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British Columbia Utilities Commission
6th floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Erica Hamilton
Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. (FEI)
Application for Approval of 2015 Delivery Rates pursuant to the Multi-Year
Performance Based Ratemaking Plan Approved for 2014 through 2019 by
Order G-138-14

We enclose for filing in the above proceedings the electronic version of the Reply Submission on behalf of FortisBC Energy Inc. (“FEI”)

Ten hard copies will follow by courier.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[original signed by Christopher Bystrom]

Christopher Bystrom

CRB/fxm
Enc

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

and

RE: FORTISBC ENERGY INC.

**APPLICATION FOR APPROVAL OF 2015 DELIVERY RATES PURSUANT TO
THE MULTI-YEAR PERFORMANCE BASED RATEMAKING PLAN
APPROVED FOR 2014 THROUGH 2019 BY ORDER G-138-14**

**REPLY SUBMISSION OF
FORTISBC ENERGY INC.**

APRIL 9, 2015

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PART ONE: INTRODUCTION AND OVERVIEW

1. FortisBC Energy Inc. (FEI or the Company) filed its Annual Review for 2015 Rates (the “Application”) on January 14, 2015 in compliance with British Columbia Utilities Commission (the “Commission”) Order G-138-14, which approved a Performance Based Ratemaking Plan (the “PBR Plan”) for FEI for the years 2014 to 2019. On January 29, 2015, FEI filed an Evidentiary Update to the Application.¹ As set out in the Application as updated, FEI requests Commission approval for the following pursuant to sections 59 to 61 of the *Utilities Commission Act*:

- (a) Permanent delivery rates for all non-bypass customers effective January 1, 2015, resulting in an increase of 2.03 per cent compared to 2014 common delivery rates, with the increase to be applied to the delivery charge, holding the basic charge at existing levels.
- (b) The Earnings Sharing riders for Mainland customers effective January 1, 2015 in the amounts set out in Table 10-2 in Section 10.
- (c) The difference between 2015 interim rates and permanent rates, including the Earnings Sharing riders for Mainland customers, to be collected from customers by way of a bill adjustment reflecting their consumption from January 1, 2015.
- (d) The creation of rate base deferral accounts for the following upcoming regulatory proceedings as described in Section 7.5:
 - Cost of Capital to be filed in 2015;
 - Rate Design to be filed in 2016; and
 - Long-term Resource Plan to be filed in 2017.

¹ Exhibit B-1-1.

- (e) The transfer of the balance in the BFI Costs and Recoveries - All Other Recoveries deferral account to the CNG and LNG Recoveries account as described in Section 7.5.
- (f) The disposition of the FEW 2014 Revenue Surplus/Deficiency deferral account, by amortizing the balance of the account into delivery rates in 2015 as described in Section 7.5.
- (g) The transfer of the EEC Incentives for AES/TES deferral account to the rate base EEC Incentives deferral account as described in Section 12.4.3.

2. FEI provided a Draft Order of the Approvals Sought in Appendix E of the Application.

3. Following the filing of FEI's Application, the Commission approved a regulatory timetable for the proceeding, which included a round of information requests and a workshop.² On March 2, 2015, FEI responded to information request (IRs) from the Commission and interveners, including the British Columbia Pensioners' and Seniors' Organization et al. ("BCOAPO"), the B.C. Sustainable Energy Association and the Sierra Club of British Columbia ("BCSEA-SCBC") and the Commercial Energy Consumers Association of British Columbia ("CEC"). The workshop was held on March 6, 2015, and FEI's presentation materials and the transcript of the workshop were placed on the record in the proceeding.³ FEI filed responses to undertakings given at the workshop on March 13, 2015.⁴

4. During the course of responding to IRs and questions at the workshop, FEI committed to updating a number of items in its compliance filing subject to Commission approval. These items are as follows:

² Exhibit A-1.

³ Exhibit B-7. The Workshop Transcript is available on the Commission's website at <http://www.bcuc.com/ApplicationView.aspx?ApplicationId=479>.

⁴ Exhibit B-8.

- (a) Update of the I-Factor to reflect a 0.525 percent adjustment to CPI for the PST impact;⁵
- (b) Update to the forecast Biomethane O&M for the two projects that are delayed as discussed in response to BCUC IR 1.16.1;⁶
- (c) Update to amortize the portion of the Biomethane Variance Account representing the application costs to be charged to all customers into the delivery cost of service in compliance with Order G-15-15⁷;
- (d) Update the Short-term interest rate forecast;⁸
- (e) Update the Long-term debt forecast, based on actual rate, timing and amounts;⁹
- (f) Update the Allowance for Funds Used During Construction (AFUDC) rate calculation.¹⁰

5. Further, as discussed in Part Two of this reply submission, FEI is recommending a reduction of \$480 thousand in gross O&M related to Rate Schedule 46. FEI therefore proposes to update for this correction in its compliance filing.

6. In support of its approvals sought, as updated for the items above, FEI relies on the evidence filed in its updated Application, IR responses, the Workshop and Undertaking Responses.

7. On March 27, 2015, CEC, BCSEA-SCBC and BCOAPO filed final arguments in accordance with the regulatory timetable approved by the Commission. In the remainder of

⁵ Exhibit B-2, BCUC IR 1.4.2.

⁶ Ms. Carman, Workshop Transcript, pp. 33-34.

⁷ Exhibit B-5, CEC IR 1.29.1.

⁸ Exhibit.B-5, CEC IR 1.40.2; Ms. Roy, Workshop Transcript, p. 140.

⁹ Ms. Roy, Transcript, p. 140.

¹⁰ Ms. Roy, Transcript, p. 140.

this Reply Submission, FEI will respond to the issues raised by interveners in their final arguments.

PART TWO: REPLY SUBMISSIONS

8. The following sections respond to the submissions of CEC, BCOAPO and BCSEA-SCBC in the order of topics outlined in the Application.

A. Evaluation of PBR

9. Given that Order G-138-14 and the accompanying decision (the “PBR Decision”) approving the PBR Plan were issued on September 15, 2014, FEI operated under considerable regulatory uncertainty in 2014 and there has been a limited amount of experience to date under the PBR Plan.¹¹ While there is a limited basis on which to evaluate PBR at this time, some of the highlights from FEI’s performance in 2014 are as follows:

- FEI continued its productivity focus in 2014 and initiated some projects to enhance the customer experience and improve productivity in 2014 and into 2015. As an example, Project Blue Pencil is an initiative undertaken by FEI that focused on reviewing and streamlining several high-volume, customer-facing processes from the perspective of the customer.¹²
- As a result of this focus and these initiatives, FEI was able to realize savings in O&M expenditures while FEI’s capital expenditures were above the capital formula amount. Overall, the savings achieved in 2014 result in \$3.341 million of earnings sharing that will be returned to Mainland customers in 2015, serving to reduce overall delivery rates for the majority of FEI’s customers.¹³
- The annual bill percentage increase for most customers will be below inflation.¹⁴
- With respect to service quality indicators (SQIs), the Company’s overall performance is better than the benchmark and representative of a high level of service quality. For those SQIs with benchmarks, seven are performing better than the approved benchmarks with the remaining two performing better than

¹¹ Exhibit B-1, pp. 4-5.

