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April 26, 2019

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

Attention: Mr. Patrick Wruck, Commission Secretary and Manager, Regulatory Support

Dear Mr. Wruck:

Re: FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (collectively, FortisBC)

Application for Approval of a Multi-Year Rate Plan (MRP) for 2020 through 2024 (Application) ~ Project No. 1598996

Workshop Material

On March 11, 2019, FortisBC filed the above-referenced Application with the British Columbia Utilities Commission (BCUC). By Order G-64-19 the BCUC established the regulatory timetable for the Application, including a workshop to be held on Wednesday, May 1, 2019.

On April 18, 2019, the BCUC issued a letter (Exhibit A-3) requesting additional materials to be filed in advance of the workshop to clarify elements of the Application in order to assist the Panel in understanding the MRP proposal and to add to the effectiveness of the workshop. The following material provides the information requested by the Panel.

1. Earnings Sharing Mechanism (ESM)

BCUC Request:

An explanation and numerical example of how the 50/50 Earnings Sharing Mechanism (ESM) is proposed to be calculated, including a list of all revenue requirement components which are proposed to be subject to the ESM. Please include all applicable items referenced in Table C4-1 of the Application as part of the list.

FortisBC Response:

FortisBC's proposed ESM is discussed in Section C8.2 of the Application. FortisBC is proposing a 50/50 ESM based on the percentage variance from the allowed rate of return on equity for each of FEI and FBC. The earnings sharing is calculated as 50 percent of the difference between the achieved and approved ROE, multiplied by the equity component of actual rate base. This is the same basic calculation of ESM that is traditionally followed, that was followed in FEI's previous three PBR plans, and the same one that was proposed by FortisBC in its 2014-2018 PBR application. The following illustrates the calculation:

Line	Particulars	2022 Actual	Reference
1	Mid Year Rate Base	$ 5,000,000	
2	Equity Ratio	40%	
3	Equity Component of Rate Base	$ 2,000,000	Line 1 x Line 2
4			
5	Achieved ROE	10.00%	
6	Approved ROE	9.00%	
7	**ROE Surplus (Deficit)**	**1.00%**	Line 5 - Line 6
8			
9	After Tax Surplus for Sharing Purposes	$ 20,000	Line 3 x Line 7
10	**Customers' 50% Share of Surplus (net of tax)**	**$ 10,000**	Line 9 x 50%

At the Annual Reviews, FortisBC's proposed rates for the upcoming year will include a projection of the earnings sharing from the previous year. Then, in the following Annual Review, FortisBC's proposed rates will include a true-up for actual earnings in that year. For example, at the Annual Review for 2023 rates (filed in 2022), FEI and FBC's proposed rates for 2023 will include a projection of earnings sharing for 2022 and a true-up for actual earnings sharing results for 2021. The projection and true-up approach is consistent with how FEI and FBC include earnings sharing in rates under their current Multi-Year Performance Based Ratemaking Plans (Current PBR Plans).

Table C4-1 on page C-118 of the Application outlines the treatment of variances in the components of FEI's and FBC's revenue requirement. The five items in Table C4-1 that are labeled "Subject to earnings sharing" are presented in the excerpt from Table C4-1 below. These are the five revenue requirement items where variances will not be accounted for in the Flow-through Deferral Account or other deferral accounts, such that variances from approved amounts will fall to the bottom line (equity earnings). Consequently, variances in these items will have an impact on the achieved ROE and the ESM calculation.

FBC/FEI Items Subject to Earnings Sharing	Description
Gross O&M: Indexed based O&M variances	Variances in index-based O&M
Depreciation: Other depreciation variances	Variances in depreciation expense from Regular Capital (other than those driven by depreciation rate variances).
Other Revenues: All other revenue / income variances	Variances in other revenue not subject to a separate deferral account, such as connection fees, late payment fees, etc.
Interest Expense: Other interest variances	Variances in interest expense other than those driven by interest rate variances.
Income Tax: Other income tax variances	Variances in income tax expense other than those driven by income tax rate variances.

2. Capitalized Overhead

BCUC Request:

An explanation of how capitalized overhead is incorporated into Base Operations and Maintenance (O&M) expense, including whether the proposed increase to capitalized overhead has been included in FEI's Base O&M. Please also provide an explanation of how capitalized overhead will be treated during the proposed MRP term (i.e. is the capitalized overhead amount subject to the annual indexed-based increases and how are variances between formula and actual capitalized overhead accounted for?).

