



Doug Slater
Director, Regulatory Affairs

Gas Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (778) 578-3874
Cell: (778) 214-3842
Fax: (604) 576-7074
Email: doug.slater@fortisbc.com
www.fortisbc.com

October 28, 2019

British Columbia Public Interest Advocacy Centre
Suite 803 470 Granville Street
Vancouver, B.C.
V6C 1V5

Attention: Ms. Leigha Worth, Executive Director

Dear Ms. Worth:

Re: FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC)

Project No. 1598996

**Application for Approval of a Multi-Year Rate Plan for 2020 through 2024
(Application)**

**FortisBC Information Request (IR) No. 1 to the British Columbia Public Interest
Advocacy Centre representing the British Columbia Old Age Pensioners'
Organization, Active Support Against Poverty, Disability Alliance BC, Council of
Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory
Centre *et al.* (BCOAPO) on Intervener Evidence**

On March 11, 2019, FortisBC filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-241-19 amending the Regulatory Timetable for the review of the Application, FortisBC respectfully submits its IR No. 1 to BCOAPO on Intervener Evidence.

If further information is required, please contact the undersigned.

Sincerely,

**FORTISBC ENERGY INC.
FORTISBC INC.**

Original signed:

Doug Slater

Attachments

cc (email only): Commission Secretary
Registered Parties

FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) Application for Approval of a Multi-Year Rate Plan for 2020 through 2024 (the Application)	Submission Date: October 28, 2019
FortisBC Information Request (IR) No. 1 to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre <i>et al.</i> (BCOAPO) on the Evidence of Mr. Russ Bell (Exhibit C7-5)	Page 1

Topic: Achieved ROEs and evaluation of PBR performance

1.0 Reference: Investor Owned Utilities Achieved ROEs submitted per AUC Rule 005

FortisBC prepared the following tables based on reports filed by Alberta's investor owned distributors pursuant to AUC Rule 005.

Table 1: Realized ROEs for Alberta's Investor-owned Distribution Utilities

Achieved ROE					
	2013	2014	2015	2016	2017
Fortis Alberta	9.49%	9.77%	11.12%	9.70%	9.32%
ATCO Electric	10.99%	9.74%	9.90%	13.03%	13.21%
Atco Gas	11.86%	10.95%	11.10%	12.93%	16.03%

Table 2: Average Achieved ROEs vs Average Allowed ROEs for Gas Distribution Utilities during their Respective PBR Terms

Gas Utilities	Avg Achieved ROE		Avg Allowed ROE	Earnings above Allowed ROE	
	Pre ESM	After ESM		Pre ESM	After ESM
ATCO Gas (2013-2017)	12.57%		8.34% ¹	4.23% ²	
FEI (2014-2019) ³	9.30%	9.09%	8.75%	0.55%	0.34%

Table 3: Comparison of Average Achieved ROEs vs Average Allowed ROEs for Electric Distribution Utilities during their Respective PBR Terms

Electric Utilities	Average Achieved ROE		Average Allowed ROE	Earnings above Allowed ROE	
	Pre ESM	After ESM		Pre ESM	After ESM
Fortis Alberta (2013-2-17)	9.88%		8.34%	1.54%	
ATCO Electric (2013-2017)	11.37%			3.03%	
FBC (2014-2019) ⁴	9.36%	9.28%	9.15%	0.21%	0.13%

¹ The allowed ROE for 2013 to 2016 was set at 8.3%. For 2017, the AUC increased the allowed ROE to 8.5%.

² The Alberta PBR model does not include any ESM and all of the achieved earnings over the allowed ROEs are to the account of shareholders.

³ For FEI's annual realized ROEs, as well as the 2019 forecast, please refer to FortisBC's response to MOVE UP IR 1.4.1.