¹² Exhibit B-1, pp. 4-5.

¹³ Exhibit B-1, pp. 4-5.

¹⁴ Exhibit B-1, p. 5.

the threshold and within the performance range. For the four SQIs that are informational only, performance remains at a consistent level with prior years.¹⁵

10. The effectiveness of the PBR Plan can be evaluated based on (i) the cost efficiencies realized; (2) regulatory efficiency; and (3) maintaining service quality.¹⁶ By these measures, there are positive signs for the success of PBR. As indicated above, the experience to date, albeit limited, has shown the potential for earning sharing under the PBR Plan, which has contributed to keeping annual bill increases for most customers below inflation, and that FEI has maintained a high level of service quality.¹⁷ Whether regulatory efficiencies will be realized will be borne out over the course of the PBR period.

11. With respect to how the success of PBR is to be determined, it is helpful to refer to the observations of the Commission Panel in the FortisBC Energy Utilities 2012-2013 Revenue Requirements and Rates Decision on the success of FEI's previous PBR. The Panel stated at pages 37 to 38 of that decision:¹⁸

In the view of the Commission Panel, the most important lesson to be learned from the PBR period was not specifically addressed by any of the parties. We refer directly to the success of the PBR. Within the PBR period a process was developed to determine what was considered to be a reasonable costs base for each of the six years covered by PBR. Over this period, the FEU not only met the challenge but improved upon budgets by a total of \$135 million (\$67.5 million for the ratepayers and \$67.5 for the shareholder). (FEU Reply, p. 11) It has been argued that both the ratepayers and the shareholder received benefits related to this saving, a point which all of the parties acknowledge. However, the Commission Panel believes the success was not only in the amount of savings which was achieved, but perhaps more importantly, in the fact that when presented with a challenge, the FEU took the necessary steps to ensure the cost targets set during PBR were not only met but consistently exceeded. Moreover, this was achieved with no indication that the safety or reliability of the system was in jeopardy.

¹⁵ Exhibit B-1, p. 115.

¹⁶ Exhibit B-5, CEC IR 1.4.1.

¹⁷ Exhibit B-1, pp. 4-5.

¹⁸ The FortisBC Energy Utilities 2012-2013 Revenue Requirements and Rates Decision is available online at: <http://www.bcuc.com/ApplicationView.aspx?ApplicationId=313>

Consistent with these observations, if FEI is able to meet the challenge set by the PBR Plan and maintain savings compared to the formula amounts over the course of the PBR term, and at the same time maintain the safety and reliability of service to customers, then this will be indicative of the ultimate success of PBR.

12. Despite the limited experience with PBR to date, and the positive signs indicated above, the CEC has prejudged that PBR is a failure. The CEC states that “there is already ample evidence to begin the process of demonstrating that the PBR plan is failing badly”.¹⁹ Based on its view that PBR is “failing badly”, the CEC would add a fourth criteria for the evaluation of PBR, namely: “Cost effectiveness of efficiencies realized”.²⁰ For the reasons discussed below, the CEC’s view that PBR is failing badly and its criteria of cost effectiveness are misguided and should be rejected.

13. First, the CEC states that “the benefits of a PBR plan must also include preservation of positive cost-benefit relationships (i.e. cost efficiencies should not come at the expense of benefits)” and “PBR should include evaluation against the retention of beneficial activities and potentially the development of new beneficial programs and services.”²¹ Contrary to the basic concept of PBR, in which a utility is free to manage its costs within the formula amounts of the PBR Plan, the CEC’s submission would have the Commission micro-managing FEI. The CEC’s position entails that the Commission should examine every management decision made by FEI to see if any benefits are lost and what new benefits might be gained. As it is unclear what would count as a “beneficial activity”, or how cost efficiency could be weighed against potential lost benefits, the CEC’s proposal would mire the annual review process in a confusing and ambiguous assessment of FEI’s actions in any given year. Furthermore, while retaining all “beneficial activities” is desirable, the PBR Plan does not require the type of analysis suggested by the CEC. The PBR Plan works by providing FEI with an incentive to manage its costs below formula amounts. Whether benefits will be gained can be

¹⁹ CEC Submission, p. 21.

²⁰ CEC Submission, p. 18.

²¹ CEC Submission, p. 18.

measured directly by how successful FEI is at containing its costs versus the formula year over year, while still maintaining service quality. In short, the CEC's proposal would not add value to the PBR Plan.

14. Second, the CEC states that PBR should result in savings "that substantially exceed those that would normally be achieved through prudent management" and "pre-existing cost savings programs...[should] not be rewarded".²² In short, CEC's position is that it is necessary to distinguish between savings that are "a direct result of performance based ratemaking" or due to "prudent management".²³ Such a distinction is not part of the PBR Plan and not relevant to determining FEI's rates. The PBR Plan sets formulaic O&M and capital amounts within which FEI is given an incentive to manage its costs. To the extent that FEI can achieve costs below the formula amounts, the shareholder and customers share the benefits. The PBR Decision states at page 124 with respect to the earning sharing mechanism:

The Commission Panel determines that the inclusion of a symmetric ESM is beneficial to both Fortis and its customers. In our view, the inclusion of an earnings sharing mechanism balances the interests of the customer and the utility. That is, to the extent that there are gains or losses relative to the approved ROE, the fact that they are shared on a 50:50 basis between the ratepayer and the utility is reasonable. The Panel notes that the purpose of implementing a PBR mechanism is to provide an environment where efficiencies are created through actions initiated by the utility. Accordingly, there is an expectation that all things being equal, the Fortis utilities will, over the course of this PBR, generate efficiency savings resulting in earnings which allow them to exceed the approved ROE return.

To the extent that the CEC is concerned about FEI's earnings under PBR, the PBR Plan includes an off-ramp with a financial trigger designed to strike "an appropriate balance between incenting the Companies to find efficiencies and savings and protecting the interest of ratepayers."²⁴

²² CEC Submission, p. 18.

²³ CEC Submission, p. 18.

²⁴ PBR Decision, p. 160.

15. The CEC's distinction between savings due to PBR and savings due to prudent management is impossible to maintain. While FEI can and will identify major efficiency initiatives that it undertakes during PBR,²⁵ any such initiatives are also part of the prudent management of the utility and it would be impossible to demonstrate whether any particular activity was the "direct result of performance based ratemaking". The CEC's proposal is therefore neither consistent with PBR nor practical to implement.