FortisBC Response:

Consistent with historical practice and in the Current PBR Plans, as discussed in Section D6.2 of the Application, FEI and FBC allocate a portion[1] of their respective operating costs (O&M) to capital. Capitalizing overheads in this manner recognizes that multiple business activities of the utility are involved to bring an item of property, plant and equipment into service.

FEI and FBC's proposed Base O&M is determined before the removal of overheads capitalized. Therefore, the percentage of O&M that FEI and FBC capitalize does not have any impact on the determination of Base O&M. In other words, Base O&M is a gross amount of O&M that is not affected by the overheads capitalized percentage.

Base O&M is escalated each year of the MRP using the proposed index-based O&M mechanism. Once the index-based O&M for a particular year is determined, then the items excluded from the indexed-based O&M discussed in Section C4.4 are added; these are also gross amounts. Finally, the overheads capitalized are subtracted to come to the Net O&M that is included in rates.

The following table illustrates the calculation of Net O&M, including the calculation of the Index-based O&M, the addition of O&M not included in Index-based O&M, and the capitalization of a portion these gross O&M amounts using both FEI's currently approved 12 percent and proposed 16 percent[2] capitalized overheads percentages. The Net O&M is embedded in rates in the test year and the portion capitalized is added to plant in the test year.

[1] 16 percent and 15 percent for FEI and FBC respectively

[2] In the Application, FortisBC is proposing to change FEI's capitalized overheads rate from 12 percent to 16 percent. No change is proposed to FBC's capitalized overheads rate.

Line	Particulars	Base	Year 1		Reference
1	Inflation (I factor)		2%		
2					
3	Unit Cost O&M {UCOM} ($/Customer)	$ 250	$ 255		Prior Year x (1 + Line 1)
4	Average Number of Customers		1,000,000		
5	Total Gross Index-based O&M ($000)		$ 255,000		Line 3 x Line 4
6	O&M excluded from index-based O&M ($000)		30,000		
7	Total Gross O&M ($000)		$ 285,000		Line 5 + Line 6
8					
9	Capitalized Overhead Percent		**12%**	**16%**	
10	Less: Capitalized Overhead ($000)		(34,200)	(45,600)	-Line 7 x Line 9
11					
12	Net O&M ($000)		250,800	239,400	Line 7 + Line 10
13					
14	O&M Embedded in Rates in Test Year ($000)		250,800	239,400	= Line 12
15	O&M Capitalized into Plant in Test Year ($000)		34,200	45,600	= -Line 10

Consistent with past practice, FortisBC books actual overhead capitalized to equal the approved capitalized overhead amount such that there is no variance between forecast and actual capitalized overhead amounts.

3. Regular Capital Variances

BCUC Request:

An explanation and numerical example of how variances between the five-year forecast for sustainment/other capital and growth capital (for FBC) and actual amounts will be treated during the proposed MRP term, including the impact on the calculation of annual return on equity (ROE) and the 50/50 ESM.

FortisBC Response:

Section C3 of the Application describes the mechanism by which FEI and FBC will determine their capital for the purpose of rate setting over the term of the MRP. For FEI's Growth capital, an index-based approach is used that begins with the proposed 2019 Base Unit Cost Growth Capital (UCGC), which is the Growth Capital per Gross Customer Addition. The UCGC is escalated by the proposed inflation factor and then multiplied by a forecast of gross customer additions each year to determine FEI's Growth Capital.[3] The balance of FEI's Regular Capital and all of FBC's Regular Capital uses a five-year forecast approach.[4]

[3] FortisBC also proposes a true-up to account for forecast error.

[4] Should FEI or FBC deem necessary, they will file an updated forecast of the 2023-2024 expenditures in 2022 to account for any material changes to the forecast that occur over that time period and to ask for approval of the changes.

Variances in Regular Capital are treated in the same fashion, regardless of whether the capital was determined through the index-based Growth Capital mechanism for FEI or whether the capital was included in the five-year capital forecast. Capital additions indirectly affect the revenue requirement through their impact on depreciation expense, interest expense and income tax expense. Therefore, variances in capital additions also affect earnings through their impact on depreciation, interest expense and income taxes. This treatment is again consistent with traditional ratemaking, FortisBC's historical treatment, and what was proposed in FortisBC's 2014-2018 PBR Applications.

The following calculations illustrate how variances in capital spending affect the achieved ROE. To simplify this calculation, FortisBC has ignored the fact that capital additions do not commence depreciating until the year after they are added to rate base.

