

Doug Slater Director, Regulatory Affairs

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

Electric Regulatory Affairs Correspondence Email: <u>electricity.regulatory.affairs@fortisbc.com</u> 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

November 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. and FortisBC Inc. (collectively FortisBC)

Project No. 1598996

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

FortisBC Rebuttal Evidence

On March 11, 2019, FortisBC filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-272-19 amending the Regulatory Timetable for the review of the Application, please find enclosed FortisBC's Rebuttal Evidence in the matter noted above.

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

FortisBC Energy Inc. and FortisBC Inc. Application for Approval of a Multi-Year Rate Plan for 2020 through 2024

> Rebuttal Evidence of FortisBC Energy Inc. and FortisBC Inc.

> > November 26, 2019

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1 Q1: What is the purpose of this Rebuttal Evidence?

A1: The purpose of this Rebuttal Evidence is to respond to the Evidence of Mr. Russ Bell
 submitted on behalf of the BC Old Age Pensioners' Organization et al ("BCOAPO")¹.

The capitalized terms in this Rebuttal Evidence are as defined in the Application. For instance, "FEI" refers to FortisBC Energy Inc. (gas), "FBC" refers to FortisBC Inc. (electric) and the terms "FortisBC", "Utilities" and "Companies" refer to both FEI and FBC together. The "Current PBR Plans" refers to the 2014-2019 PBR Plans currently approved for FEI and FBC, while the "Proposed MRPs" refers to the proposed multi-year ratemaking plan in the Application.

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11 Q2: How is this Rebuttal Evidence organized?

- 12 A2: This Rebuttal Evidence is organized under the following main topic headings:
- 13 Principles and Evaluation of the Current PBR Plans
- FortisBC's Proposed Changes to the Current PBR Plans
- O&M and Capital Methodology
- 16 Efficiency Carry-over Mechanism
- Off Ramps and Reopeners
- 18 Comparison to Alberta
- 19 Targeted Incentives
- 20 Conclusion
- 21

¹ Exhibit C7-5

1 1.0 Principles and Evaluation of Current PBR Plans

- Q3: At page 3 of his evidence, Mr. Bell states: "While there was no explicit set of
 principles in the last MRP decision there was much discussion surrounding the
 principle that may apply." Mr. Bell states at page 3 of his evidence that "FortisBC
 seemed to place reliance on the opportunity to recover prudently incurred costs."
 Has Mr. Bell accurately characterized FortisBC's views on the principles
 applicable to the Current PBR Plans?
- A3: No. Mr. Bell refers only to the Principle that the utilities should have the opportunity to recover prudently incurred costs, but does not mention any of the other Principles that
 FortisBC put forward as being applicable to the Current PBR Plans. As set out on page 43 of FEI's 2014-2018 PBR Application, the Guiding Principles, in no particular order, were as follows:
- Principle 1: The PBR plan should, to the greatest extent possible, align the
 interests of customers and the Utility; customers and the utility should share in
 the benefits of the PBR plan.
- Principle 2: The PBR plan must provide the utility with a reasonable opportunity
 to recover its prudently incurred costs including a fair rate of return.
- 18Principle 3: The PBR plan should recognize the unique circumstances of the19Company that are relevant to the PBR design.
- Principle 4: The PBR plan should maintain the utility's focus on maintaining, safe,
 reliable natural gas service² and customer service quality while creating the
 efficiency incentives to continue with its productivity improvement culture.
- Principle 5: The PBR plan should be easy to understand, implement and
 administer and should reduce the regulatory burden over time.

25 On pages C-1 and C-2 of the Application, FortisBC has set out its Guiding Principles for 26 the Proposed MRPs, including additional details described as "Elements of Proposed 27 Multi Year Plan" for each of the Principles. As explained in FortisBC's response to 28 BCUC IR 1.19.7, except for changing the references to "PBR Plan" to "MRP", the 29 Guiding Principles are the same as those used in the 2014-2018 PBR Applications.

The opportunity to recover prudently incurred costs, including a fair rate or return, as stated in Principle 2, is a fundamental element of the regulatory compact. Any form of ratemaking regime – PBR, MRP or cost of service – must meet this Principle.

² In FBC's 2014-2018 PBR Application, the term "natural gas service" was replaced with "electrical service".

- Principle 1, regarding the sharing of the benefits of the MRP between the utility and its
 customers, is equally important and is reflected in FortisBC's proposed rebasing
 approach and earnings sharing mechanism (ESM).
- Principle 3, which is ignored in Mr. Bell's evidence, is also important to FortisBC's
 Application and is particularly apt in responding to Mr. Bell's recommendation to
 continue key aspects of the Current PBR Plans. Principle 3 is that the MRP "should
 recognize the unique circumstances of the Company that are relevant to the MRP
 design." In line with this principle, the Proposed MRPs are designed to provide FortisBC
 the flexibility and incentive to address challenges and pursue opportunities presented by
 changes in FortisBC's operating environment.
- Principle 4 continues to be an important part of the Proposed MRPs. FortisBC's proposed changes to O&M and capital will ensure that both Utilities have the necessary funding to continue to deliver safe, reliable service to their customers while maintaining the efficiency incentives through the ESM. Further, the proposed updates to service quality indicators will continue to ensure that any achieved savings is not at the expense of reduced service quality.
- Principle 5 regarding the ease of understanding and administration has also been an
 important consideration in this Application. As explained in response to BCUC IR 1.19.8,
 a number of proposed changes in the Application such as the judgement-based
 approach to X-Factor determination, proposed changes to the ESM calculation and the
 elimination of the capital dead band will improve the alignment with this Principle.
- In summary, in developing its proposal, FortisBC has relied on all five Principles and not
 just the opportunity to earn a fair return on invested capital as suggested in Mr. Bell's
 evidence.
- 25
- 26 Q4: At pages 3 to 6 of his evidence, Mr. Bell quotes from the BCUC's Decision 27 approving the Current PBR Plans, stating that the Decision seems to establish a 28 requirement to balance the interest of the customer and the utility. Mr. Bell sums 29 up as follows at page 6: "While there were many principles discussed in the 30 decision, and throughout the decision, the focus seems to be on providing the 31 utility with a reasonable opportunity to recover its prudently incurred costs 32 including a fair rate of return and incenting sustainable efficiencies, not incenting 33 unsustainable savings and enhancing regulatory efficiency." Has Mr. Bell fairly 34 characterized the principles in the Decision approving the Current PBR Plans?
- A4: No. While the 2014 PBR Decision did not include an explicit review of all PBR Principles
 discussed in the 2014-2018 PBR Application, it referred to these Principles in various
 sections of the Decision.
- Principle 2 was discussed explicitly in the 2014 PBR Decision to confirm FortisBC's
 assertions that, whether rates are set under cost of service or PBR, the BCUC remains

tasked with setting just and reasonable rates under Sections 59 to 61 of the UCA.
 FortisBC does not believe it would be a fair reading of the Decision to suggest that this
 discussion was intended to diminish the role of other principles.