16. The CEC is implicitly seeking to compare what would have been achieved under cost of service to what is achieved under PBR. The CEC's position would appear to be that there should be an annual rebasing of costs and that in any given year FEI should only retain earnings sharing for savings that are in addition to what would be expected under cost of service and that are a direct result of PBR. The CEC's submissions would result in a radical and unwarranted change to the PBR Plan approved by the Commission, and result in a modified cost of service regime in which FEI retains a share of savings from programs which are in some way determined to be "a direct result of PBR". As discussed below, FEI submits that the CEC's submissions amounts to a request for reconsideration of the Commission's PBR Decision and go well beyond the scope of comments intended for the purpose of evaluating PBR in the annual review.

17. FEI also submits that the CEC's position is not feasible. In order to determine what efficiencies are due solely to PBR, the CEC's position requires an impossible comparison to a hypothetical cost of service regime. Such a hypothetical comparison serves no function under the PBR Plan approved by the Commission or PBR generally, and would be a speculative exercise. It is impossible to know what would have been the case if FEI were under a cost of service regime: it is not possible to know what rates the Commission would have set, what directions the Commission would have given, or what actions FEI would have taken. The CEC's suggestions are unworkable and would undermine the incentives and regulatory efficiency of PBR.

²⁵ Ms. Roy, Workshop Transcript, p. 126.

18. Third, the CEC recommends reductions to the base O&M in response to savings achieved by FEI in 2014.²⁶ Contrary to the CEC's views, any savings achieved are valid under PBR and contribute to whether there is earnings sharing in a given year. FEI has stated that its goal is to realize sustainable, long-term productivity,²⁷ and FEI's success in this regard will be apparent from whether it can in fact maintain savings compared to the formula over the term of the PBR. An annual rebasing of costs, as the CEC would appear to favour, would be contrary to the basic structure of the PBR Plan approved by the Commission and would directly undermine the central incentives provided by PBR. The CEC's approach would subject any savings achieved to a vague and unworkable test to determine if it is due "directly to PBR" or more than "prudent management". This would undermine the integrity of the PBR Plan as FEI would have no confidence whether it would actually be able to share in the benefits of savings achieved or productivity improvements in which it invests.

19. The CEC states that an adjustment to the base is required for savings due to FEI's productivity focus that was in place prior to PBR.²⁸ As stated in response to CEC IR 1.1.3, FEI's productivity focus is not a program but a strategy to manage rates for customers.²⁹ By its nature, a productivity focus must be maintained and renewed from year to year. Productivity savings realized by FEI in 2014 cannot be attributed to actions taken prior to PBR simply because FEI had a productivity focus in prior years. Moreover, the treatment of savings under the PBR Plan does not depend on what could or could not be attributable to a program in place prior to PBR. CEC's submissions must be rejected.

20. The CEC states that an adjustment is required for the labour savings FEI achieved in 2014.³⁰ The CEC submits that the cost-effectiveness of the reduction in labour costs is "equivalent of providing a 3 year severance payment for each position payable to the FEI

²⁶ CEC Submission, pp. 18-20.

²⁷ Mr. Mulcahy, Workshop Transcript, pp. 10-11.

²⁸ CEC Submission, pp. 18-19.

²⁹ Exhibit B-5.

³⁰ CEC Submission, pp. 19-20.

shareholder” and “would amount to a cost to customers of about \$18 million”.³¹ To be clear, there is no “\$18 million” cost to customers and there is no evidentiary basis for the CEC’s cost-benefit analysis. FEI’s earning sharing for 2014 is clearly set out in section 10 of the Application, which shows that FEI proposes to distribute \$3.341 million to FEI Mainland customers in 2015. To the extent FEI is able to continue achieving these types of savings over the term of the PBR Plan, customers will continue to see earnings sharing which will reduce rates for customers. These are savings to customers generated by FEI’s efforts to control costs under PBR. If FEI had not realized these savings, there would be no benefits to share with customers and rates would be higher. The fact that FEI shares in the benefits of these savings is not a cost to customers, as the CEC apparently believes, but an essential component of PBR, without which the PBR Plan would not provide any incentives for FEI to realize efficiencies.

21. The CEC also states that the labour savings “are a direct result of the utility waiting until it was into its PBR application period and could have been achieved before the PBR period.”³² There is no evidentiary basis for the CEC’s submission. The PBR Plan was not approved until September 2014 and FEI explained that while it awaited the PBR Decision it operated under considerable uncertainty and managed its costs prudently. During this time, FEI did not know whether PBR would be approved. FEI notes that its IR response in the PBR proceeding correctly stated that anticipated efficiencies under PBR were uncertain.³³ It is not reasonable to suggest that FEI should be able to forecast accurately all the savings it could achieve under PBR. Even for the first year of PBR, any savings were uncertain. As stated in response to CEC IR 1.1.3, “as savings can always be offset by increases in other areas, it is not until the end of the year that actual O&M savings are known.”³⁴

22. As a final comment in response to the CEC’s submission on PBR generally, the CEC’s submissions are a reiteration or reframing of the positions that it took in the PBR

³¹ CEC Submission, pp. 19-20.

³² CEC Submission, p. 20.

³³ CEC improperly cites this IR that is not on the record in this proceeding on page 20 of its Submission.

³⁴ Exhibit B-5.

proceeding.³⁵ For example, the following are quotes from the CEC's Final Argument in the PBR proceeding:

"The CEC would characterize the customer interests as having the Utilities meet the following objectives ... 4. Provide demonstrable cost-effective innovation, productivity and efficiency to support rewards of excess returns."³⁶

"to the extent that the rates represent any more than what is legitimately established as the appropriate return on equity based on the prudent management there are no 'savings' for the customer, and the increase in ROE comes at additional expense"³⁷

the ESM "does not limit the risk to the customer, because it does not limit the earnings available to the Utility which may or may not be achieved as a result of beneficial actions".³⁸

The Commission had the views of the CEC before it when it wrote the PBR Decision and set out the terms of the PBR Plan, including material reductions to FEI's base O&M and more stringent O&M and capital formulas than proposed by FEI. In the discussion of the annual review process in the PBR Decision (pp. 185-186), the Commission invited comments on the identification of deficiencies or concerns with the operation of the PBR plan that have become apparent. However, the annual review process should not be used as a platform to reiterate positions that were already fully explored in the PBR proceeding and have already been determined by the Commission. In FEI's submission, the Commission was not inviting parties to seek reconsideration of the PBR Decision on an annual basis, but inviting parties to raise any new concerns that "have become apparent" under the operation of PBR. As such, FEI submits that the CEC's position, which has been taken into account by the Commission in the PBR Decision, should be rejected.

³⁵ The CEC's PBR Submission is available on the Commission's website at: <http://www.bcuc.com/ApplicationView.aspx?ApplicationId=400>.

³⁶ CEC PBR Submission, para. 5.

³⁷ CEC PBR Submission, para. 450.

