, and argues that FBC should have forecast the need for the Project because it was aware of existing reliability concerns and aging infrastructure at the Playmor substation.[61] While ICG is correct that the Project has multiple drivers, in addition to new customer load requests, at the time of preparing the MRP capital plan FBC had no reasonable expectation that the Project would be required. FBC had not yet received requests to serve new load, which accelerated the need for the Project.[62] As FBC explained in response to BCOAPO IR1 22.1, if only aging infrastructure and equipment condition were considered, the PLA transformer would need to be replaced by 2026 (beyond the current MRP term).[63]

34. As described in the MRP Decision, FBC's rationale for changing from a formula approach to forecast approach was in response to year-to-year variability in capital expenditures. While ICG is correct that FBC's forecast capital expenditures have increased 30 percent in 2020, as compared to an average of $91 million from 2017 to 2019, FBC does not regard this as a useful measure of whether the Playmor Project should be approved.

35. Ultimately, section 44.2 of the UCA provides a clear and transparent regulatory path for FBC to seek acceptance of the project expenditures, by which the BCUC can review and accept or deny new capital expenditures that cannot be accommodated within FBC's Regular capital expenditures envelope over the term of the MRP.[64] FBC submits that the evidence demonstrates that the Playmor project capital expenditures are in the public interest and that the expenditure schedule should be accepted.

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[60] Workshop Transcript, testimony of Ms. Roy, p. 132, ll. 8-11.
[61] ICG Final Argument, p. 6.
[62] Exhibit B-6, BCUC IR1 14.1.
[63] Exhibit B-4, BCOAPO IR1 22.1.
[64] Exhibit B-6, BCUC IR1 14.1.

F. RATE BASE TREATMENT OF DEFERRAL ACCOUNTS IS JUST AND REASONABLE

36. FBC is seeking approval of rate base deferral accounts as set out in sections 7.7 and 12.4 of the Application.

37. ICG argues that FBC is bound to follow principles (b), (c) and (d) from Order G-110-12 regarding FBC's 2012-2013 RRA, which can be summarized as follows:[65]

> (b) Deferral accounts are regulatory assets, not true capital assets; therefore, it is more appropriate for deferral accounts for non-capital items to earn an interest rate of return, not a rate base rate of return.
>
> (c) For deferral accounts for non-capital items which are amortized beyond one year, the appropriate return is the utility's Weighted Average Cost of Debt (WACD). For deferral accounts for non-capital items which are amortized over a period of one year or less, the appropriate return is the utility's short-term interest cost.
>
> (d) For deferral accounts related to capital, the appropriate return is the utility's Weighted Average Cost of Capital (WACC).

38. FBC disagrees with ICG's interpretation of the law and the effect of Order G-110-12.

39. Order G-110-12 is not like BCUC Order G-47-14 setting FBC's cost of capital. By its terms, Order G-47-14 fixes FBC's cost of capital for the purpose of this proceeding, and all proceedings setting FBC's rates until the BCUC orders otherwise. Changing FBC's cost of capital would require the BCUC to reconsider Order G-47-14. In contrast, Order G-110-12 sets out principles that can provide guidance to, but cannot bind, other BCUC panels. By its terms, Order G-110-12 does <u>not</u> set the financing treatment of the deferral accounts that are the subject of this proceeding. Rather, Order G-110-12 is a guide or precedent which the BCUC can consider in its

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[65] FortisBC Inc. 2012-2013 Revenue Requirements and Review of 2012 Integrated System Plan Decision, August 15, 2012, p. 105. Online: https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/111620/1/document.do

decision making. However, the principles set out in Order G-110-12 cannot bind the panel in this proceeding, as that would be an unlawful fettering of its discretion.[66]

40. In a recent decision where the BCUC was faced with conflicting precedents, the BCUC concluded:[67]

> The BCUC is not bound by precedent, pursuant to section 75 of the UCA, although the BCUC seeks to make decisions that are consistent with prior practice, or to explain why the present circumstances support a different decision. In this instance, the Panel has considered a variety of conflicting prior practice, both from PNG (N.E.) and FEI, and considers that no decision could be consistent with all recent or historical decisions. For these reasons, the Panel reaches this decision on its own merits, considering the evidence from this proceeding, and considers that it is consistent with regulatory principles and the vast majority of past practice.

41. Similarly, the panel in this proceeding can consider Order G-110-12 but must make its decision based on the merits of the case, including the law and regulatory principles applicable to the financing of deferral accounts.