4 Further, the BCUC's 2014 PBR Decision does refer to other principles. For example, as quoted by Mr. Bell, the BCUC's Decision stated: "Determinations resulting from this 5 6 examination [of the PBR elements] need to achieve a proper balance of risks and 7 rewards between the Companies and the ratepayer and reflect current reality." 8 [Emphasis added.] The requirement that the components of the MRP must "reflect 9 current reality" is aligned with FortisBC's Principle 3 discussed above. Similarly, in its 10 discussion of factors that should be considered in the productivity factor determination, 11 the BCUC commented that it would consider "the elements of Fortis' proposed PBR Plan 12 along with any other specific circumstances of Fortis." [Emphasis added.] Therefore, the 13 BCUC's 2014 PBR Decision was guided by the principle that the ratemaking plan should 14 recognize the unique circumstances of the utilities.

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Q5: On Page 6 of his evidence, Mr. Bell states that the only quantitative measure to assess whether the objectives of the Current PBR Plans were achieved is "achieved returns". Is this correct?

- A5: No. The comparison of achieved return on equity (ROE) to allowed ROE can be used in the BCUC's analysis of the Companies' performance during the 2014-2019 PBR term. However, Mr. Bell's focus on achieved returns as the only quantitative measure of PBR success or failure is too narrow and ignores the major differences between the building block approach approved in B.C and the price cap and revenue per customer cap model approved in Alberta.
- One of the advantages of the building block approach is that the O&M and capital expenditures are determined in separate formulas. This allows for a more granular analysis of a company's costs than what is possible under price cap or revenue per customer cap models. The more detailed analysis of a company's cost performance can then be relied upon for considering targeted improvements to the design of future rate plans.
- Section B2.3 of FortisBC's Application provides a quantitative evaluation of the Current PBR Plans. This includes analysis of O&M savings, capital expenditure variances (divided into Growth capital and Sustainment and Other capital in the case of FEI), both quantitative and qualitative evaluation of regulatory efficiency, and trends in rates over the 2014-2019 PBR term. Further, FortisBC's evaluation considers qualitative factors such as service quality measures and the plans' performance with respect to promoting innovation.
- In addition to the analysis conducted by FortisBC, Appendix C2-1 provides the results of
 Concentric's benchmarking study, which compares the financial and service quality

performance of FEI and FBC during the PBR term to their peer group of companies.
 Analyzing the compounded annual growth rates and the position of the Utilities relative
 to the median of the peer groups, as provided in Concentric's evidence, is another form
 of quantitative data that can be used to inform the BCUC's assessment of the Utilities'
 standalone and relative performance.

6 In summary, achieved ROE is not the only quantitative measure for assessing the 7 performance of the Companies during the PBR term. The BCUC can consider a number 8 of quantitative measures to assess the performance of the Companies and evaluate 9 whether the proposed changes are warranted.

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Q6: On page 3 of his evidence Mr. Bell comments that the PBR plan has been
 "successful in totality and provided a reasonable opportunity to recover prudently
 incurred costs and achieve a fair rate of return, although some components, such
 as capital may have been under-funded". What is FortisBC's response to this
 statement?

A6: As stated in the Application, FortisBC's view is that "the overall package of the Current
 PBR Plans' features has resulted in sizable benefits to both ratepayers and the Utilities."

18 However, FortisBC disagrees with Mr. Bell that historical achieved ROEs, on their own, 19 are sufficient indicators of the success or failure of the Current PBR Plans. Comparing 20 achieved return with allowed return can provide some insight regarding principle 2 (the 21 PBR plan must provide the utility with a reasonable opportunity to recover its prudently 22 incurred costs including a fair rate of return). However, a more granular level of analysis, 23 as provided in FortisBC's Application and discussed in guestion 5 above, will lead to a 24 better understanding of the Companies' performance and can assist the BCUC in 25 identifying the elements of the Current PBR Plans that may need to change.

- As explained in Section B2.3.5 of the Application, FortisBC's proposed changes are based in part on the results of its detailed quantitative and qualitative analysis of the Companies' performance under the Current PBR Plans.
- 29

30Q7:On Page 7 of his evidence, Mr. Bell suggests that there is no need to change the31structure of the Current PBR Plans because the Utilities have been able to achieve32their allowed ROE during the PBR term. Does FortisBC agree with this statement?

- A7: No. Achieved ROE is a backward looking indicator and does not reflect the Utilities'
 evolving business conditions and operating environment, stakeholders' feedback, recent
 industry trends or potential changes in regulatory objectives and priorities. The Proposed
 MRPs, on the other hand, are forward looking in nature and should reflect the Utilities'
 future needs, including the following factors that are not reflected in achieved ROEs:
- FortisBC's evolving operating environment and business conditions:

A central focus of the Application is to describe FEI's and FBC's evolving operating environment and set out FortisBC's strategy to address the associated challenges and opportunities. Specifically, Section B1 of the Application provides a review of FortisBC's changing operating environment and the implications that these have for the Proposed MRPs. As stated in the Application, key influences that are becoming increasingly predominant are:

- shifting climate policies at all level of government focused on reducing GHG
 emissions;
- 9 o changing customer expectations;
- 10 o an increasing need to engage stakeholders and Indigenous communities;
- 11 o aging infrastructure;

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- 12 o increased safety and security requirements; and
 - the need for innovation and adoption of new technologies.

The Proposed MRPs include a number of new or modified elements to address 15 16 these evolving business and operating conditions. These include Targeted Incentives 17 and the Clean Growth Innovation Fund that will boost FortisBC's efforts to reduce 18 greenhouse gas emissions while increasing system load, addressing customers' 19 expectations, and supporting innovation. The proposed changes to the determination 20 of capital expenditures and their formula elements will ensure the Utilities are 21 adequately funded to address their evolving needs. Mr. Bell's status quo proposal 22 lacks any consideration of the rapidly changing operating environment to which 23 FortisBC must respond.

• Regulatory priorities, stakeholder feedback and industry trends:

The BCUC's Decision dated February 1, 2019, regarding MoveUP's request for a Section 82 inquiry into regulatory mechanisms, confirmed that the regulatory process should also consider the prevailing industry trends and changes in regulatory priorities, stating:

- We are continually looking at external factors impacting utilities and we take all necessary steps to remain informed about emerging industry trends so that relevant issues may be explored in our regulatory review processes.³
- Therefore, refinements to the PBR plans may be warranted regardless of the achieved ROEs. For instance, as discussed in the Application, Dr. Makholm indicated that the utility industry is moving beyond the mere cost reduction perspective to incentive regulation and regulators are increasingly embracing other incentive frameworks that can better promote innovation and prepare for the future.