³⁸ CEC PBR Submission, para. 458

B. Base O&M

23. CEC submits that to the extent the base O&M for FortisBC Energy (Vancouver Island) Inc. (FEVI) is justified based on 2014 Actual expenditures, then it should be reduced to account for FEVI expenditures related to the Regionalization Initiative.³⁹ The amount of FEVI's base O&M is being determined by the Commission in a separate proceeding and is out of scope of the annual review. As stated by FEI in its Application, FEI will update its rates to include the Commission's approved FEVI and FortisBC Energy (Whistler) Inc. (FEW) base amounts in its compliance filing.⁴⁰ FEI discusses the impact of the regionalization initiative below under the topic of the earnings sharing mechanism.

C. Demand Forecast

24. Both BCOAPO and the CEC recommend changes to FEI's demand forecast which would increase the forecast demand and thereby lower the rate increase necessary for 2015. Neither BCOAPO nor CEC have referred to any evidence in this proceeding that demonstrates that their changes to the forecast would result in a more accurate demand forecast. Rather, in FEI's submission, they have "cherry-picked" certain data inputs that result in an increase in the demand. FEI's demand forecast methodology has been approved in the past and most recently by the Commission in the PBR Decision, with the exception of the Rate Schedule 22 demand forecast which is discussed further below.

25. In FEI's submission, the evidence demonstrates that its forecasting method is sound and consistent with past forecasts as approved by the Commission. It is also preferable for the purposes of comparability and consistency over time to continue to apply the existing forecasting method, rather than making selective changes from year to year.⁴¹ Making changes in methodology will make it increasingly difficult to compare and evaluate the historical accuracy of the forecast.

³⁹ CEC Submission, p. 9.

⁴⁰ Exhibit B-1, p. 37.

⁴¹ Exhibit B-2, BCUC IR 1.8.1

(a) Customer Additions

26. The CEC asserts that the use of the Conference Board of Canada (CBOC) housing starts as a proxy for customer additions is inadequate given the significant variation experienced historically and recommends that the Commission direct FEI to seek alternative means of forecasting residential customer additions.⁴² FEI submits that the evidence shows that it continues to be reasonable to use the CBOC housing starts as a proxy for customer additions and the Commission should not accept the CEC's recommendation.

27. As explained in the response to BCUC IR 1.7.2, the residential net customer additions forecast methodology relies on the CBOC forecast of housing starts and FEI's previous year net additions. This econometric forecasting technique is used for residential net customer additions since FEI has found a statistically significant correlation between the CBOC housing starts forecast and Rate Schedule 1 net customer additions.⁴³ The CBOC forecast also provides the breakdown between single and multi family starts, which is necessary given that FEI's capture rates for single and multi-family dwellings are different.⁴⁴

28. FEI's use of the CBOC forecast has been previously approved by the Commission, including recently in the PBR Decision. Pages 191 of the PBR Decision states:

FEI submits that the Conference Board of Canada housing start forecast is a suitable proxy for the Company's customer additions forecast, given the 90 percent correlation between housing starts and net residential customer additions (Exhibit B-1, p. 95). The Company also notes that the net residential customer additions forecast consists of a single and a multi-family dwelling forecast and that this methodology is consistent with the 2012–13 RRA (Exhibit B-1, p. 94).

There were no Intervener submissions on the Residential Demand forecast.

⁴² CEC Submission, p .4.

⁴³ Exhibit B-2, BCUC IR 1.7.2.

⁴⁴ Mr. Bailey, Workshop Transcript, pp. 53-54.

Commission Determination

The Commission Panel approves the 2014 Residential Demand forecast.

The FEI residential energy demand forecast methodology is the same methodology in previous revenue requirements decisions.

29. The evidence continues to support the use of the CBOC forecast to estimate residential customer additions. The CBOC forecast continues to be a causal indicator with a significant correlation with Rate Schedule 1 net customer additions and provides a breakdown between single-family and multi-family dwellings. Variances from forecast have been both positive and negative.⁴⁵ During the PBR period, all variances from forecast are captured in deferral accounts. It is submitted that research into alternatives to the existing approach of forecasting customer additions is not necessary at this time.

(b) Use Per Customer

30. BCOAPO states that it is inappropriate for FEI to base its forecast use per customer (UPC) on 2014 forecast amounts.⁴⁶ BCOAPO has incorrectly interpreted FEI's forecast method. As explained in response to BCUC IR 1.6.2, a regional UPC forecast is developed for Rate Schedules 1, 2, 3 and 23. The UPC method is either a three-year average or the result of a regression if a trend is present. As shown in the chart and examples of the UPC forecast in the response BCUC IR 1.6.2, historical actual normal UPC data from 2010 to 2013 is used to develop the forecast. Attachment 6.2 contains the calculations for Rate Schedules 1, 2, 3, and 23, and these calculations demonstrate that historical actual normal UPC data is used, not 2014 forecast data.⁴⁷

31. BCOAPO recommends that the forecast UPC decline for Rate Schedule 1 (residential customers) be based on the five-year average from 2008-2013 of 0.82 GJ, rather

⁴⁵ Exhibit B-3, BCUC IR 1.5.1, p. 23.

⁴⁶ BCOAPO Submission, p. 3.

⁴⁷ Exhibit B-2.

than FEI's forecast decline of 1.6 GJ.⁴⁸ CEC, on the other hand, recommends the use of the average decline from 2005-2014 of 1.3 GJ.⁴⁹

32. BCOAPO recommends that the forecast UPC increase for Rate Schedule 2 (small commercial customers) be based on the five year average of 2.68 GJ, rather than FEI's forecast increase of 1 GJ and compared to the average UPC increase from 2005-2014 of 2.78 GJ.⁵⁰ CEC supports FEI's commercial UPC forecast.⁵¹

33. BCOAPO's sole rationale for using the five-year average is that it results in the highest UPC compared to other averages. In FEI's submission, methodologies should not be chosen to manufacture a particular result, such as a higher demand forecast, and there is no evidence to suggest that using a five-year average to forecast UPC will result in a more accurate forecast. Rather, the evidence is to the contrary.

34. FEI explained why a three-year window is an appropriate basis for the UPC forecast in response to BCOAPO 1.2.2:⁵²

FEI believes that using a three year window to develop the forecast captures an appropriate amount of data to form a statistically significant trend that is both relevant and current. All time series methodologies use past data as the sole predictor so it is critical to ensure that the data is not outdated. FEI believes that longer trends spanning in excess of three years are more relevant in stable environments. However in the case of FEI, both the residential and commercial UPC data can exhibit significant changes year over year. As a result FEI believes the three year window provides the appropriate balance between the amount of data available for modeling and the relevancy of the resulting trend in consideration of the changing environment.

35. The latest three years of data will reflect, for example, the impact of the latest energy efficiency and conservation programs, and will not reflect UPC's from years prior to

⁴⁸ BCOAPO Submission, p. 3.

⁴⁹ CEC Submission, p. 5.

⁵⁰ BCOAPO Submission, p. 3.