In the example, capital spending has been forecast at $100 thousand. This capital addition attracts depreciation expense, interest expense, income taxes and equity return, which are all included in the revenue requirement, and consequently customers' rates. Assuming that actual capital spending was $95 thousand, actual depreciation expense, interest expense and income taxes would all be lower than approved, yet FortisBC would collect revenue assuming $100 thousand would have been spent because the forecasts for depreciation, interest and income taxes are embedded in rates.

Since the revenue collected is greater than the expenses incurred, the surplus falls to earnings and results in an increase in achieved ROE, all else equal. The difference between the achieved and approved ROE is shared with customers via the ESM described in response to item 1 above. Similarly, if the actual spending is greater than approved, the difference would fall to earnings and result in a decrease in achieved ROE. Any impact to the achieved ROE would be factored into the earning sharing calculation.

Line	Particulars	Forecast	Actual	Difference	Reference
1	Capital Spending	$ 100,000	$ 95,000	(5,000)	
2	Mid-Year add to Rate Base	$ 50,000	$ 47,500		
3					
4	Depreciation Rate	3.0%	3.0%		No depreciation impact in first year
5	Depreciation Expense	3,000	2,850		however, included in this calculation
6					
7	Debt Ratio	60%	60%		
8	Interest Rate	5.5%	5.5%		
9	Interest Expense	1,650	1,568		Line 2 x Line 7 x Line 8
10					
11	Income Tax Rate	27.0%	27.0%		
12	Income Tax Expense	666	632		Complex calc, therefore estimate
13					
14	**Sum of Depreciation, Interest and Income Tax Expense**	**5,316**	**5,050**	**(266)**	*** Line 5 + Line 9 + Line 12**

* Lower actual expenses than forecast, shown in the Difference column, will result in an increase to the earnings and, correspondingly, an increase in the achieved ROE.

4. Variances Outside of Indexed-Based O&M and Capital

BCUC Request:

Side-by-side comparison of the treatment of all revenues and expenses forecast outside of the indexed-based O&M formula under the proposed MRP and the current multi-year performance-based ratemaking (PBR) plans (Current PBR Plans) for each of FEI and FBC. Please also provide an explanation and numerical example of how revenues and expenses where variances are no longer proposed to be flow-through will be treated, and the difference in how these items will impact annual ROE and, if applicable, the 50/50 ESM.

FortisBC Response:

FortisBC has included in Appendix A a side-by-side comparison of the treatment of all variances under the proposed MRP and the Current PBR Plans. As illustrated in Appendix A, all variances are either (1) captured in the Flow-through deferral account, (2) captured in another approved deferral account, or (3) fall to the bottom line and are subject to earnings sharing. In Appendix A, FortisBC has:

- Identified with yellow highlighting where variance treatments in the proposed MRP are different from the Current PBR Plans;
- Identified those items that are subject to the ESM in bold font and as “Subject to earnings sharing mechanism”; and
- Identified the deferral accounts where variances in revenue requirement items will otherwise settle.

The response to item 3 above shows how variances in depreciation, interest and income tax variances affects the achieved ROE. As discussed in response to item 1 above and shown in Table C4-1 of the Application, variances from two other revenue requirement items will fall to the bottom line and be subject to earnings sharing: (1) index-based O&M and (2) Other Revenue that is not otherwise subject to a deferral account. These two items are discussed below.

If actual indexed-based O&M is less that the approved index-based O&M, then the variance falls to earnings and causes an increase in achieved ROE. Similarly, if actual Other Revenue is less than the approved amount, then the variance falls to earnings and causes a decrease in achieved ROE. The difference between the achieved and approved ROE is shared with customers through the ESM described in response to item 1 above.

The following calculation illustrates how variances in index-based O&M and the Other Revenue affect achieved ROE and are shared through the ESM. Because capitalized overheads is booked based on approved O&M (no variances), variances in index-based O&M are the same for both Gross and Net O&M.

Line	Particulars	Forecast	Actual	Difference	Reference
1	Index-Based O&M	$ 255,000	$ 250,000	(5,000)	
2	Other Forecast O&M	$ 30,000	$ 30,000		variances to flow-through
3	Total Gross O&M	$ 285,000	$ 280,000		Line 1 + Line 2
4	Capitalized Overhead Percentage	16%			
5	Capitalized Overheads	(45,600)	(45,600)		-Line 3 x Line 4 (no variance)
6	Net O&M	$ 239,400	$ 234,400	**$ (5,000)**	
7					
8					
9	Other Revenue	(40,000)	(38,000)	**$ 2,000**	
10					
11	**Variance falls to earnings and increases achieved ROE (all else equal)**			**$ (3,000)**	Line 6 + Line 9

5. Efficiency Carry-Over Mechanism

BCUC Request:

Numerical example of how the proposed Efficiency Carry-over Mechanism (ECM) would be calculated.