³ 2018 MoveUP Request for Section 82 Inquiry into Regulatory Mechanisms, BCUC Letter, pp. 1-2.

Negative industry productivity growth in recent years is another major trend that has been discussed in this proceeding⁴. FortisBC's Proposed MRPs have strived to consider these factors and include a number of proposals that are consistent with industry trends.

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5 In summary, contrary to Mr. Bell's suggestion, the Utilities' ability to achieve their 6 approved ROEs in the past does not imply that they will continue to be afforded a 7 reasonable opportunity to earn a fair return on their investments in future. Mr. Bell's sole 8 reliance on achieved returns is overly simplistic and lacks the depth needed to 9 understand FortisBC's performance during the 2014-2019 PBR term, analyze the strengths and weaknesses of the Current PBR Plans, or provide any insight into the 10 11 future needs of the Utilities. As discussed in detail in FortisBC's Application and in its 12 responses to information requests, FortisBC's operating environment has continued to 13 evolve in the six years that have passed since its 2014 PBR Applications. The current challenges and opportunities facing FortisBC, as well as the experience under the 14 15 Current PBR Plans and stakeholder feedback, together warrant the changes that 16 FortisBC has proposed in its MRPs.

17 2.0 FortisBC's Proposed Changes to the Current PBR Plans

18Q8:Mr. Bell prepares a comparison of the terms of the Current PBR Plans to the terms19of the Proposed MRPs in Appendix 2. Is Mr. Bell's comparison accurate?

20 A8: No. Mr. Bell compares FEI's and FBC's proposals in their 2014-2018 PBR Applications 21 to FortisBC's Proposed MRPs when he should have compared the approved 2014-2019 22 PBR Plans with the Proposed MRPs. In doing so, he has made a number of claims that 23 are incorrect. For instance, his claims regarding the changes to the efficiency carryover 24 mechanism and off-ramp provisions are incorrect. FortisBC's response to BCUC IR 25 1.19.8 provides an accurate comparison of the approved PBR plans with the Proposed 26 MRPs. In responses to BCUC IRs 6.1 and 7.1, Mr. Bell recognizes some of these 27 mistakes but fails to modify the associated comments or conclusions made in his 28 evidence.

In response to BCUC IR 5.1.1, Mr. Bell states that the comparison of the proposed PBR plans (instead of the approved PBR plans) to the Proposed MRPs indicates that "had the changes not been made in BCUC decision, the FortisBC returns would have been even higher". He further commented that he "compared the as applied for plan from the last plan to the as applied for plan in this plan to demonstrate that even if there are changes to the plan Fortis BC earned a reasonable return in the last plan, and in this plan, the BCUC can be comfortable in making changes."

However, Mr. Bell has not undertaken a detailed analysis of the offsetting impact of changes to the PBR plans. Although the changes to the proposed X-Factor and growth

⁴ Please refer to FortisBC's response to BCUC IR 1.13.2.

factor limited the amount of formula funding available to the Utilities, other changes such
 as modifications to the proposed capital dead-band and the flow-through mechanism
 mitigated the potential risks to both ratepayers and Utilities.

In summary, these claims have no foundation in evidence, and are based on the
erroneous assumption that the historical experience will continue into the future, even
though circumstances have changed and FortisBC's proposals have changed. As with
Mr. Bell's position generally, Mr. Bell's line of reasoning ignores the challenges
experienced with the Current PBR Plans and FortisBC's evolving operating environment,
which is presenting new challenges and opportunities to be addressed.

10 3.0 O&M and Capital Expenditures

11 3.1 <u>O&M Expenditures</u>

12Q9:At page 8 of his evidence, Mr. Bell states: "Both Fortis utilities have changed the13structure of the PBR plan related to the O&M. The change to O&M per customer14enhances the MRP in the favour of the utilities." Further, on page 9 he comments:15"FortisBC asserts that because there is a high correlation coefficient between16O&M and customers, then the appropriate measure is O&M per customer." What17is FortisBC's response to these claims?

18 A9: Mr. Bell's claims are incorrect. The strong correlation between O&M expenditures and 19 average number of customers indicates that the average number of customers is an 20 appropriate cost driver for O&M costs. FortisBC's use of O&M per customer is in fact 21 not different from the approach in the Current PBR Plans. As explained in FortisBC's 22 response to BCUC IR 1.21.1, using O&M per customer as proposed in the Application or 23 applying a growth factor to total O&M as in the Current PBR Plan produces the same 24 resulting total O&M since the variable that determines the total O&M is average 25 customers in both cases. This can also be shown in algebraic form. The current O&M 26 formula, assuming 100 percent growth factor, is provided below:

27 [1]
$$OM_{(T+1)} = OM_T * (1 + I - X) * (1 + G)$$

The G (the growth factor in the above formula) represents the percentage of change in average number of customers (AC) from one year to the next. As such the (1 + G) can be formulated as:

31 [2]
$$(1 + G) = 1 + [(AC_{(T+1)} - AC_{(T)}) / AC_{T}] = AC_{(T+1)} / AC_{T}$$

32 Replacing the (1+G) in formula [1] with the formula [2] will arrive at the following:

33 [3]
$$OM_{(T+1)} = OM_T * (1 + I - X) * AC_{(T+1)} / AC_T$$

This can then be expressed as a unit cost formula similar to the formulas proposed in the Application, as follows:

1 [4]
$$(OM_{(T+1)} / AC_{(T+1)}) = (OM_T / AC_T) * (1+I-X)$$

In his response to BCUC IR 4.1, Mr. Bell comments that he disagrees with FortisBC's calculations provided in response to BCUC IR 1.21.1. To justify his claim, he then compares the current formula, in which the growth factor is halved, to the proposed O&M per customer formula that considers the full growth factor. He then concludes that the two formulas are different. This is clearly an apples to oranges comparison. It is evident that the two formula will not produce the same amount if one reduces the growth factor by half and the other does not.