42. FBC has been clear since the issuance of Order G-110-12 that it views principles (b), (c) and (d) from that Order as incorrect and anomalous. The BCUC has never applied these principles to FortisBC Energy Inc. and it did not apply them to FBC prior to Order G-110-12. Moreover, the BCUC has not applied them in its recent decisions but has instead approved rate base or weighted average cost of capital (WACC) treatment of deferral accounts. In the MRP Decision, the BCUC approved a rate base deferral account for variances between forecast and actual BCUC Levies financed at FBC's WACC, and a non-rate base Earnings Sharing deferral account attracting WACC. As part of Order G-133-20 regarding FBC's Application for Approval of the COVID-19 Customer Recovery Fund Deferral Account, the BCUC approved the deferral

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66 Section 75 of the *Utilities Commission Act* states: "The commission must make its decision on the merits and justice of the case, and is not bound to follow its own decisions."

67 Pacific Northern Gas (N.E.) Ltd. Application for Approval of the 2019 Franchise Agreement between Pacific Northern Gas (N.E.) Ltd. and the City of Fort St. John Decision and Order G-307-20 December 1, 2020, p. iii. Online: https://www.bcuc.com/Documents/Other/2020/DOC_59977_PNGNE-FSJ-2019Franchise-Agreement-Decision-and-Order-G-307-20.pdf

account to be treated as rate base. In the above proceedings, the BCUC did not follow Order G-110-12, and FBC submits that it should not follow Order G-110-12 in this proceeding either.

43. FBC explained why rate base treatment is the correct treatment for its proposed deferral accounts, as follows:[68]

> FBC considers that rate base treatment of its deferral accounts is the correct regulatory treatment because it results in the amounts expended on behalf of customers (or, if credits, collected from customers) being financed for rate making purposes at the same rate they are financed by the utility. FBC plans to request a rate base treatment (or weighted average cost of capital return) for new deferral accounts in most circumstances.
>
> Deferrals attract a rate base rate of return (or an equivalent weighted average cost of capital return for non-rate base deferral accounts) to recognize the financing costs that are associated with the timing difference when there is an outlay of funds and when those costs are recovered from ratepayers (or between when there are costs recovered from customers that will subsequently be returned).
>
> The rate base treatment is consistent with the approved regulatory treatment of other items where there is a deferred recovery of FBC costs financed by the utility:
>
> - Capital expenditures are included in rate base and earn a rate base rate of return because there is an outlay of cash in one year and a recovery in subsequent years that is being financed by the utility. This is equivalent to a deferred cost.
>
> - To the extent there is a timing difference between when revenues and operating expenses are incurred and recovered within a year, the financing of this is recognized through the inclusion of a working capital component in rate base, often supported by a lead lag study such as that recently approved in FBC's MRP Decision.

44. In short, rate base treatment is the correct treatment because it reflects FBC's <u>actual</u> cost to finance the deferral of the recovery of its costs. FBC's evidence as to its actual costs of

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[68] Exhibit B-4, BCOAPO IR1 27.1.

financing its deferral accounts has not been contradicted in this proceeding, or any previous decision of the BCUC.

45. In the Decision accompanying Order G-110-12, the Panel found that a rate base return was not appropriate due to how the underlying costs were viewed from an accounting perspective:[69]

> It is only amounts which would otherwise be required to be expensed under standard accounting principles for which deferral account treatment is needed. However, in the Panel's view, amounts which represent operating costs or other costs which would commonly be expensed as current period charges but which are deferred for rate-smoothing purposes do not become capital investments, simply by the fact of the deferral. Normally, a utility, whether a Crown corporation or shareholder-owned, is not entitled to receive a return on operating costs or current period charges but simply recovery of those amounts from its ratepayers, assuming recovery is otherwise justified. Current period changes are not "investments" which attract a capital return, they are deferred operating costs/current period expenses which, as note above, in the Panel's view, should not attract rate base rate of return. **The Panel finds that a more appropriate financing cost is an interest return.**

46. With respect, the reasoning in the quote above is flawed and should not be followed. The nature of the costs in the deferral account (i.e., operating vs. capital) is irrelevant. Regardless of the nature of the costs, a deferral account creates a timing difference between when there is an outlay of funds and when those costs are recovered from ratepayers. That timing difference gives rise to financing costs. The undisputed fact is that FBC incurs costs to finance its deferral accounts at its WACC. This is determinative of the issue.