FortisBC Response:

Section C1-5 of the Application discusses the proposed ECM. Under FortisBC's proposed ECM, one-half of the difference between the simple average of the (after sharing) ROE realized over the last two years of the proposed MRP terms and the simple average of the authorized ROE over the same period is added to the approved ROE for two years after the end of the Proposed MRP terms (providing the difference is positive). This ROE adder would be capped at 50 basis points and would be applied to the mid-year rate base of the final year of the Proposed MRPs.

The following calculation illustrates how the proposed ECM will work. As described above, variances from index-based O&M, Depreciation, Interest and Income Taxes associated with variances in Regular Capital, and Other Revenue affect earnings. The variances can cause either an increase or decrease in achieved ROE. The following example assumes that the achieved ROEs in the last two years of the MRP term are greater than the approved ROE.

Line	MRP Year	4	5		Reference
1	Earnings	$ 195,000	$ 205,000		
2	Sharing	(5,000)	(5,000)		
3	**Earnings after Sharing**	**$ 190,000**	**$ 200,000**		Line 1 + Line 2
4					
5					
6	Mid Year Rate Base	$ 5,000,000	$ 5,000,000		
7	Approved Equity Thickness	40%	40%		
8	Equity Portion Mid Year Rate Base	$ 2,000,000	$ 2,000,000		Line 6 x Line 7
9	Earnings after Sharing	190,000	200,000		Line 3
10	**Achieved ROE after Sharing**	**9.50%**	**10.00%**		Line 9 / Line 8
11					
12				**Simple Average**	
13	Achieved ROE after Sharing	9.50%	10.00%		Line 10
14	Allowed ROE	9.00%	9.00%		
15	Difference	0.50%	1.00%	0.75%	Line 13 - Line 14
16					
17	50 percent of Difference (maximum 50 Bps)			0.38%	Line 15 / 2
18	Equity Portion Mid Year Rate Base Final Year of MRP			$ 2,000,000	MRP Year 5, Line 8
19	**Earnings added to Rev Reqt for two years post MRP**			**$ 7,500**	Line 17 x Line 18

Line 10 of the calculation shows an achieved ROE of 9.5 percent and 10.0 percent in MRP years 4 and 5, respectively. Assuming an approved ROE of 9.0 percent for this example, line 15 calculates the difference between the achieved and approved ROE. The ECM calculation uses the simple average of these two differences (0.75 percent) and then multiplies it by 50 percent to get the Equity Adder[5]. The Equity Adder of 0.38 percent (maximum 50 Bps) is multiplied by the equity portion of actual rate base from the last year of the MRP (year 5) to determine an earnings amount to be added to the revenue requirement. This earnings amount is added to the revenue requirement for two years after the end of the MRP term.

6. Targeted Incentives

BCUC Request:

Numerical examples of how each targeted incentive would be calculated and applied to ROE. For the proposed Power Supply Incentive, please also provide a numerical example, including an example showing how the calculation of power supply variances differs under the proposed MRP treatment and the treatment under the Current PBR Plan.

FortisBC Response:

The following numerical examples demonstrate the calculation of the targeted incentive for Natural Gas for Transportation (NGT) and the Power Supply Incentive (PSI). Please note that the NGT example calculation is applicable to each of the targeted incentives with the exception of the PSI.

[5] Maximum 50 BPS.

a) NGT Example

The NGT basis point incentive is taken from Table C8-1[6] and the targets are taken from Table C8-3[7] of the Application. The example below uses hypothetical figures for actual NGT consumption and the approved rate base. The calculation of the incentive is, therefore:

- Each year, determine if the annual target is achieved:
  - If no, the reward for that year is $0.
  - If yes, the reward is equal to the product of the Basis Point Incentive x Approved Rate Base x Equity Thickness.
- At the end of the MRP term, determine if the MRP Target is achieved:
  - If no, there is no MRP reward.
  - If yes, the MRP reward is equal to any annual incentive amounts missed. In the example below, 2020 was missed, thus the reward is equal to the product of the Basis Point Incentive x 2020 Approved Rate Base x Equity Thickness.