- Based on Mr. Bell's response to BCUC IR 4.1, FortisBC can only conclude that Mr. Bell's
 objection to the O&M per customer formula is not about the formula itself but rather
 relates to the elimination of the growth factor coefficient from the formula.
- As explained in response to BCUC IR 2.165.1.1, the use of a coefficient to the growth factor is not warranted. The expected industry productivity-improvement factor already reflects the impact of the economies of scale on cost trends for an average firm in the industry. As such, applying any coefficient other than one to the growth factor will double count the impact of these factors on the Companies' costs and is, in effect, an extra X-Factor. Further, as explained in response to BCUC IR 1.17.6, with the exception of the Regie in Quebec, other regulators do not apply a multiplier to utilities' growth factor.
- 19 In the 2014 PBR proceeding, Mr. Bell claimed that Alberta's PBR formulas do not 20 include a growth factor⁵. In this proceeding, in his response to FortisBC IR 3.1, Mr. Bell 21 concedes that the revenue per customer formula for Alberta natural gas distributors, as 22 well as K-bar calculations and Y-factor adjustments do consider a "full" growth factor. 23 However, Mr. Bell reiterates his 2014 position that the price cap formula for Alberta 24 electric distributors does not include a growth factor. These comments are false and 25 misleading. The lack of an explicit growth factor in the price cap formula does not imply 26 that the formulas do not reflect the costs associated with customer growth. To the 27 contrary, the AUC has clearly stated that both price cap and revenue per customer cap 28 use customer growth as a driver for revenue growth and they receive 100 percent of any 29 growth.
- 30 AUC Decision 2012-237, paragraph 141, states:⁶
- 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, <u>both price cap and revenue-</u> per-customer cap formulas use customer growth as a driver for revenue

⁵ For instance, in the 2014 PBR proceeding in response to BCUC IR 3.2 Mr. Bell stated: "In Alberta, there is no growth factor in the PBR formula". He made similar comments at the oral hearing.

⁶ Available online: <u>http://www.auc.ab.ca/regulatory_documents/ProceedingDocuments/2012/2012-</u> 237.pdf

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growth, thus providing incentives to continue connecting new customers [Emphasis added].

AUC Decision 2013-435, paragraph 499, states:⁷

4 499. To determine the amount of revenue the I-X mechanism will provide 5 in a PBR year for a project or program proposed for capital tracker 6 treatment, the calculated going-in revenue requirement associated with 7 the capital expenditure category similar to that project or program, shall 8 be escalated by the I-X index and adjusted by the forecast percentage 9 change in billing determinants. In the formulas below, the Commission will 10 designate the forecast percentage change in billing determinants in any 11 given PBR year as "Q." As the Commission explained in Section 4.3.2 of 12 this decision, multiplying the going-in revenue requirement for similar 13 capital expenditures by the I-X index and adjusting for the percentage 14 change in billing determinants results in a proportional allocation of the 15 impact on revenue of any changes in billing determinants. As set out in 16 Section 4.3.2, for the companies under the price cap PBR plan, this 17 percentage change will be calculated across all billing determinants, including energy, demand, and the number of customers.⁵⁸² For the 18 19 companies under the revenue-per-customer cap PBR plan, the 20 percentage change will be calculated as a forecast weighted average change in the number of customers among rate classes.⁵⁸³ By way of 21 22 example, the amount of revenue that would be provided under the I-X 23 mechanism in 2013 for project i proposed for capital tracker treatment 24 shall be determined as follows:

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

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

27 AUC Decision 22394-D01-2018, paragraph 234, states:⁸

28 However, the Commission agrees with Ms. Sullivan that because the K-29 bar calculation takes into account the change in revenues arising from the 30 change in billing determinants, captured by Q, it is reasonable to 31 recognize the effect of that change in billing determinants on the utility's 32 costs. Therefore, the Commission finds that in the second component of 33 the K-bar calculation, in each year 2018 through 2022, the distribution 34 utilities should inflate the average capital additions to that year's dollars 35 using the I-X index and Q approved for that year. The Commission has

⁷ Available online: <u>http://www.auc.ab.ca/regulatory_documents/ProceedingDocuments/2013/2013-435.pdf</u>

⁸ Available online: <u>http://www.auc.ab.ca/regulatory_documents/ProceedingDocuments/2018/22394-D01-2018.pdf</u>

- modified Step 2(iv) of the 2018 base K-bar calculation earlier in Section 5.4.1 to this effect. [Emphasis added]
- For a more thorough review of FortisBC's reasoning regarding the growth factor, please
 refer to FortisBC's responses to BCUC IR 2.165.1.1 and BCUC IR 1.17.7.
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Q10: On page 9 of his evidence, Mr. Bell claims that FortisBC's rebasing of its O&M for 2020 is based on forecast and not actual amounts and that FortisBC can manipulate the forecast data to their advantage. What is FortisBC's response to these claims?

- A10: As explained in the Application and responses to a number of information requests, the starting point for the proposed O&M per customer amount is the actual O&M expenditures for 2018. Using the 2018 actual O&M as the starting point ensures that the productivity savings achieved over the Current PBR Plans are factored in the Base O&M for the Proposed MRPs. The 2018 actual O&M is then adjusted for known and measurable changes, including incremental funding to support initiatives that address future key issues and challenges in the operating environment.
- Mr. Bell's allegation regarding manipulation of forecast data is baseless. In determining
 the incremental O&M funding, FortisBC uses a bottom-up approach to understand its
 needs and to produce a reasonable forecast. All forecast amounts are subject to BCUC
 scrutiny and approval.
- In response to Mr. Bell's comments in his responses to BCUC IR 4.2, 4.3 and 4.4 suggesting the incremental funding requests may not be necessary and may be an attempt by FortisBC to claw back savings achieved in the PBR term, FortisBC responds as follows:
- 25 FBC

26 System Operations, Integrity and Security – This funding is required to meet customer 27 expectations by improving processes concerning the efficient and effective completion of 28 work and represents the evolving needs of FBC. The incremental funding does not 29 represent a claw back of efficiencies achieved which are incorporated in the 2018 actual 30 O&M. The incremental funding is needed to address issues and challenges expected 31 over the term of the Proposed MRP. While cyber security may be the smallest cost of 32 the total incremental funding, the funding requested for cyber security is a continuation of the increases in expenditures for this area. In recent years, FBC has increased 33 34 expenditures for cyber security as it responds to evolving cyber risks. Table C2-16 in the Application provides FBC's historical O&M spending on cyber security going back to 35 2018. 36

37 FEI

1 Customer Expectations - This funding is not only for connecting new customers but is 2 also for customer retention. This helps to mitigate rate pressure, contributes to keeping 3 natural gas affordable and maximizes the use of FEI's energy delivery system for the 4 benefit of customers.

5 Engagement - This funding is for raising awareness of consumers in a lower carbon 6 future, the Climate Action Partners program and other supporting resources. This 7 funding is key to developing new demand and essential for demonstrating that FEI is 8 meeting customer expectations in bringing forward energy solutions that are innovative, 9 cost effective and that have lower emissions. The funding supports FEI's ability to attract 10 and retain customers, which is important to help maintain/increase load and mitigate rate 11 pressure, and is a clear benefit to customers.