⁵¹ CEC Submission, p. 5.

⁵² Exhibit B-3.

2010 that can no longer reflect recent conditions. Using longer-term averages as suggest by CEC and BCOAPO will inappropriately dilute the impact of the most relevant data from recent years.

36. The CEC agrees that longer term data may become outdated, but states that “there is evidence of flattening of UPC declines following period of more significant declines.”⁵³ FEI disagrees for a number of reasons. First, it is a tautology that a period of significant decline would be followed by some form of flattening, as the decline is only “significant” in contrast to the periods before and after it. However, the timing of any particular decline can only be determined in retrospect once one is able to observe the times of steeper decline versus less steep declines or increases. Second, the CEC’s evidence is only based on the bar graph in Figure 3-1 of the Application. The CEC has not established any statistically significant pattern on which a forecast could reasonably be based. Third, the declines in UPC are a result of many factors,⁵⁴ which work independently of one another. There is therefore no reason to expect that these factors would collectively result in any statistically significant pattern of steep and shallow declines over time. Fourth, the CEC agrees that data may become outdated. This would mean that any pattern of declines and flattening of the UPC from past years, even if such a pattern existed, could also be outdated. Finally, FEI notes that CEC’s recommended UPC is based on the average UPC over the 2005-2014 period, not on any analysis of a trend in declines over that period. CEC has not demonstrated why a nine-year average is appropriate or how outdated information from as far back as 2005 could be relevant to the 2015 forecast.

37. In summary, FEI’s method of using the most recent three-years of actual data is appropriate for a short term forecast, capturing an appropriate amount of data to form a statistically significant trend that is both relevant and current. A longer term average does not put enough emphasis on more recent years which are the most relevant data points. Further, using three years of data is consistent with past forecasts as approved by the Commission.

⁵³ CEC Submission, p. 4.

⁵⁴ Exhibit B-5, CEC 1.17.1.

(c) Industrial Demand Forecast

38. The CEC recommends that the Commission increase the Rate Schedule 22 demand forecast by 21%.⁵⁵ As noted by CEC, FEI was directed to increase the 2014 Rate Schedule 22 forecast by 21% in the PBR Decision. However, FEI submits that no change to its forecast as applied for is warranted for the 2015 forecast given FEI's evidence with respect to the impact of the direction in 2014 and FEI's efforts to increase the accuracy of the forecast for 2015. FEI states in response to BCUC IR 1.9.1:

FEI expects that the 2015 forecast will be more accurate because the 2015 forecast is based on an industrial survey that is more current compared to the industrial surveys relied upon for 2012-2013 and 2014 forecasts. As described below, recent experience has shown that large variances in Rate Schedule 22 demand are the result of fuel switching by a few customers, and one customer in particular, in response to changing natural gas prices and other energy costs for these customers. These fuel switching activities are not possible for FEI or customers to predict accurately. However, using an industrial survey closer to the test period, which provides the opportunity for the industrial customer to reflect the most recent information on natural gas and other energy costs in its forecast, mitigates the risk of fuel switching occurring during the test period that was not incorporated in the forecast demand.

In the 2012-2013 RRA filing, the annual demand forecast was prepared in 2011 based on the industrial survey completed in 2010. In the interim between the time of the survey in 2010 and the 2012-2013 test period, significant changes in gas prices and energy costs had occurred which resulted in rate switching by large volume customers, and one customer in particular, to take advantage of the lower energy costs afforded by natural gas. The customers that began using significantly more gas were using other fuels at the time of the survey. As a result, significant variances occurred and were attributable to a select few customers.

In FEI's PBR Application, the 2014 load forecast was based on the industrial survey completed in November 2012. In the November 2012 survey, the customer that was primarily responsible for the variance in 2012 and 2013 submitted a forecast for a much larger volume of gas based on recent actual consumption, which appeared reasonable. In 2013, however, market conditions changed once again and this customer switched fuels for a second time, this time

⁵⁵ CEC Submission, p. 6.

reducing the Rate Schedule 22 demand. The additional volume forecast in accordance with Directive 89 on page 295 of the PBR Decision, in reaction to the variance that occurred over 2012-2013, exacerbated the 2014 variance.

In contrast to the 2012-2013 and 2014 forecast, the survey relied upon for the 2015 forecast was completed just two months prior to the start of the test period in October of 2014. The survey is more current than the one used in the 2012-2013 filing and as a result FEI believes it will be more accurate as customer responses to the survey will be based on more current information, including more current information on natural gas and other energy costs that might lead to fuel switching.

39. FEI provided further information on the industrial forecast in the workshop.⁵⁶ Mr. Bailey summarized as follows:⁵⁷

The 2015 survey that we just completed, so what we did is we tightened up the gap so there is less opportunity for a customer to fuel switch. By tightening up the gap here, doing the 2015 survey, only a couple of months ago or in October/November, the gap is tightened up and there is less opportunity for these customers to all of a sudden change their mind and start using coal or stop using gas, whatever.

So we believe that was really the problem, is that the gap between the survey in 2011 and the test period in 2012/13 left an opportunity in there for these customers to change fuels. By tightening it up, still an opportunity in there for them to do that, but we think at least it's minimized.

40. In summary, FEI has analyzed the reasons for the variances that have occurred from the Rate Schedule 22 forecast and the variances are not due to any systematic bias in FEI's forecasting method, but due to customers switching fuels and other factors such demand for the customer's product that FEI cannot predict. As explained by Mr. Wolfe:⁵⁸

One of the challenges in forecasting industrial customers is that we don't have experience in each of the sectors to know what decision-making criteria that customer uses. So on one hand with this customer example here, the criteria was the pricing of coal, so they switched from gas to coal and back again because

⁵⁶ Workshop Transcript, pp. 63 to 70.

⁵⁷ Mr. Bailey, Workshop Transcript, p. 65.

⁵⁸ Workshop Transcript, pp. 68-69.

of the price difference between those two fuels. But there are many other factors that come into play for each customers.

In this one instance it could have been the price that they could get for their product, and if that changes then they could just change their demand entirely for energy. The export markets, the dollar, there's a whole variety of factors that come into play when forecasting their consumption. We know in this case it was a cost of energy specifically, but it could be one of a variety of factors.

So we've taken the approach of asking the customer to tell us what they expect to burn because they are the best to understand what their market is, what their business looks like, and what they're expecting for the next year, and they do their best to forecast. Obviously they can't forecast prices, the big swings that they saw, but they're the best ones to actually do that forecasting.

So right now we think as a way of forecasting industrials, asking the customer is the most appropriate way. ...

FEI is therefore using a more current industrial survey to mitigate the potential for fuel switching or other factors not being reflected in the forecast.