47. Moreover, FBC's actual costs of financing its deferral accounts are necessarily prudently incurred, as they are required to comply with a BCUC order. The BCUC has long recognized the

[69] FortisBC Inc. 2012-2013 Revenue Requirements and Review of 2012 Integrated System Plan Decision, August 15, 2012, p. 105. Online: https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/111620/1/document.do

right of a public utility to a reasonable opportunity to recover its prudently incurred costs to provide service to customers.[70]

48. Therefore, in FBC's respectful submission, denying FBC a rate base return on its deferral accounts would be an error of law as it would unreasonably and unjustifiably deny recovery of FBC's prudently incurred costs, which would prevent FBC from earning a fair return on its investment in the provision of utility service to its customers.

49. FBC respectfully requests that the BCUC not follow the principles in Order G-110-12, as it has declined to do on numerous other occasions. Instead, FBC requests that the BCUC approve the rate base deferral accounts as proposed in the Application which will allow FBC to recover its prudently incurred costs and earn a fair return.

G. WORKING CAPITAL WAS RECENTLY UPDATED AND APPROVED IN THE MRP DECISION

50. BCOAPO "submits that FBC should be expected to address, if asked in future Annual Reviews, the extent to which customers continue to move to monthly billing and update the parameters used in its working capital calculations if the changes are material."[71] The BCOAPO's request relates to adjusting working capital calculations in future test periods in hypothetical circumstances, and is therefore speculative. Further, there should be no need to adjust working capital calculations over the term of the MRP. FBC periodically updates its lead-lag studies, and its most recent lead-lag study was approved in the MRP Decision. Notably, the average annual impact of the changes to working capital from 2016 to 2019 was only $40 thousand. As there are many components to a lead-lag study, each of which could influence the number of lead-lag days, FBC would need to update all the components rather than just the one component that

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[70] For example, in Decision and Order G-84-19, April 16, 2019, pp. 13-14, the BCUC stated: "Section 59(5) of the UCA defines what is unjust or unreasonable and embodies the regulatory compact… In basic terms, the regulatory compact ensures that the public utility has a reasonable opportunity to recover its prudently incurred costs and earn a fair return on its investment, while ensuring that customer rates are not set to recover excessive profits for the nature and quality of the service provided." Online: https://www.bcuc.com/Documents/Proceedings/2019/DOC_53819_2019-04-16-FAES-DeltaSD-DecisionWEB.pdf.

[71] BCOAPO Final Submission, p. 54.

BCOAPO has cherry-picked as it may trend in favour of BCOAPO's interests. For these reasons, FBC submits that it would not be cost effective to update the lead-lag study again during the term of the MRP.[72]

H. RETURN ON EQUITY OF BC UTILITIES IS OUT OF SCOPE

51. BCOAPO notes that the ROE values established in Orders G-129-16 and G-47-14 are fixed and states that there is a need for the BCUC to undertake an assessment of whether there should be a fulsome review of the appropriate ROE for BC utilities.[73] Consistent with Order G-293-20 in this proceeding, FBC submits that assessing the ROE of BC utilities is outside the scope of this proceeding. There is no evidentiary foundation on which to argue this issue or on which the BCUC could make a reasonable decision, nor would it be procedurally fair for the BCUC to do so, given that it would effect all utilities in BC and no party has had notice that such an issue would be addressed in this proceeding.

I. TAXES AND OTHER REVENUE SUBJECT TO EARNINGS SHARING WAS DETERMINED IN THE MRP DECISION

52. The CEC submits that it would be appropriate in the next Annual Review for FBC to provide an analysis of any tax variances that contribute to ROE, and an explanation as to why the change occurred.[74] No such explanation is necessary. The issue of tax variances that are subject to earnings sharing was determined by the BCUC in the MRP Decision. The MRP Decision states at page 74:

> **The Panel approves FortisBC's proposal for forecast variances in controllable depreciation, interest and <u>tax expenses</u> be subject to ESM rather than flow-through treatment.** As discussed in the Panel's determination on the ESM in Subsection 3.2.9, the proposal to share forecast variances in controllable depreciation, interest and <u>income taxes</u> is appropriate given the controllable nature of these items and provides further incentive to manage costs efficiently.

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[72] Exhibit B-6, BCUC IR1 35.1; Workshop Transcript, Testimony of Diane Roy, p. 145, l. 13 to p. 146, l. 14.
[73] BCOAPO Final Submission, p. 56.
[74] CEC Final Submission, p. 21.