- Indigenous Relations This funding is required to support renewing and strengthening
 Indigenous relationships, particularly with respect to access to land. Indigenous
 relationships are critical to successfully advancing the Companies' infrastructure
 projects.
- 16 System Operations, Integrity and Security – The funding is required to meet customer 17 expectations by improving processes concerning the efficient and effective completion of 18 work and represents the evolving needs of FEI. The incremental funding does not 19 represent a claw back of efficiencies achieved which are incorporated in the 2018 actual 20 O&M and instead are to address issues and challenges expected over the term of the 21 Proposed MRP. While cyber security may be the smallest cost of the total incremental 22 funding, the funding requested for cyber security is a continuation of the increases in 23 expenditures for this area. In recent years, FEI has increased expenditures for cyber 24 security as it responds to evolving cyber risks. Table C2-13 of the Application provides 25 FEI's historical O&M spending going back to 2018.
- 26

27 Q11: On Page 9 of his evidence, Mr. Bell states that "using forecast 2019 data to 28 measure the relationship between customers and costs can be misleading as the 29 full incentive properties of the PBR can be muted". He then refers to FortisBC's 30 response to BCOAPO IR 1.23.1 and claims that FortisBC relied on this regression analysis to support its assertions. He then presents the results of the regression 31 32 analysis with and without 2019 data and claims that by excluding the 2019 forecasts, the "slopes decrease materially" and that "it is apparent that at least for 33 34 FBC, using an inflated cost per customer will provide the utility with excess 35 revenues." He then provides FEI's and FBC's nominal unit costs as support of his 36 claims and states "the cost per customer is relatively flat unit the 2019 forecast". 37 What is FortisBC's reply to Mr. Bell's analysis?

 A11: The incentive properties of PBR have no relationship with the correlation and regression analysis conducted in this proceeding⁹.

3 FortisBC's Application included a correlation analysis to rebut the non-linearity argument 4 in the 2014 PBR Decision, but that is different from a regression analysis. In BCOAPO 5 IR 1.23.1, BCOAPO asked FortisBC to conduct a regression analysis on the same data 6 used in the correlation analysis. FortisBC provided the requested information and 7 explained the meaning of the slope and intercept in the regression equation. However, 8 FortisBC's proposed Base O&M is not based on the results of the regression analysis, 9 but rather on adjusted actual 2018 O&M. As explained in response to BCUC IR 10 2.165.1.1, the regression analysis provided in response to BCOAPO IR 1.23.1 has 11 limitations and, although it can be used as an input in BCUC's analysis, it is not 12 appropriate to rely on the slope of a regression line constructed with only six data points 13 to forecast FortisBC's incremental costs.

- Further, the inclusion of 2019 forecast data does not lead to misleading results. First, FortisBC expects that the 2019 actual O&M expense will be close to the forecasts used in this analysis10. Second, reducing the data points used in the regression analysis will decrease the statistical significance of the analysis (making it less reliable). Third, as indicated in Mr. Bell's response to FortisBC IR 1.4.1, he is not able to provide any statistical analysis to support his claim that the difference in computed slopes is statistically material.
- 21 Contrary to Mr. Bell's claims, the O&M per customer has not been relatively flat until 2019. The table included at the top of the page 10 of Mr. Bell's evidence relates to the 22 23 Companies' nominal O&M per customer costs. This analysis ignores the impact of 24 inflation on unit costs. When analyzing the unit cost trend to compare with the 2019 25 forecast, inflation should be removed from the trend. The following tables provide FEI's 26 and FBC's O&M per customer in real dollars. As can be seen, the trend is not flat but 27 rather is declining. Finally, the 2019 unit cost forecasts are very close to 2018 actual 28 O&M that are used as the starting point for calculating the 2020 Base O&M amount. 29 Therefore, the 2019 forecast data is not an outlier.

	2013	2014	2015	2016	2017	2018	2019*
FEI	286	258	253	246	244	240	241
FBC	64	66	63	60	59	59	59
*2019 n	umbers a	are foreca	st				

- 30 Actual Formula O&M per Customer from 2013 to 2019 (Real \$)
 - *2

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⁹ Rather, as explained in FortisBC's response to BCUC IR 1.6.3, the incentive properties of PBR plans are derived from the decoupling of revenues and costs during the Plans' terms, the length of the rate period and the amount of costs that are subject to an incentive framework. The incentives are also impacted by the inclusion of an earnings-sharing mechanism and an efficiency carry-over mechanism.

¹⁰ Earning sharing mechanism calculations in FEI's and FBC's interim rates Applications use the same 2019 projected Formula O&M amounts as provided in response to BCOAPO IR 1.23.1.

- 1
- 2 Q12: On Page 10 of his evidence, Mr. Bell provides FEI's and FBC's incremental cost 3 per incremental customer during the PBR term and states: "the incremental cost 4 per incremental customer is not linear. As demonstrated below, the 5 incremental cost per incremental customer fluctuates from year to year." What 6 is FortisBC's response to this analysis?
- A12: FortisBC's proposed cost driver/growth factor for O&M formulas in both existing and proposed formulas is the average number of customers, not the incremental customers
 considered in Mr. Bell's analysis. As such, the lack of linearity between incremental customers and incremental costs is irrelevant to the proposed O&M formulas.
- 11 The analysis purportedly examines data on FortisBC's "incremental O&M cost per 12 incremental customer." To the best of FortisBC's knowledge, "incremental O&M cost per 13 incremental customer" as provided in Mr. Bell's evidence is a novel cost concept in utility 14 ratemaking. It is also not clear what "incremental cost per incremental customer" is 15 designed to measure and, therefore, what practical relevance or implications it has in 16 this proceeding. It is clear, however, that this concept is not consistent with "incremental 17 cost" measures that are used in utility regulation.
- 18 Incremental cost measures reflect the costs of additional resources that are necessary to 19 provide additional services, such as the costs of serving new customers or increasing 20 energy delivery capacity. They are developed using a detailed, bottom-up analysis of 21 what additional capital and operational resources must be put in place to provide 22 expanded service. This bottom-up analysis, in turn, draws on engineering and 23 operational knowledge, as well as an in-depth understanding of the service territory and 24 customer characteristics over which the new services will be provided. Utilitv 25 incremental cost measures are often project or activity-based.
- 26 One important element in developing incremental cost measures is identifying only the 27 incremental costs that are associated with a change in utility output. Indeed, isolating 28 and including only the costs of additional resources necessary to expand service is the 29 essence of the cost calculation.
- 30 Mr. Bell's "incremental cost per incremental customer" analysis does not conform to any 31 of these concepts. It is developed using aggregate, company-wide data on O&M cost 32 and customer numbers. Mathematically, incremental cost per incremental customer is 33 calculated as the change in O&M costs between two years divided by the change in 34 customer numbers in those two years. This is clearly a "top down" analysis that bears 35 no relationship to bottom-up incremental cost metrics. Mr. Bell's simple "incremental 36 cost per incremental customer" measure does not control for any other factors that may 37 be impacting FortisBC's O&M costs in any given year. Implicitly, Mr. Bell's analysis 38 ascribes all the change in O&M cost between two years to customer growth.