Line	Particulars	2020	2021	2022	2023	2024	MRP Target	Reference
1	NGT Consumption Target (PJ)	3.0	4.0	5.0	6.0	7.0	25.0	Table C8-3
2	Actual NGT Consumption (PJ)	2.0	4.1	5.1	7.0	9.0	27.2	Hypothetical
3	Difference	**-1.0**	**0.1**	**0.1**	**1.0**	**2.0**	**2.2**	Line 2 - Line1
4	Achieved (Yes/No)	**No**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	
5								
6	Basis Point Incentive	10	10	10	10	10		Table C8-1
7	Approved Rate Base ($000)	$ 5,000,000	$5,100,000	$5,200,000	$5,300,000	$5,400,000		Hypothetical
8	Equity Thickness	38.5%	38.5%	38.5%	38.5%	38.5%		Approved
9								
10	Incentive ($000)	$ 0*	$ 1,964	$ 2,002	$ 2,041	$ 2,079	$ 1925**	Line 6 / 10000 x Line 7 x Line 8

Notes

* Since the 2020 target is not met, the incentive for 2020 is $0

** The MRP target was achieved which adds back the incentive missed in 2020 (BPS x 2020 Approved Rate Base x Equity Thickness)

<u>Targeted Incentive Accounting Treatment (excluding PSI)</u>

The targeted incentive amount (per row 10 above) will be calculated on a final and full-year basis and, therefore, will be included in the Annual Review materials two years subsequent (for example, 2020 performance will be known in 2021 and will be evaluated for incentives in the Annual Review for 2022 rates). For added clarity, following approval of the incentive amounts in the Annual Review for 2022 Rates, the approved incentive amounts will be recorded in the MRP Incentives Deferral Account in 2021 and flowed to shareholders through 2022 rates.

[6] Exhibit B-1, Page C-159.
[7] Exhibit B-1, Page C-160.

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b) PSI Example

Calculation of the PSI involves the following three steps:

1. Calculation of the Eligible Mitigation Benefit: The Eligible Mitigation Benefit will calculate the value added by FBC as a result of its PPE optimization activities using "Eligible Resources", net of "Incremental Costs". The Eligible Mitigation Benefit will be determined by comparing FBC's actual cost of supply to FBC's cost of supply if FBC did not undertake any optimization activities with its Eligible Resources, including executing market purchases and selling surplus capacity, less any Incremental Costs. In other words, the Eligible Mitigation Benefit will be calculated by comparing FBC's actual PPE to the calculated PPE under a passive strategy in which FBC did not engage in any active optimization activity, and solely relied on its firm contracted resources to meet load.[8] FBC is using the calculated passive strategy PPE as a floor from which to calculate Eligible Mitigation Benefit. The calculation of the Eligible Mitigation Benefit will be based on actual load data as determined after the fact, thus removing any reductions that would have occurred only due to reduced load, and limiting the Eligible Mitigation Benefit only to savings achieved as a result of FBC's optimization activities using Eligible Resources.

2. Calculation of Incremental Costs: To create the PPE mitigation, FBC may incur additional costs, such as the cost of short-term wheeling reservations from BC Hydro, wheeling costs on Teck Metal Ltd.'s 71 Line and/or additional market research information from third parties. The value of Eligible Mitigation Benefit for which FBC receives an incentive is the market savings net of these Incremental Costs. At this time, the only known Incremental Costs will be short-term wheeling reservations from BC Hydro and wheeling costs on 71 Line, which will be included as an offset to the Eligible Mitigation Benefit.

3. Calculation of the Benefit Sharing Mechanism: The Benefits Sharing Mechanism allocates the first $7.5 million in benefits to customers, and any benefit beyond that with 90 percent going to the customer and 10 percent to the Company.

The PSI provides a framework that will ensure that customers receive the vast majority of the mitigation benefits, while incenting FBC to add value above what is reasonably expected in the normal course of business. FBC will be incented to focus on core optimization activities and to be innovative in looking at new optimization opportunities that meet the objectives of the PSI.

A numerical example of the PSI calculation is provided below:

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[8] The Eligible Mitigation Benefit will not be calculated by comparing actual to the forecast PPE for rate setting purposes. When forecasting PPE for rate setting, use of the various resources is based on forecast load and not all market purchases for the year have been executed. The Eligible Mitigation Benefit takes actual load into account, along with all mitigation activities over the course of the year.

Line	Particulars		2020 ($000)	Reference
1	PPA Energy Displacement	$	5,950	Hypothetical
2	PPA Capacity Displacement	$	1,980	Hypothetical
3	Surplus Capacity Sales	$	3,810	Hypothetical
4	Offsetting Incremental Costs	$	(140)	Hypothetical
5	Eligible Mitigation Revenue	$	11,600	Sum of Lines 1 through 4
6	Customer Share	$	11,190	$7,500k + 0.9 x [Line 5 - $7,500k]
7	**Power Supply Incentive (FBC Share)**	**$**	**410**	**Line 5 - Line 6**

PSI Accounting Treatment

Under the proposed MRP, the PSI amount (see row 7 above) is calculated as shown above. The calculated amount, if greater than zero, is collected from customers by being charged to the Flow-through deferral account for recovery in the following year(s).