⁴ For FBC's annual realized ROEs, as well as the 2019 forecast, please refer to FortisBC's response to MOVE UP IR 1.4.1

FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) Application for Approval of a Multi-Year Rate Plan for 2020 through 2024 (the Application)	Submission Date: October 28, 2019
FortisBC Information Request (IR) No. 1 to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre <i>et al.</i> (BCOAPO) on the Evidence of Mr. Russ Bell (Exhibit C7-5)	Page 2

Table 4: Comparison of Variances Between Average Approved and Realized ROE for FEI and FBC vs their Peers in Alberta during their Respective PBR Periods

Comparison	Extent of Higher Earnings of Investor-owned Alberta Utilities Compared to FEI and FBC	
	PRE-ESM	AFTER ESM
Atco Gas vs FEI	3.68%	3.90%
Atco Electric vs FBC	2.83%	2.89%
Fortis Alberta vs FBC	1.34%	1.40%

Reference: Evidence of Mr. Bell, Exhibit C7-5 – Page 6

On page 6 of his evidence Mr. Bell states:

One must assume that FortisBC sought efficiencies and achieved them and the objectives of the MRP were achieved. In fact, the only quantitative measure is achieved returns. In each of the five years from 2014 through 2018, both FEI and FBC exceeded the allowed return ... While achieved ROE is not a perfect indicator, it is the only one that one can look at to see if the utility had a reasonable opportunity to recover prudently incurred costs.

- 1.1 Please confirm that the annual realized ROEs and calculations of variances between average realized ROEs and average approved ROEs shown in Tables 1 to 4 in the preamble above are correct. If not confirmed, please provide any corrections.
- 1.2 Please confirm that, in AUC Decision 23604-D01-2019⁵ regarding the AUC-Initiated Review Under the Reopener Provision of the 2013-2017 Performance-Based Regulation Plan for the ATCO Utilities, the AUC concluded that there was “no evidentiary basis to conclude that the earnings achieved by the ATCO Utilities above the Commission’s generically approved ROE were the result of a problem with the design or operation of the ATCO Utilities’ 2013-2017 PBR plans.”

⁵ Available online: http://www.auc.ab.ca/regulatory_documents/ProceedingDocuments/2019/23604-D01-2019.pdf

FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) Application for Approval of a Multi-Year Rate Plan for 2020 through 2024 (the Application)	Submission Date: October 28, 2019
FortisBC Information Request (IR) No. 1 to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre <i>et al.</i> (BCOAPO) on the Evidence of Mr. Russ Bell (Exhibit C7-5)	Page 3

- 1.3 Please confirm that in AUC Decision 23604-D01-2019⁶ the AUC allowed the ATCO Utilities to retain their earnings over the off-ramp threshold.

Topic: Comparison with Alberta

2.0 Reference: *FortisBC 2014 PBR Proceeding, Exhibit C5-12*

In FortisBC's 2014 PBR proceeding, Mr. Bell stated that the building block approach proposed by FortisBC is not significantly different from cost of service and that a price cap or revenue per customer cap models similar the ones adopted in Alberta would be preferable. For example, Mr. Bell provided the following response to BCUC IR 1.7 in FortisBC's 2014 PBR proceeding:

BCUC IR 1.7 Please clarify whether Mr. Bell is proposing that the Commission consider a price cap plan for both the gas and electric side of the utilities?

Response: Mr. Bell is concerned that the proposed hybrid approach does not provide the incentives that a pure price cap or revenue per customer cap will produce, and in fact is not dissimilar to Cost of Service regulation. Mr. Bell provided the ENMAX PBR as an example of a successful price cap PBR in Alberta.

Reference: Evidence of Mr. Bell, Exhibit C7-5, Page 12

In this proceeding, Mr. Bell commented that the use of forecast for capital dulls some of the incentives as it is a move back to cost of service, as follows:

Q12. Does there need to be a change in the way capital is treated in the MRP?

A12. No, as noted above, both FEI and FBC were able to earn an adequate return under the old model. Also, reconnecting the capital to a forecast dulls some of the incentives of the PBR model, as it moves back to a Cost of Service type of rate making.

⁶ Available online: http://www.auc.ab.ca/regulatory_documents/ProceedingDocuments/2019/23604-D01-2019.pdf



FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) Application for Approval of a Multi-Year Rate Plan for 2020 through 2024 (the Application)	Submission Date: October 28, 2019
FortisBC Information Request (IR) No. 1 to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre <i>et al.</i> (BCOAPO) on the Evidence of Mr. Russ Bell (Exhibit C7-5)	Page 4

Reference : AUC Decision 20414-D01-2016 (Errata), Paragraph 208

In the AUC's second generation PBR proceeding, Mr. Bell proposed the use of a building block approach similar to the PBR plans approved for FEI and FBC. AUC Decision 20414-D01-2016 (Errata) states at paragraph 208:

In addition to his preferred position of limiting capital tracker availability, Mr. Bell, on behalf of the UCA, proposed the use of a building blocks model PBR plan based on what is approved for FortisBC Inc. in British Columbia.²⁶² Mr. Bell explained that this version of building blocks starts with base capital and base O&M revenues and then adjusts the revenues by I-X and a growth factor to generate the revenue for each year. Base O&M and base capital amounts are determined from past actual amounts which are adjusted to arrive at the opening figures.²⁶³ Mr. Bell noted that K-bar and the building blocks model are similar.²⁶⁴

Reference: Evidence of Mr.Bell, Exhibit C7-5, Page 14

In this proceeding, Mr. Bell recommends the continuation of FEI and FBC's building block approach as approved by the BCUC in the 2014 PBR proceeding. Mr. Bell's evidence states:

Q16. What are your recommendations?

A16. Regarding O&M and Capital, I recommend that the same determination of O&M and Capital as was used in the 2014-2018 MRP be used in this 2020-2024 MRP.

- 2.1 Please confirm that despite Mr. Bell's objections to the building block approach expressed in FortisBC's 2014 PBR proceeding, Mr. Bell is now in favour of the building block approach over the Alberta PBR plans as indicated by Mr. Bell's position in the AUC's 2016 PBR proceeding.
- 2.2 Please explain why in Alberta's second generation proceeding Mr. Bell proposed a move away from Alberta's model to a building block approach similar to the one used in B.C.? Does this relate to the higher achieved ROEs in Alberta?
- 2.3 As indicated in the preamble to this question, in FortisBC's 2014 proceeding Mr. Bell stated the incentives associated with the proposed hybrid building block are not dissimilar to the incentives available in a cost of service approach. In this proceeding, Mr. Bell writes "reconnecting the capital to a forecast dulls some of

FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) Application for Approval of a Multi-Year Rate Plan for 2020 through 2024 (the Application)	Submission Date: October 28, 2019
FortisBC Information Request (IR) No. 1 to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre <i>et al.</i> (BCOAPO) on the Evidence of Mr. Russ Bell (Exhibit C7-5)	Page 5

the incentives of the PBR model, as it moves back to a Cost of Service type of rate making". Please reconcile the two statements.

Topic: Growth Factor In Alberta Models

3.0 Reference: AUC Decision 2012-237, paragraph 141⁷

The Commission agrees with the parties to this proceeding that the incentive properties of both price cap and revenue-per-customer cap plans are largely the same. Both types of plans rely on an I-X indexing mechanism that decouples revenues from the costs of service, thus creating efficiency incentives. Additionally, both price cap and revenue-per-customer cap formulas use customer growth as a driver for revenue growth, thus providing incentives to continue connecting new customers [Emphasis added].

Reference: AUC Decision 2013-435, paragraph 499⁸

499. To determine the amount of revenue the I-X mechanism will provide in a PBR year for a project or program proposed for capital tracker treatment, the calculated going-in revenue requirement associated with the capital expenditure category similar to that project or program, shall be escalated by the I-X index and adjusted by the forecast percentage change in billing determinants. In the formulas below, the Commission will designate the forecast percentage change in billing determinants in any given PBR year as "Q." As the Commission explained in Section 4.3.2 of this decision, multiplying the going-in revenue requirement for similar capital expenditures by the I-X index and adjusting for the percentage change in billing determinants results in a proportional allocation of the impact on revenue of any changes in billing determinants. As set out in Section 4.3.2, for the companies under the price cap PBR plan, this percentage change will be calculated across all billing determinants, including energy, demand, and the number of customers.⁵⁸² For the companies under the revenue-per-customer cap PBR plan, the percentage change will be calculated as a forecast weighted average change in the number of customers among rate classes.⁵⁸³ By way of example, the amount of revenue that would be provided

⁷ Available online: http://www.auc.ab.ca/regulatory_documents/ProceedingDocuments/2012/2012-237.pdf

⁸ Available online: http://www.auc.ab.ca/regulatory_documents/ProceedingDocuments/2013/2013-435.pdf

FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) Application for Approval of a Multi-Year Rate Plan for 2020 through 2024 (the Application)	Submission Date: October 28, 2019
FortisBC Information Request (IR) No. 1 to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre <i>et al.</i> (BCOAPO) on the Evidence of Mr. Russ Bell (Exhibit C7-5)	Page 6

under the I-X mechanism in 2013 for project i proposed for capital tracker treatment shall be determined as follows:

*(Revenue from the I-X mechanism)*_{2013i} =

$$(Going-in\ revenue\ requirement)_i \times (1+I-X)_{2013} \times (1+Q)_{2013}.$$

Reference: AUC Decision 22394-D01-2018, paragraph 234⁹

However, the Commission agrees with Ms. Sullivan that because the K-bar calculation takes into account the change in revenues arising from the change in billing determinants, captured by Q, it is reasonable to recognize the effect of that change in billing determinants on the utility's costs. Therefore, the Commission finds that in the second component of the K-bar calculation, in each year 2018 through 2022, the distribution utilities should inflate the average capital additions to that year's dollars using the I-X index and Q approved for that year. The Commission has modified Step 2(iv) of the 2018 base K-bar calculation earlier in Section 5.4.1 to this effect. [Emphasis added]

- 3.1 Please confirm that the PBR formulas in Alberta contain an explicit growth factor (as is the case for k-bar calculations and revenue per customer cap formulas) or an implicit growth factor (the case for price cap formula).
- 3.2 Please confirm that the implicit or explicit growth factors in the PBR formulas in Alberta consider 100 percent of the achieved growth.

Topic: Regression Analysis and statistical analysis

4.0 **Reference: Evidence of Mr. Bell, Exhibit C7-5, Page 9**

On page 9, when discussing the statistical relationship between O&M costs and customer numbers for FEI and FortisBC, Mr. Bell writes that "the slopes decrease materially for each of FEI and FBC when only actual data is used" in the respective regressions.

- 4.1 Does Mr. Bell's conclusion that "the slopes decrease materially" indicate that Mr. Bell found a statistically significant difference between the slope coefficients

⁹ Available online: http://www.auc.ab.ca/regulatory_documents/ProceedingDocuments/2018/22394-D01-2018.pdf

FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) Application for Approval of a Multi-Year Rate Plan for 2020 through 2024 (the Application)	Submission Date: October 28, 2019
FortisBC Information Request (IR) No. 1 to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre <i>et al.</i> (BCOAPO) on the Evidence of Mr. Russ Bell (Exhibit C7-5)	Page 7

derived using 2014-2018 FEI and FBC data and the slope coefficient derived using 2014-2019 (as provided in response to BCOAPO IR 1.23.1)?

4.1.1 If so, please provide all supporting statistical evidence showing a statistically significant difference in slopes.

4.1.2 If not, please explain the empirical basis for determining that any observed differences in slopes were “material.”

Topic: Efficiency Carry-over Mechanism (ECM)

5.0 Reference: Evidence of Mr. Bell, Exhibit C7-5, Page 13

On page 13 of his evidence, Mr. Bell discusses FortisBC's proposed ECM.

5.1 Please compare the ECM approved by the AUC for the PBR plans in Alberta with the ECM proposed by FortisBC in this proceeding.

Topic: Comparison of the existing PBR plans with the proposed MRPs

6.0 Reference: Evidence of Mr. Bell, Exhibit C7-5, Page 7

Mr. Bell states:

In Appendix 2 to my evidence I have prepared a comparison of the terms of the current MRP and the prior one. For the Current MRP, data is taken from Table A1-1: Summary of Proposed MRPs from Exhibit B-1 of the current Application. The data from the prior MRP is taken from Table B6-1: Summary of 2014 PBR Plan Proposal of the FEI 2014-2018 MRP, Exhibit B-1, and from Table B6-1: Summary of 2014 PBR Plan Proposal of the FBC prior MRP, exhibit B-1

Reference: Exhibit B-10; FortisBC response to BCUC IR 1.19.8

In response to BCUC IR 1.19.8, FortisBC provides a comparison of its existing, approved PBR plans with the proposed MRPs.

6.1 Please explain why, in Appendix 2 of his evidence, Mr. Bell compares FortisBC's proposed MRPs in this proceeding with FortisBC's PBR plan proposals in 2014



FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) Application for Approval of a Multi-Year Rate Plan for 2020 through 2024 (the Application)	Submission Date: October 28, 2019
FortisBC Information Request (IR) No. 1 to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre <i>et al.</i> (BCOAPO) on the Evidence of Mr. Russ Bell (Exhibit C7-5)	Page 8

rather than the 2014-2019 PBR plans approved by the BCUC, as provided in the referenced IR response.