1 This is clearly unrealistic. Utility O&M can change from year to year for a variety of 2 factors that are unrelated to customer growth. A partial list of these factors includes 3 fluctuating rates of wage and input price inflation that impact the prices paid for O&M 4 inputs; maintenance cycles that vary from year to year; the impact of new legislative or 5 regulatory requirements; storm activity and weather events that impact power outages 6 and the need to restore service; the ebb and flow of new employee hires and 7 retirements; changes in procuring new supplies; and the installation of new software 8 systems.

9 In addition, FortisBC's O&M data over the 2014-2019 period is impacted by the efficiency-enhancing initiatives that were put in place during the 2014-2019 PBR term 10 11 and which produced relatively larger O&M cost declines in the earlier years. Mr. Bell's 12 "incremental cost per incremental customer" calculations do not control for any of these 13 non-customer related items that impact annual changes in O&M cost. It is therefore not 14 surprising that his selected metric fluctuates from year to year, and sometimes turns 15 negative. Mr. Bell's analysis therefore provides no useful information on the relationship 16 between O&M costs and customer growth. Accordingly, it has no bearing on the growth 17 factor and should be given no weight by the BCUC.

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19Q13:Mr. Bell notes on page 8 of his evidence that both FEI and FBC spent less than20formula O&M from 2014 to 2018. Further on page 10 of his evidence, Mr. Bell21suggests that there does not appear to be a need to change the O&M22methodology since during the studied period the Companies have spent less than23the formula amounts. What is FortisBC's response to these statements?

- 24 The fact that FEI and FBC's O&M actuals from 2014 to 2018 were less than that allowed A13: 25 under the formula does not suggest that there will be a similar level of O&M savings 26 achievable during the Proposed MRP term. In fact, it is likely to be to the contrary. FEI 27 and FBC have been operating under a PBR plan since 2014 and have been successful 28 in achieving O&M savings (i.e. actuals as compared to that allowed under formula). The 29 opportunities for O&M cost reductions have been steadily diminishing over the 2014-30 2019 PBR term and there is now limited potential for future productivity gains. At the 31 same time, FEI and FBC are experiencing new cost pressures. This is evidenced by the 32 decline in the annual O&M savings achieved in recent years¹¹. FortisBC expects the challenge of achieving sustainable savings while managing cost pressures¹² to continue 33 34 over the Proposed MRP term.
- In recognition of this, FortisBC proposes to determine O&M funding on an index-based
 O&M per customer basis, escalated by inflation. This will provide certainty in funding
 levels and promote a culture of "doing more with what we have".

¹¹ Application – Table B2-2 FEI and Table B2-3 FBC, Formula O&M Savings from 2014 to 2019.

¹² MRP Application – page C-16, Examples of cost pressures during MRP for which FortisBC is not requesting incremental funding.

1 3.2 Capital Expenditures

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Q14: Mr. Bell states at page 11 of his evidence that the level of FEI's capital for Sustainment and Other appears to increase dramatically in the forecast period. What is FEI's response?

- 5 A14: Mr. Bell characterization of FEI's capital forecast is incorrect.
- 6 First, the figures stated by Mr. Bell on page 11 of his evidence contain the following 7 errors, the latter two of which were corrected in FortisBC Errata filed on May 9, 2019:
 - FEI's total actual sustainment and other capital in 2015 was \$117.377 million (not \$17.377);
- FEI's total forecast sustainment and other capital in 2020 is \$161.300 million; and
 - FEI's total forecast sustainment and other capital in 2024 is \$169.884 million.
- Second, Table 1 below demonstrates that, when adjusted for FortisBC's weighted labour and materials index (in \$2020), FEI's average annual expenditures for Sustainment and Other Capital are forecast to increase by only 1.06 percent when compared to expenditures during the 2017-2019 period under the Current PBR Plan.
- 17 It is more relevant to compare FortisBC's forecast expenditures to the more recent 2017-18 2019 period than to the earlier years of the 2014-2019 PBR plan. As described in 19 Section C3.3.2 of the Application and throughout the PBR Annual Review processes, in 20 the period from 2014 to 2016 FEI attempted to maintain capital spending within the 21 formula amount by reprioritizing some projects that were assessed as having some 22 flexibility in timing. Ultimately, FEI determined that it was untenable to continue to 23 manage within the formula allowed amount. This resulted in higher spending levels in 24 2017 to 2019 for Sustainment and Other capital relative to the 2014-2016 period that are 25 more consistent with longer-term system requirements. Therefore, a comparison of 26 2020-2024 forecast expenditures to 2014-2016 actual expenditures is not relevant given 27 that those expenditure levels were untenable to continue over the term of the PBR.
- Furthermore, during the forecast period from 2020 to 2024, the planned expenditures shows a decreasing trend when stated in real dollars, as shown in Line 16 of Table 1, demonstrating FEI's efforts towards maintaining stable and predictable spending for Sustainment and Other expenditures.

Table 1: FEI Sustainment and Other Capital, 2014 - 2024 (\$2020, thousands)