7. MRP Deferral Account

BCUC Request:

Numerical example of what amounts will be added to the proposed MRP Incentives Deferral Account and how the amount to be collected from or refunded to customers would be calculated.

FortisBC Response:

The MRP Incentives Deferral Account is described in Section C5.3.2.1 of the Application. FortisBC proposes the MRP Incentives Deferral Account to capture the amounts determined through the ESM calculation as described in the response to item 1 and the Targeted Incentives (except for the PSI) as described in the response to item 6 above.

The numerical example below shows the approach that would be used to determine the amounts added to the MRP Incentives Deferral Account in 2022 and how that amount would be returned to (or recovered from) customers through amortization when setting rates for 2023 through the Annual Review process. During the Annual Review for 2023 Rates, FortisBC will calculate the projected ESM for 2022 and the achieved Targeted Incentives for 2021 that will be added to the MRP Incentives Deferral Account, shown below on lines 1 and 2. As the MRP Incentives Deferral Account is proposed to be a non-rate base account attracting a Weighted Average Cost of Capital (WACC) return, the opening balance and addition in lines 8 and 9, respectively, attract WACC as can be seen on Line 10. When setting rates for 2023, the 2022 closing balance will be returned to (recovered from) customers through amortization. In this example the ESM, Targeted Incentives and WACC return sum to a credit; therefore, when clearing the account through amortization, the credit amount is transferred to the revenue requirement and customers benefit from a lower revenue requirement in 2023.

Line	Particulars	2022	Reference
1	Earnings Sharing - Customer Share	$ (10,000)	Item 1, - Line 10
2	Targeted Incentive	$ 1,964	Item 6, Line 10, 2021
3	After Tax Addition to deferral	$ (8,036)	Line 1 + Line 2
4			
5	WACC Rate	5.80%	Approved
6			
7	**MRP Incentives Deferral**	**2022**	**Reference**
8	Opening Balance	-	Prior Year Ending Balance
9	After Tax Addition	(8,036)	Line 3
10	Financing	(233)	[Line 8 + (Line 9 + Line 12)/2] x Line 5
11	Net	(8,269)	Line 9 + Line 10
12	Amortization	-	- Line 8
13	Closing Balance	(8,269)	Line 8 + Line 11 + Line 12

8. Additional Documents

In addition to the responses above and for greater clarity, FortisBC has prepared a side-by side comparison of the Current PBRs and proposed MRPs. Please refer to Appendix B for this comparison. The areas that have changed are highlighted in yellow.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.
FORTISBC INC.

Original signed:

Doug Slater

Attachments

cc (email only): Registered Parties

Appendix A

COMPARISON OF TREATMENT OF VARIANCES

	Current Treatment (2014-2019 PBR Plan)	Proposed Treatment (2020-2024 MRP, Table C4-1, Page C-118)
	FEI	FEI
Delivery Revenues (FEI):		
Residential and commercial use rate variances	RSAM	RSAM
Customer variances	Flow-through deferral	Flow-through deferral
Industrial and all other revenue variances	Flow-through deferral	Flow-through deferral
Revenues and Power Supply (FBC):		
Revenue variances	N/A	N/A
Power Supply variances	N/A	N/A
Gross O&M:		
Index-based O&M variances	Subject to earnings sharing	**Subject to earnings sharing**
BCUC fees variances	BCUC Variances deferral	BCUC variances deferral
Pension & OPEB variances	Pension/OPEB variances deferral	Pension/OPEB variances deferral
All other O&M variances [1,3]	Flow-through deferral	Flow-through deferral
Capitalized Overhead:		
Capitalized overhead variances	No variance	No variance
Depreciation and Amortization:		
Depreciation rate variances	No variance	No variance
Depreciation on Clean Growth Projects[2,3]	Flow-through deferral	Flow-through deferral
Other depreciation variances	Flow-through deferral	**Subject to earnings sharing**
Amortization of deferrals	No variance	No variance
Property Tax:		
Property tax variances	Flow-through deferral	Flow-through deferral
Other Revenues :		
SCP Mitigation revenues variances	SCP Revenues deferral	SCP Revenues deferral
CNG/LNG Recoveries variances	CNG/LNG Recoveries deferral	CNG/LNG Recoveries deferral
Revenues from Clean Growth Projects[2,3]	Flow-through deferral	Flow-through deferral
All other other revenue/income variances	Flow-through deferral	**Subject to earnings sharing**
Interest Expense/Cost of Debt:		
Interest on RSAM/CCRA/MCRA/Gas storage	Interest on RSAM/CCRA/MCRA/Gas Storage	Interest on RSAM/CCRA/MCRA/Gas Storage
Interest rate variances	Flow-through deferral	Flow-through deferral
Interest on Clean Growth Projects[2,3]	Flow-through deferral	Flow-through deferral
Other interest variances	Flow-through deferral	**Subject to earnings sharing**
Income Tax:		
Income tax rate variances	Flow-through deferral	Flow-through deferral
Income tax on Clean Growth Projects[2,3]	Flow-through deferral	Flow-through deferral
Other income tax variances	Flow-through deferral	**Subject to earnings sharing**