41. In FEI's submission, an adjustment to the Rate Schedule 22 forecast is not warranted. The cause of past variances in the forecast is attributable to fuel switching and other factors which cannot be predicted accurately. Therefore, there is no evidence to suggest that adding a percentage to the forecast based on an average of past variances will produce a more accurate result. As shown on slide 55 of FEI's workshop presentation, FEI's Rate Schedule 22 forecast would have been accurate without the 21% increase in 2014.⁵⁹

42. FEI therefore submits that the Commission should accept FEI's industrial forecast demand as filed.

⁵⁹ Exhibit B-7; also see Exhibit 8, Response to Undertaking #3, which provides 2014 Forecast and Actual results.

(d) Rate Schedule 46

43. The CEC points out that FEI's demand forecast for Rate Schedule 46 and FEI's forecast O&M expense for Rate Schedule 46 are not based on consistent assumptions and has recommended either a decrease to the O&M or a increase in the Rate Schedule 46 forecast, subject to FEI's submissions.⁶⁰ In short, while the demand forecast does not include a forecast of spot purchases of liquefied natural gas (LNG), the forecast O&M is built on assumption of spot purchases taking place. FEI agrees that there should be an adjustment to O&M so that FEI's forecast O&M is based on serving a load consistent with its demand forecast. CEC suggests using the 2014 projected O&M cost of \$1.1/GJ multiplied by the 2015 demand forecast of 719,217 GJ, for a 2015 Forecast O&M of approximately \$624 thousand. However, using the 2014 projected O&M on a per gigajoule basis does not take into account that the majority of the increase in the O&M is due to labour, which does not vary linearly with each gigajoule of LNG.⁶¹ FEI instead recommends using the embedded O&M per gigajoule rate of \$1.30/GJ ($\$1,415,000^{62}/1,131,500^{63}$) multiplied by the 2015 forecast demand of 719,217 GJ for a forecast LNG O&M of \$935 thousand. This would lead to a reduction in gross O&M of \$480 thousand from what was proposed.

D. Financing and Return on Equity

44. Both the CEC and BCOAPO submit that FEI should update its short-term interest rate and long-term debt rate forecast.⁶⁴ This is not an issue amongst the parties, as FEI agreed to update both forecasts. In response to CEC IR 1.40.2,⁶⁵ FEI agreed to update the short-term interest rate, and Ms. Roy confirmed at the Workshop that FEI would update the long-term debt forecast as well, stating: "depending on the timing of when we issue our long-term debt,

⁶⁰ CEC Submission, pp. 6-9.

⁶¹ Exhibit B-2, BCUC IR 1.20.2.

⁶² Exhibit B-1, Table 6-5: Total 2015 Forecast Rate Schedule 46 O&M.

⁶³ Exhibit B-1, page 42: 3,040 GJ per day from Tilbury LNG facility plus 60 GJ per day from Mt. Hayes LNG facility equals 3,100 GJ per day multiplied by 365 days.

⁶⁴ BCOAPO Submission, p. 4; CEC Submission, p. 13.

⁶⁵ Exhibit B-5.

we may have actually issued it by that time [of the compliance filing]. And if we have, we'll actually be able to include the actual interest rate for that as well as the actual timing and amount."⁶⁶ FEI can now confirm that it will issue long term debt in April 2015. Therefore, subject to the Commission's Decision in this proceeding, FEI will update its rate forecast for short-term interest and its long-term debt for the actual issuance rate, timing and amount in its compliance filing with the Commission.

E. Taxes

45. BCOAPO states that more is required to explain FEI's property tax forecast in comparison to 2011 to 2014 Actual amounts.⁶⁷ FEI explained its property tax forecast on pages 60 to 61 of its Application, explaining the major contributors to the increase including forecast increases in material and labour prices, a change in classification of one its properties and the change in the annual pipeline charge from the Oil and Gas Commission. FEI provided a detailed explanation of the variance between 2014 Projection and 2015 Forecast amounts in response to BCOAPO IR 1.20.1.⁶⁸

46. FEI's property tax forecast is based on FEI's uncontroverted evidence, which describes the factors contributing to the increased forecast for 2015. BCOAPO had the opportunity to ask follow-up questions at the workshop, but did not do so. FEI submits that there is no evidentiary basis or reasonable justification to adjust its property tax forecast. Any variance from forecast Property Tax will be recorded in the Flow-through deferral account and returned to or collected from customers in 2016.⁶⁹

⁶⁶ E.g., Transcript, p. 140.

⁶⁷ BCOAPO Submission, p. 5.

⁶⁸ Exhibit B-3.

⁶⁹ Application, p. 60.

F. Earnings Sharing

(a) Regionalization Initiative

47. The CEC makes a number of submissions with respect to the regionalization initiative undertaken by FEI in 2014. The CEC incorrectly states that the O&M activities associated with the regionalization initiative were paid for by customers in 2013 rates. This cannot be true since 2013 rates were determined in 2012 before the regionalization initiative was planned. Moreover, the response to CEC IR 1.10.2⁷⁰ indicates that the regionalization initiative was implemented in 2014 and the response to BCUC IR 1.2.9⁷¹ shows the costs and savings that were incurred in 2014. The fact that the initiative was scoped and planned in 2013⁷² does not change that the net savings from the initiative will occur during the PBR period and will be subject to FEI's PBR Plan. To the extent that the regionalization initiative assists FEI in achieving O&M costs lower than the formula O&M amount over the PBR term, customers will share in those benefits.

48. As indicated in the response to CEC IR 1.10.7, the cost increase to FEVI from the regionalization of the dispatch group is \$267 thousand in 2014. The CEC recommends "a downward adjustment in O&M savings of \$267,000 from the Regionalization Initiative costs."⁷³ FEI has considered the impact of the regionalization initiative and does not agree that an adjustment should be made to FEI's earnings sharing in 2014. As currently proposed by FEI, one half of the \$267 thousand in savings in FEI is flowed to customers through the earnings sharing mechanism. If the earnings sharing riders were to be subject to a downward adjustment (reduced), as CEC appears to propose, this would be detrimental to customers who would then not benefit from any earnings sharing related to this item at all. The further effect would be that FEI's shareholder would realize 100% of the benefits of the reduction in O&M costs.

⁷⁰ Exhibit B-5.

⁷¹ Exhibit B-2.

⁷² Exhibit B-5, CEC IR 1.10.2.

⁷³ CEC Submission, p. 2.

49. Flowing the \$267 thousand reduction in O&M through the earnings sharing in FEI is perfectly appropriate and no adjustment needs to be made in this proceeding related to the regionalization initiative. FEI has properly reported on its O&M costs in 2014 and properly applied the PBR Plan. FEI's costs were reduced in 2014 and, according to the PBR Plan, these savings contribute to FEI's overall O&M costs being below the formula amount. FEVI, on the other hand, was not subject to PBR in 2014. While the costs of employees were effectively shifted to FEVI in 2014, these costs were prudently incurred and part of a broader initiative to improve customer service and create a productivity focus and accountability culture among all employees.⁷⁴ To the extent that FEVI's O&M costs were higher than they otherwise would have been in the 2014, these extra costs were properly borne by the shareholder. FEI notes that with amalgamation effective January 1, 2015, the potential for transfers of costs amongst FEI, FEVI and FEW will not be an issue for the remainder of the PBR term.