> The Panel rejects the CEC's recommended approach to the treatment of depreciation, interest and income taxes. As noted above, the Panel considers these costs to be reasonably controllable. Regarding the CEC's comments related to windfall gains and losses for either ratepayers or the Utilities, the Panel notes that under the Current PBR Plans these variances have flow-through treatment subjecting ratepayers to 100 percent of the risk with little incentive for the utility to control the related costs. [Underlining added.]

53. In response to the CEC's comment that the increase in Other Revenue is a "windfall",[75] the Panel similarly approved the treatment of controllable components of Other Revenue in the MRP Decision at page 74:

> **The Panel approves FortisBC's proposal for forecast variances related to certain controllable Other Revenue components to be subject to the ESM rather than flow-through treatment.** These controllable Other Revenue items approved are listed in Table 20 above. The Panel accepts FortisBC's assertion that these items are generally controllable. Therefore, including variances in forecast in the ESM will increase the incentive to control costs and find efficiencies and any resulting benefits will be shared with ratepayers.

J. SERVICE QUALITY INDICATORS INDICATE A HIGH LEVEL OF SERVICE QUALITY

1. SAIDI and SAIFI Benchmarks and Thresholds Should be for the Entire MRP Term

54. The interveners either support[76] or do not oppose[77] FBC's proposed benchmarks and thresholds for the System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) SQIs. However, ICG requests that they be approved only for 2020 and 2021.[78] ICG offers no rationale for its request and, in FBC's submission, it has no merit. Consistent with all the other benchmarks and thresholds approved for the MRP,[79] the benchmarks and thresholds for the SAIDI and SAIFI SQIs should be approved for the entire MRP term.

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75 CEC Final Submission, p. 10.
76 CEC Final Submission, p. 27.
77 BCSEA Final Submission; MoveUP Final Submission; BCOAPO Final Submission, p. 69.
78 ICG Final Submission, p. 7.
79 FBC also notes that the benchmarks and thresholds in the 2014-2019 PBR Plan were also set for the entire PBR Plan.

55. Having benchmarks and thresholds that change year to year would be contrary to the purpose of SQIs to monitor performance. It is instructive in this regard that the MRP Decision rejected ICG's request for a rolling average benchmark and threshold for SAIDI and SAIFI. The Panel stated (at page 95):

> In the view of the Panel, a rolling three-year average benchmark would make it difficult to detect changes in service quality and therefore, rejects ICG's suggestion that FBC calculate the benchmark on that basis.

56. In addition, if the benchmark and threshold are not set for the MRP term, it will be unclear to FBC what level of service quality it should be targeting.

57. FBC therefore requests that its proposed SAIDI and SAIFI benchmarks and thresholds be approved for the term of the MRP, consistent with all the other benchmarks and thresholds.

2. SQI Performance between Threshold and Benchmark Is Acceptable

58. The CEC submits that "it is important that SQI results that lie between Threshold and Benchmark are not treated as 'acceptable' but identified as requiring improvement to meet Benchmark in the following year."[80] While FBC agrees that it should be targeting the benchmarks, the BCUC has previously determined that performance between the benchmark and the threshold is acceptable.

59. The MRP Decision, at page 99, determined "that the existing approved process for interpreting metric performance is to remain in effect over the term of the MRPs". The BCUC addressed performance between the benchmark and threshold in its Decision approving FBC's 2014-2019 PBR Plan, at page 154:[81]

> The Commission Panel agrees with Fortis and determines that it is not appropriate to require Fortis to be held to a specific performance benchmark for the following reasons. First, it does not take into account why SQIs are part of the PBR in the first place; that is to help mitigate the potential of serious

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[80] CEC Final Submission, p. 25.

[81] FortisBC Energy Inc. Multi-Year Performance Based Ratemaking Plan For 2014 Through 2018, Decision, dated September 15, 2014, p. 154. Online: FBC PBR Plan Decision.

> degradation of service levels. Does being a percentage point below a prescribed performance benchmark result in a serious degradation of service? In most cases a drop of this amount would have minimal impact yet could result in a penalty being imposed. Second, there is the issue of averages. If averages are relied upon to determine the performance benchmarks it follows that results will fall below the benchmark approximately one half of the time. **Taking these points into consideration, the Commission Panel determines that the most effective way to manage SQIs is to set a satisfactory performance range.** The achievement of performance metrics that fall within this range is acceptable. [Underlining added.]