Notes below are applicable to the Proposed 2020-2024 MRPs:

1: Including items forecast outside of the formula such as insurance premiums, NGT stations, biomethane, variable LNG production, integrity digs and EV charging stations.

2: Cost of service for NGT fueling stations and tankers, variable LNG production, and EV stations will be captured in the Flow-through deferral account.

3: Biomethane other revenues will continue to capture the actual cost of service of the biomethane capital assets and transfer it to the BVA

	Current Treatment (2014-2019 PBR Plan)	Proposed Treatment (2020-2024 MRP, Table C4-1, Page C-118)
	FBC	FBC
Delivery Revenues (FEI):		
Residential and commercial use rate variances	N/A	N/A
Customer variances	N/A	N/A
Industrial and all other revenue variances	N/A	N/A
Revenues and Power Supply (FBC):		
Revenue variances	Flow-through deferral	Flow-through deferral
Power Supply variances	Flow-through deferral	Flow-through deferral, net of PSI
Gross O&M:		
Index-based O&M variances	Subject to earnings sharing	**Subject to earnings sharing**
BCUC fees variances	Subject to earnings sharing	BCUC variances deferral
Pension & OPEB variances	Pension/OPEB variances deferral	Pension/OPEB variances deferral
All other O&M variances [1,3]	Flow-through deferral	Flow-through deferral
Capitalized Overhead:		
Capitalized overhead variances	No variance	No variance
Depreciation and Amortization:		
Depreciation rate variances	No variance	No variance
Depreciation on Clean Growth Projects [2,3]	Flow-through deferral	Flow-through deferral
Other depreciation variances	Flow-through deferral	**Subject to earnings sharing**
Amortization of deferrals	No variance	No variance
Property Tax:		
Property tax variances	Flow-through deferral	Flow-through deferral
Other Revenues :		
SCP Mitigation revenues variances	N/A	N/A
CNG/LNG Recoveries variances	N/A	N/A
Revenues from Clean Growth Projects [2,3]	Flow-through deferral	Flow-through deferral
All other other revenue/income variances	Flow-through deferral	**Subject to earnings sharing**
Interest Expense/Cost of Debt:		
Interest on RSAM/CCRA/MCRA/Gas storage	N/A	N/A
Interest rate variances	Flow-through deferral	Flow-through deferral
Interest on Clean Growth Projects [2,3]	Flow-through deferral	Flow-through deferral
Other interest variances	Flow-through deferral	**Subject to earnings sharing**
Income Tax:		
Income tax rate variances	Flow-through deferral	Flow-through deferral
Income tax on Clean Growth Projects [2,3]	Flow-through deferral	Flow-through deferral
Other income tax variances	Flow-through deferral	**Subject to earnings sharing**

Notes below are applicable to the Proposed 2020-2024 MRPs:

1: Including items forecast outside of the formula such as insurance premiums, NGT stations, biomethane, variable LNG production, integrity digs and EV charging stations.

2: Cost of service for NGT fueling stations and tankers, variable LNG production, and EV stations will be captured in the Flow-through deferral account.