(b) Earnings Sharing Disbursement

50. In response to CEC IR 1.42.3,⁷⁵ FEI explained how carrying costs are accounted for and both the shareholder and the customer are held whole. The CEC states that it recognizes that the PBR Decision defers earnings sharing in the manner FEI has proposed.⁷⁶ Nonetheless, the CEC states:⁷⁷

The CEC submits that an analysis of customer benefit lost to deferral should consider the cost to the customer of a one year deferral of \$3.325 million, which equates to approximately \$332.5 thousand at 10% value for money.

51. As explained in response to CEC IR 1.42.3,⁷⁸ FEI's method of accounting for carrying costs keeps the customer whole and has already been approved by the Commission in Order G-162-14, issued October 23, 2014, which states:

⁷⁴ Exhibit B-3, BCUC IR 1.2.1.

⁷⁵ Exhibit B-5.

⁷⁶ CEC Submission, p. 16.

⁷⁷ CEC Submission, p. 16.

⁷⁸ Exhibit B-5.

FortisBC Energy Inc. is approved to establish the Earning Sharing deferral account to flow through to customers any result of the Earning Sharing Mechanism. FortisBC Energy Inc. shall apply a one year amortization period to the Earning Sharing deferral account and shall accrue carrying charges on the deferral account based on FortisBC Energy Inc.'s currently approved weighted average cost of capital.

52. The CEC's calculation is incorrect in two ways:
- (a) There is no "one year deferral". The amount of savings relative to the formula is not known until the end of the year and does not exist until the year is complete. The earnings sharing is paid out to customers throughout the following year. During this time when the earnings sharing does exist, it reduces rate base and therefore reduces costs to customers. The earned return calculation assumes that FEI holds the earnings sharing refund for customers for one-half of the year.⁷⁹ This mid-year treatment is a reasonable assumption and consistent with all of FEI's other deferral accounts.
 - (b) An assumption of 10% for the time value of money is not correct. The earnings sharing deferral reduces rate base, and therefore attracts a return on rate base at FEI's weighted average cost of capital of approximately 7%. Further, since the earnings sharing is expected to be in a credit balance, a rate base return is advantageous for customers as compared to a debt only return.
53. The CEC has therefore not identified any legitimate concern with respect to the earnings sharing component of the PBR Plan.

G. Accounting Matters and Exogenous Factors

54. The CEC submits that FEI should advise stakeholders if there are "exogenous savings that could approach the materiality threshold".⁸⁰ The materiality threshold has been

⁷⁹ Exhibit B-5, CEC IR 1.42.3.

⁸⁰ CEC Submission, p. 17.

established at \$1.140 million pursuant to Order G-164-14. According to the PBR Decision, costs or savings must exceed the materiality threshold to qualify for exogenous factor treatment.⁸¹ Costs or savings will either exceed the threshold or not. Costs or savings that “could approach” the threshold are therefore not relevant to exogenous factor treatment. Further, it is unclear what would qualify as a cost or savings that “could approach” the materiality threshold in two respects. First, it is unclear what is meant by “approach” the materiality threshold as it is unclear how close it would have to be to “approach” the threshold. Second, it is unclear what a cost or savings would be that “could” approach the threshold. FEI should not have to consider hypothetical scenarios where the quantum of savings or costs is different than it actually is.

55. FEI submits that the Commission should not accept the CEC’s recommendation, as it would not result in the reporting of irrelevant information and is ambiguous.

PART THREE: PROCEDURE FOR FUTURE ANNUAL REVIEWS

56. In its letter of March 10, 2015,⁸² the Commission invited all registered parties to provide comments on the following:

1. Preparation of the Application

- The scope and level of informational detail required in the Annual Review and the Future Years Rates Application. How can this be improved to reduce the number of required information requests (IRs)?

2. Optimum Review Process

- Is a second round of IRs required or can these be managed through a face to face oral process?
- Should there be a workshop or more than one workshop? If so what should be the timing, content and the format for such workshops?
- Does this type of application lend itself more readily to a Streamlined Review Process (SRP) or process with similar attributes? If similar to a SRP process, what should it look like?

⁸¹ Application, p. 106.

⁸² Exhibit A-6.

A. Preparation of the Application

57. FEI submits that the format and content of its Application was sufficient for the purpose of the annual review and that no material changes are required. FEI believes that the number of IRs in future proceeding may naturally lessen as FEI incorporates learnings from past proceedings and interveners become more familiar with the process and the workings of the PBR Plan. With respect to the learnings from the current proceeding, as many of the IRs in this proceeding focussed on the demand forecast, FEI proposes to include in its next annual review application a description of its demand forecast methodology consistent with the detail provided in response to IRs in this proceeding. FEI will also provide information on the cost and savings of major productivity initiatives in a format similar to that requested by the Commission with respect to Project Blue Pencil and the Regionalization Initiative.⁸³

58. BCSEA-SCBC submits that FEI should provide the following in its Applications for future annual reviews:⁸⁴

- (a) The five-year rolling average of the Leaks per KM of Distribution System mains metric;
- (b) The numerator and denominator for the Public Contacts with Pipelines Service Quality Indicator (SQI), for the current year and for historical years, on a single year and three-year average basis.
- (c) The Estimated Annual GHG Emissions reported to the Ministry of Environment for the most recent year and historically.
- (d) The historical SQI results, including for years prior to the current PBR period.

59. If the Commission would find this information helpful, FEI does not oppose filing this information in its future Applications.

60. BCOAPO states:⁸⁵

⁸³ E.g., see Exhibit B-3, BCUC IR 1.3.3.

⁸⁴ BCSEA-SCBC Submission, pp. 6-7.

With respect to future annual reviews, BCOAPO submits that it may be helpful to develop a standardized filing requirement for annual review applications which would describe the type and level of information required. The standardized filing requirement could be developed by a working group consisting of the utility, customers, and other interested stakeholders with input from the Commission.

61. FEI objects in principle to the concept of a working group determining the content of its applications to the Commission. FEI is the entity that requires approval from the Commission under the *Utilities Commission Act* and its Applications are its evidence which it is solely responsible for creating and filing with the Commission. The content of FEI's applications cannot be subject to agreement with interveners. Reaching agreement with a large group of parties with varying interests, who may oppose FEI's approvals sought or have no interest in moving the process forward, would be difficult, if not impossible. Such a process would compromise FEI's ability to present its evidence and make its case before the Commission and is therefore inappropriate and unacceptable to FEI.