60. Further, the Consensus Recommendation setting out the performance ranges for the 2014-2019 PBR Plan, which was approved by the BCUC,[82] states that one of the objectives of the performance range is to "give due recognition to normal volatility which may produce SQI scores inferior to the benchmarks that do not represent serious degradation of service".[83]

61. The Consensus Recommendation also specifies that FBC will provide additional explanation on an SQI at an Annual Review "if the SQI score in two successive calendar years during the term of the PBR Plan has been between the benchmark and the threshold." FBC will continue to follow this practice.

3. Emergency Response Time Results are Acceptable

62. As reported on page 148 of the Application and updated on slide 37 of the workshop presentation, FBC's emergency response time was 92 percent in 2019, which is 1 percent below the benchmark and 2 percent over the threshold. The August 2020 year-to-date results are also at 92 percent.

63. The CEC recommends that "the Commission direct FBC to ensure that its Emergency Response time is improved to meet Benchmark over the coming year".[84] No such direction is warranted. First, as discussed above, FBC's 2019 results are within the satisfactory performance range and are therefore acceptable. Second, FBC's 2020 year-to-date results do not reflect the

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[82] An Application by FortisBC Energy Inc. and FortisBC Inc. for Approval of the Service Quality Indicator Performance Ranges, Order G-14-15, dated February 4, 2015. Online: Order G-14-15.

[83] Appendix A to Order G-14-15 Page 5 of 10, s. 1, b.

[84] CEC Final Submission, p. 26.

final results for the year and therefore may change. FBC will report on its 2020 final results in the next Annual Review. In accordance with the Consensus Recommendation, if the emergency response time performance continues to be below the benchmark, FBC will provide further information. Third, FBC's 2019 result was only 1 percent below benchmark, and this is the first time since 2014 that FBC has been below the benchmark for this SQI.[85] FBC explained:[86]

> While there is volatility in the annual performance of this metric, primarily due to the volume and location of outages, for the six-year period from 2014 through 2019, FBC's average performance was slightly above the benchmark of 93 percent. Moreover, in all six years, performance was better than the threshold. FBC reviews emergency response time performance regularly and uses that information to improve internal workflows and inform staffing decisions across our service area to balance service levels and cost.

FBC submits that its emergency response time performance in 2019 is acceptable and that, as FBC will be reporting on its 2020 performance in the next Annual Review, no direction is required at this time.

4. Generator Forced Outage Rate (GFOR) Performance is Consistent with Past Results

64. The GFOR is an informational indicator which measures the percentage of time in one year that the generating units experienced forced outages compared to the amount of time they could have operated without a forced outage.[87] FBC's GFOR in 2019 was 0.1 percent, which is very low.[88] FBC's 2020 August year-to-date results are higher at 1.7 percent.[89] The CEC submits that it "would be appropriate for the Commission to continue to monitor the GFOR and request FBC to conduct potential remediation activities if the increases continue during the MRP."[90] FBC explained at the workshop that the GFOR has been higher in 2020 due to an outage at UBO unit number 1 in June of 2020 and an outage at the South Slocan generation unit number 2 in August of 2020, related to a malfunctioning overspeed switch. FBC has already

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85 Exhibit B-2, Application, p. 148.
86 Exhibit B-7, CEC IR1 22.1.
87 Exhibit B-2, p. 156.
88 Exhibit B-13, p. 37.
89 Exhibit B-13, p. 37.
90 CEC Final Submission, p. 27.

taken corrective actions for UBO unit number 1 and made temporary repairs on South Slocan unit number 2.[91]

65. FBC notes that 2020 results are not final. Consistent with the BCUC's direction issued in its Reasons for Decision accompanying Order G-44-16 in FBC's All Injury Frequency Rate Compliance Filing, each Annual Review should evaluate the previous year's SQI results. FBC will report on its 2020 SQI performance in the next Annual Review.

PART THREE: CONCLUSION

66. The final submissions of interveners broadly support FBC's Application, reflecting a constructive information-sharing process undertaken through IRs and the workshop. FBC submits that its approvals sought are just and reasonable and should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated:	December 7, 2020	***[original signed by Chris Bystrom]***
		Chris Bystrom
		Counsel for FortisBC Inc.
Dated:	December 7, 2020	***[original signed by Niall Rand]***
		Niall Rand
		Counsel for FortisBC Inc.

91 Workshop Transcript, p. 94, ll. 7-17.