3: Biomethane other revenues will continue to capture the actual cost of service of the biomethane capital assets and transfer it to the BVA

Appendix B

COMPARISON OF CURRENT AND PROPOSED PLANS

Current PBR Plans vs. Proposed Plans

Item		2014-2019 Plans FEI	2014-2019 Plans FBC	Proposed Plans FEI	Proposed Plans FBC
Term		Six years (2014-2019)		Five years (2020-2024)	
Formula	O&M	$OM_t = OM_{t-1} * [1 + (I-X)] * (1+G/2)$ G = Percentage growth in average number of customers		$OM_t = UCOM_{t-1} * (1 + I) * (G_t)$ G = Avg number of customers Customer growth forecast annually with true-up for actual in the following year(s).	
	Capital	$\text{Allowed Cost}_t = \text{Cost}_{t-1} * (1+I-X) * (1+G/2)$ Three categories: (i) growth capital, (ii) sustainment capital (iii) other capital	$\text{Allowed Cost}_t = \text{Cost}_{t-1} * (1+I-X) * (1+G/2)$ Three categories: (i) growth capital, (ii) sustainment capital (iii) other capital	5 year forecast; Exception: Growth Capital $GC_t = UCGC_{t-1} * (1+I) * G_t$ G = Gross customer additions Customer growth forecast annually with true-up for actual in the following year(s).	5 year forecast
		G = Service line additions for growth capital, average number of customers for Sustainment and Other capital	G = Average number of customers		
I-Factor		Composite index: 55% AWE:BC + 45% CPI:BC		No change; Composite index: 55% AWE:BC + 45% CPI:BC	
X-Factor		Fixed at 1.10% for the entire PBR term	Fixed at 1.03% for the entire PBR term	No X-Factor (Implied zero percent X-Factor)	
Y-Factor		Yes, Flow-through deferral account as well as a number of other deferral accounts such as DSM expenses, cost of gas/power supply, pension/OPEB expense.		Yes, Flow-through deferral account (although flow-through items are more limited) as well as a number of other deferral accounts such as DSM expenses, cost of gas/power supply, pension/OPEB expense.	
Z-Factor		Available for prudently incurred costs caused by exogenous factors.		Available for prudently incurred costs caused by exogenous factors.	
		Materiality threshold: 0.5% of 2013 base O&M which equalled \$1.15 million.	Materiality threshold: 0.5% of 2013 base O&M which equalled \$0.301 million.	No materiality threshold (prudently incurred costs should not be subject to a materiality threshold)	
ESM		50/50 symmetric sharing for variances in formula O&M and for earnings on formula capex variances within a dead band.		50/50 symmetric ROE sharing	

	2014-2019 Plans		Proposed Plans	
Item	**FEI**	**FBC**	**FEI**	**FBC**
Other Safeguard Mechanisms	Dead band for capital formula - If the capital dead band is exceeded, the opening plant in service for ratemaking purposes in the following year will be adjusted up or down by the amount that actual capital expenditures vary outside of the dead band from the formula-based amount, and the capital expenditure level utilized in calculating the earnings sharing is adjusted up or down by the same amount - One year 10% dead band or two-year cumulative 15% dead band		Dead band for capital formula - No capital dead band is proposed as the capital for majority of the capital spending categories is forecast and the proposed ESM and off-ramp provisions can sufficiently mitigate the risks to customers and the utilities.	
Other Safeguard Mechanisms	PBR Off-ramp Off ramp triggered if earnings in any one year varies from approved ROE by more than +/- 200 bps (post sharing) and/or earnings vary from approved ROE by more than +/- 150 bps (post sharing) in two consecutive years.		Off-ramp provision (No change) Off ramp triggered if earnings in any one year varies from approved ROE by more than +/- 200 bps (post sharing) and/or earnings vary from approved ROE by more than +/- 150 bps (post sharing) in two consecutive years.	
ECM	Only on a case-by-case basis		An ROE add-on to the Approved ROE for the two years after the end of the Plans' term calculated as one half of the difference between the average achieved and authorized ROE, to a maximum of 50 basis points, over the last two years of the Plan (providing the difference is positive).	
Incremental Capital	Available through CPCN process	Available through CPCN process plus specific major non-recurring projects	Available through CPCN process	Available through CPCN process
	Materiality threshold of $15 million	Materiality threshold of $20 million	Materiality threshold of $15 million	Materiality threshold of $20 million
SQIs	Yes, Included nine SQIs and four informational indicators	Yes, Included eight SQIs and three informational indicators	Yes, Included nine SQIs and four informational indicators. Adjustments to specific benchmarks, thresholds and annual basis of calculation.	Yes, Included eight SQIs and four informational indicators. Adjustments to specific benchmarks, thresholds and annual basis of calculation.
Innovation Fund	None		An innovation Fund aimed at accelerating investments in new technologies is proposed.	
Targeted Incentives	None		Yes; - Growth in RNG - Growth in NGT - GHG Emissions Reduction (Customer and internal) - Customer Engagement	Yes; - Customer Engagement - Growth in EV Transportation - Power Supply Incentive