62. In further reply to the BCOAPO's suggestion, the Commission has identified the current proceeding as the one in which it would provide direction on the content of future applications.⁸⁶ To this end, the Commission invited interveners to make submissions on this topic.⁸⁷ The opportunity for interveners to have a role in determining information that may be filed in future annual review applications was therefore by way of comments to the Commission in this proceeding. It was therefore incumbent upon BCOAPO to make its comments in this process for consideration by the Commission, rather than attempt to shift the issue to another process.

63. FEI therefore submits that BCOAPO's suggestion is unworkable and should be rejected.

⁸⁵ BCOAPO Submission, p. 21.

⁸⁶ Exhibit A-6.

⁸⁷ Exhibit A-6.

B. Optimum Review Process

64. FEI is generally in agreement with the submissions of BCOAPO and BCSEA-SBC with respect to the review process. FEI believes that the process utilized in this proceeding, with one round of IRs and a workshop, is appropriate and should continue. Having the Commission Panel present at the workshop, the transcript of the workshop filed on the record in the proceeding, and undertakings filed as well, makes the workshop an effective substitute for a second round of IRs. There are a number of benefits to holding a workshop instead of a second round of information requests. These include the benefit of a face-to-face discussion in which questions can be posed and answered in real-time.⁸⁸ More technical questions can be answered in an undertaking if necessary, so the workshop should not limit the types of questions that can be asked. The time required to hold a workshop is also less than a second round of information requests. Extending the annual review process will require FEI to file its materials earlier in the year, which will mean that the Application will be based on less actual data and less actual data will be available throughout the process. FEI agrees with the BCSEA-SBC and BCOAPO that a more formal SRP process is not required, and that the process used in this proceeding with the workshop being “on the record” captured all the benefits of an SRP-like process that are necessary for the proceeding.

65. While some discontent with the process was expressed by the CEC at the workshop, FEI believes this will be remedied in the future with more experience with the process and more time for interveners to review the IR responses prior to the workshop.⁸⁹

66. The CEC suggests that a workshop should only be held instead of a second round of IRs if it is agreed before hand “that there is nothing so controversial that it would need a written process to ensure adequate documentation of the evidence and the argument.”⁹⁰ In reply, the workshop enables written responses through undertakings if necessary, and does not

⁸⁸ Transcript, Mr. Dall’Antonia, pp. 136-137.

⁸⁹ Transcript, Ms. Roy, pp. 131-132 and Mr. Dall’Antonia, pp. 136-137.

⁹⁰ CEC Submission, p. 22.

displace written argument. Therefore, a workshop does not foreclose any written process that may be necessary.

67. The CEC states that the workshop in the proceeding largely consists of “one way communication” and says that “interactive two-way communication workshops would be useful.”⁹¹ In reply, FEI cannot generate two-way communication on its own. FEI was prepared with its presentation and prepared to answer questions.⁹² If the CEC had questions to ask, it was free to ask them and this may have led to more two-way communication. Based on the lack of any further questions, FEI could only conclude that it had responded to the concerns of the parties. In future workshops, FEI would be pleased to have an open question period at the end of the presentation to be sure that all parties have the opportunity to ask any questions that they may have.

68. In its submission, the CEC has made a number of submissions that suggest a significantly more involved and drawn-out regulatory process, that would likely be more intensive than any experienced by FEI under cost of service. The CEC suggests:

- (a) An oral hearing where the parties identify issues and concerns to determine the scope of workshops;⁹³
- (b) A cooperative consultation to determine the content of the workshops;⁹⁴
- (c) An interactive series of workshops supervised by the Commission similar to an SRP.⁹⁵

69. FEI submits that the CEC’s proposal is unprecedented, unworkable, and contrary to the purpose of PBR to provide regulatory efficiency. First, it is not necessary to have an oral hearing or consultation session (or both) to determine the scope and content of the workshops. The scope of the workshop is only limited by the scope of the proceeding. The topics of interest

⁹¹ CEC Submission, p. 23.

⁹² Workshop Transcript.

⁹³ CEC Submission, p. 23.

⁹⁴ CEC Submission, p. 23.

⁹⁵ CEC Submission, p. 22 and 23.

should be apparent from the information requests and the topics covered in FEI's presentation at the workshop do not preclude any party from raising any other topic of interest. Second, it is not practical for multiple parties to build up the content of a workshop presentation as the CEC suggests. In this regard, FEI notes the CEC's position that it "would be very useful if the Commission could direct this activity [the workshops] toward developing a useful record for understanding the failures of the PBR process..."⁹⁶ Given the CEC's vision for the workshops, and that FEI does not agree that PBR has failed, FEI doubts whether it will be possible for all parties to agree to the content of the workshops. Third, FEI does not agree that a "series of workshops" as recommended by the CEC is required. One workshop can cover as many topics as needed. Given that the workshop in this proceeding was able to be completed in a morning,⁹⁷ there is ample opportunity to expand⁹⁷ the workshop into the afternoon to cover any topics that need discussion.

70. It is also important to take into account that having an oral hearing, consultation sessions and multiple workshops will extend the time required to complete the regulatory process. This will in turn require FEI to file its application earlier in the year in order to have rates approved before January 1. This will mean that the Application will be based on less actual data and less actual data will be available over the course of the review. In addition, with annual reviews occurring each year, the prospect of regulatory lag deepening over the course of PBR is a material concern. FEI therefore submits that the CEC's proposal is unreasonable based on the time required to complete the process.

71. The additional process suggested by the CEC also comes with a cost to ratepayers in two ways. In addition to direct costs of the proceeding, including legal, PACA and Commission costs, there is a cost in terms of the resources required by FEI that could otherwise be directed to operating the utility and achieving efficiencies. The more FEI resources that are devoted to the regulatory process, the less time there is for other activities that could result in savings to ratepayers in support of the intent of the PBR Plan.

⁹⁶ CEC Submission, p. 22.

⁹⁷ Workshop Transcript, pp. 1 and 142.

72. When this annual review is complete and parties have had a chance to become familiar with how it works and have an understanding of the level of information to be provided, FEI would expect that the process in future annual reviews will be more focused on the key issues (rates for next year, SQI performance for prior year), be less costly to ratepayers and absorb fewer of FEI's resources. The CEC's submissions would suggest a different trajectory of increasingly complex annual reviews that increasingly cost more for ratepayers and absorb more of FEI's resources. For this reasons, FEI submits that the CEC's submissions are not in the public interest.

73. FEI submits that the Commission should maintain the regulatory process for annual reviews utilized in the current proceeding. The annual review for 2015 rates was the first annual review under the PBR period and FEI submits that the process in place will become more effective as all parties, including FEI, become more familiar with the workings of PBR and nature of the annual review process.

PART FOUR: CONCLUSION

74. FEI submits that based on the evidence in this proceeding, the approvals sought by FEI are just and reasonable and should be approved as filed subject to the adjustments set out in Part One of this submission.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated:

April 9, 2015

[original signed by Christopher Bystrom]

Christopher Bystrom
Counsel for FortisBC Energy Inc.