													Ave	rage	-	
Line	_	2014	2015	2016	2017	2018	2019P	2020F	2021F	2022F	2023F	2024F	2017-19	2020-24	Change	Application/ IR Reference
1	Rate of Inflation	1.796%	1.374%	1.410%	2.318%	2.730%	2.068%	2.000%	2.000%	2.000%	2.000%	2.000%				
2																
3	Sustainment Capital															
4	Customer Measurement	\$ 27,421	\$ 31,645	\$ 32,982	\$ 33,674	\$ 34,638	\$ 31,454	\$ 30,559	\$ 30,714	\$ 30,547	\$ 30,589	\$ 30,467	\$ 33,255	\$ 30,575	-8.06%	C-65, Appendix B8-2
5	Transmission System Reliability & Integrity	24,798	33,746	34,731	40,210	40,702	43,147	42,213	36,862	39,428	43,151	43,749	41,353	41,080	-0.66%	C-66, Appendix B8-2
6	Distribution System Reliability	12,594	14,007	12,322	15,687	13,798	10,501	14,539	12,159	18,478	11,766	20,353	13,328	15,459	15.98%	C-69, Appendix B8-2
7	Distribution System Integrity	33,339	17,396	19,017	22,162	26,192	23,419	24,219	30,995	24,106	27,256	20,480	23,925	25,411	6.21%	C-71, Appendix B8-2
8	Total, Sustainment Capital	98,153	96,795	99,052	111,732	115,329	108,521	111,530	110,729	112,559	112,761	115,049	111,861	112,526	0.59%	Appendix B8-1, BCOAPO 1.57.1
9																
10	Other Capital															
11	Equipment	9,272	8,122	8,433	13,488	16,647	13,419	15,106	13,116	11,811	11,402	11,188	14,518	12,524	-13.73%	C-73, Appendix B8-2
12	Facilities	4,570	2,744	3,975	5,372	5,470	5,120	6,356	7,821	5,536	6,411	5,207	5,321	6,266	17.76%	C-74
13	Information Systems	26,286	16,245	19,301	24,155	23,688	27,047	28,308	28,001	27,322	25,914	25,503	24,963	27,010	8.20%	C-74, Appendix B8-2
14	Total, Other Capital	40,128	27,112	31,709	43,015	45,805	45,587	49,770	48,937	44,669	43,727	41,897	44,802	45,800	2.23%	
15																
16	Total, Sustainment and Other Capital	\$ 138,281	\$ 123,907	\$ 130,761	\$ 154,747	\$ 161,134	\$ 154,108	\$ 161,300	\$ 159,667	\$ 157,228	\$ 156,488	\$ 156,947	\$156,663	\$158,326	1.06%	
17	=															
18	Total, \$ Nominal	\$ 122,918	\$ 111,654	\$ 119,492	\$ 144,689	\$ 154,774	\$ 151,086	\$ 161,300	\$ 162,860	\$ 163,580	\$ 166,066	\$ 169,884				BCUC 2.180.1 excl. System
	-															Improvements (DP) and CIAC

Q15: Mr. Bell states at page 11 of his evidence that FBC appears to be forecasting a material increase in capital in the new MRP. What is FBC's response?

A15: The figures on page 11 of Mr. Bell's evidence do not reflect that FBC's Regular Capital in 2014 was corrected from \$67.761 million to \$75.490 million in the Errata filed on June 21, 2019.

FBC's regular capital requirements during the Proposed MRP term represent a greater magnitude of increase compared to the increases required by FEI. Accordingly, FBC provides a more extensive breakdown of its inflation-adjusted capital expenditures in Table 2 below. For the reasons described in the response to Question 14, average forecast expenditures over the proposed term of the MRP are compared to the average expenditures in the 2017-2019 period.

Ongoing growth, sustainment, and other capital programs and expenditures make up 89 percent of FBC's capital requirements during 2017-2019 and 74 percent during the Proposed MRP term, as seen on line 55 of Table 2. The remainder of FBC's capital requirements consists of discrete or non-recurring projects or programs.

When adjusted for labour and materials inflation, FBC's forecast capital expenditures of an ongoing nature are higher, by approximately 3.6 percent on an average annual basis, than during the 2017-2019 period (line 54 of Table 2). FBC, in the Application and in the responses to IRs, has explained its forecast methods and reasons for changes in the levels of program expenditures. The Application page and/or IR references are provided in the table below.

Non-recurring projects and programs are driven by increasing demand for electricity, by the need to upgrade or replace infrastructure to ensure safe and reliable service, and by legislative requirements. Given FBC's relatively small asset base compared to many utilities, the timing of these non-recurring expenditures can easily give rise to year-to-year variation or to periods of asset renewal resulting in higher spending. FBC is cognizant of the rate impacts of higher capital spending but is unable to compromise its ability to serve load, maintain reliability, ensure public and employee safety, and meet legislative requirements. The need to complete the forecast non-recurring projects or programs during the MRP term has been extensively canvassed during the process to date and referenced in Table 2.

In summary, the level of FBC's capital expenditure forecast is based on a combination of historical trends and known future requirements, has been subject to extensive review and justification, and is contingent on BCUC approval. This review shows that the great majority of the increase in the Proposed MRP term compared to the 2017-2019 period is

driven by discrete and non-recurring projects¹³, confirming that historical spending is not, in all cases, a reliable basis on which to forecast future spending.

¹³ On an annual average basis, the increase in the Proposed MRP term compared to 2017-2019 is \$2.199 million while the annual average increase for non-recurring projects is \$16.804 million (see lines 54 and 113 of Table 2).

Table 2: FBC Regular Capital, 2014 - 2024 (\$2020, thousands)

												Aver	age	-	
Line	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2017-19	2020-24	Change	Application/ IR Reference
1 Rate of Inflation	1.796%	1.374%	1.410%	2.318%	2.730%	2.068%	2.000%	2.000%	2.000%	2.000%	2.000%				
2															
3 Growth Capital															
4 Distribution Small Growth Projects	\$ 1,525	\$ 519	\$ 32 \$	719 \$	470	\$ 135	\$ 1,040	\$ 1,049	\$ 1,059	\$ 1,057	\$ 1,050				C-83;BCUC 1.98.2 - 198.5, 202.4; BCOAPO 1.63.2, 2.137.2
5 Distribution Unplanned Growth Projects	1,072	674	515	1,201	730	627	707	790	677	732	724				C-83
6 New Connects	17,343	17,687	16,299	18,822	22,806	16,258	18,141	18,729	19,024	18,081	18,628				BCOAPO 2.141.1
7	19,940	18,880	16,846	20,742	24,006	17,020	19,887	20,568	20,760	19,871	20,402	20,589	20,298	-1.42%	
8															
9 Sustainment Capital															
10 Concrete Structures Rehabilitation	793	472	320	540	513	396	685	805	941	1,063	941				C-85; BCUC 1.54.2 - 54.3; BCOAPO 1.65.1; CEC 1.7.5
11 Other Gates Upgrades	-	145	31	249	633	-	481	98	398	227	503				C-86; BCUC 1.54.2, 2.199.2; BCOAPO 1.66.2 - 66.5
12 Dewatering and Drainage Systems	-	62	236	56	75	56	116	342	335	329	322				C-88; BCUC 1.54.2, 2.199.9 - 199.10
13 Other Buildings and Structures Projects	855	846	551	743	184	193	143	385	766	176	129				BCUC 1.54.2; BCOAPO 1.69.1
14 Other Hydraulic Dam Structures Projects	-	28	29	-	-	185	588	314	341	274	67				BCUC 2.199.4 - 199.6
15 Other Generating Equipment Projects	2,352	149	98	329	285	881	811	818	688	460	618				BCUC 2.199.7 - 199.8.1
16 Other Auxiliary Equipment Projects	2,438	574	1,011	1,002	772	592	506	185	168	164	161				BCUC 2.199.11
17 Generation Sustainment	6,439	2,276	2,277	2,919	2,462	2,304	3,330	2,946	3,637	2,694	2,742	2,562	3,070	19.83%	BCUC 1.54.2
18															
19 Transmission Line Condition Assessment	592	432	533	501	486	739	740	417	608	473	549				C-89; BCUC 1.10.6, 2.200.2; BCOAPO 1.70.3.2, 2.138.1
20 Transmission Line Rehabilitation	3,907	5,445	4,096	3,064	3,177	2,184	4,913	4,247	3,224	5,483	4,887				C-89; BCUC1.10.6, 2.200.2 - 200.3; BCOAPO 1.70.3.2, 2.138.1
21 Tranmission Urgent Repairs	358	579	327	520	819	454	501	515	568	473	527				C-90; BCUC 1.10.6
22 Transmission Rights of Way	523	440	485	477	399	463	453	444	446	444	448				C-90; BCUC 1.10.6
23 Transmission Sustainment	5,380	6,897	5,442	4,562	4,881	3,840	6,607	5,623	4,845	6,874	6,411	4,428	6,072	37.12%	
24															
25 Station Urgent Repairs	760	993	605	466	934	579	574	582	661	578	605				C-91; BCUC 2.201.4
26 Station Assessment/Minor Planned	1,312	1,285	1,480	1,349	1,124	1,312	1,317	1,327	1,340	1,337	1,328				C-91
27 Minimum Oil Circuit Breaker Replacement	-		-	1,180	831	1,274	1,055	1,063	1,073	1,071	1,064				C-94; BCOAPO 1.76.1 - 76.2
28 Ground Grid Upgrades	686	-	755	-	350		698		548		522				C-92; BCOAPO 1.75.1, 2.140.1
29 Station Oil Containment	-	85	228	282	465	-	700	319	263	258	351				C-94
30 Station Sustainment	2,758	2,362	3,068	3,276	3,704	3,165	4,345	3,292	3,885	3,244	3,870	3,382	3,727	10.21%	
31															
32 Distribution Line Condition Assessment	1,284	1,219	1,543	1,583	1,182	2,059	1,645	1,658	1,569	1,614	1,722				C-96; BCUC 1.57.5
33 Distribution Line Rehabilitation	3.269	2.381	3.544	3.557	3.194	3.105	2,802	3.087	2,760	2.525	2.910				C-96: CEC 1.7.5
34 Distribution Line Rebuilds	2.034	1.931	1.583	2,916	1.417	2.008	2.183	2,200	1.867	1.826	1.778				C-96
35 Distribution Urgent Repairs	2,883	4,898	1,903	3,206	3,877	2,668	2,620	2,694	2,626	2,660	2,646				C-96
36 Distribution Small Planned Capital	603	758	821	978	933	988	1.034	1.084	1.163	1.175	1.300				C-96: BCUC 2.202.4
37 Forced Upgrades and Line Moves	2,744	1,803	4,773	2,485	2,444	2,163	2,578	2,514	2,553	2,421	2,548				C-97; BCUC 1.57.7 - 57.7.1
38 Underground Cable/Switcher Replacement	537	1.228	467	660	328	258	482	483	263	258	251				
39 Meter Exchanges	19	(27)	25	12	25	131	127	128	135	132	130				C-98; BCUC 1.57.11 - 1.57.13, 2.202.6 - 202.7
40 Distribution Sustainment	13,373	14,191	14,659	15,397	13,400	13,379	13,471	13,847	12,936	12,612	13,286	14,058	13,230	-5.89%	

												Aver	age		
Line	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2017-19	2020-24	Change	Application/ IR Reference
41 Communications Ungrades	\$ 650	\$ <u>4</u> 17	\$ <u>4</u> 99 \$	141 ¢	249 S	376	\$ 367	\$ 371	\$ 375	\$ 374	\$ 372				C-99
42 Station Smart Device Upgrades	2 000	251	379	519	447	378	323	373	316	309	301				BCUC 2,203,1 - 203,2
42 SCADA Systems Systemat	650	251	5/5	565	505	622	027	076	1 610	01/	1 2/1				C-100: BCUC 1 58 2 - 58 2: BCOARO 1 79 1
43 Other Telecommunications	144	190	191	229	147	107	100	101	1015	102	1,341				C-100, BCOC 1.38.2 - 38.3, BCOAF O 1.73.1
45 Other Capital	1 685	8/8	1 059	1 464	1 /137	1 573	1 818	1 860	2 503	1 790	2 204	1 /191	2 035	36 //%	
46	1,005	040	1,055	1,404	1,457	1,575	1,010	1,000	2,505	1,750	2,204	1,401	2,035	50.4470	
40 47 Vehicles	1 475	1 927	2 232	2 244	2 676	2 1/12	2 700	2 716	2 590	2 912	2 573				BCUC 1 59 1: CEC 1 30 3
49 Tools and Equipment	1,475	1,52,	5/2	575	550	5/0	2,700	557	2,550	557	2,575				BCUC 1 59 1: CEC 1 30 3
49 Buildings	1 214	799	1 796	1 859	1 588	1 836	3 060	2 000	1 961	1 922	1 885				BCUC 1 59 2 -59 A: CFC 1 30 3
50 Euroiture and Eivtures	1,214	154	1,750	565	1,300	204	204	2,000	204	2,522	2,005				BCUC 1 59 2 -59 4: CEC 1 30 3
50 I unital candinations	5 755	5 762	5 545	9 605	7 472	10 700	0.091	9 951	0 701	9 720	9 694				CEC 1 20 2
52 monation systems sustainment	9 104	9.02	10 184	14 848	12 /122	15 530	15 752	14 424	14 182	14 400	13 981	1/1 270	14 549	1 95%	CEC 1.30.3
53	5,104	5,001	10,104	14,040	12,433	13,330	13,132	14,424	14,105	14,400	13,301	14,270	14,040	1.53%	
54 Total, Ongoing Programs	\$ 58,680	\$ 54,536	\$ 53,535 \$	63,209 \$	62,323 \$	56,810	\$ 65,209	\$ 62,561	\$ 62,748	\$ 61,484	\$ 62,896	\$60,781	\$ 62,980	3.62%	
55 Ongoing Programs as % of Total Capital												89%	74%	-15%	
56															
57 Non-Recurring Projects															
58 Sexsmith 2nd Transformer Addition	-	-	-	-	-	849	4,633	-	-	-	-				C-82; BCUC 1.53.1, BCOAPO 1.62.2
59 Huth 2nd Transformer	300	-	-	-	-	-	-	-	-	-	-				
60 42 Line Meshed Operation	174	-	-	-	-	-	-	-	-	-	-				
61 Voltage Support	693	806	-	-	-	-	-	-	-	-	-				
62 Spall Breaker House Reconfiguration	182	1.230	-	-			-	-	-	-	-				
63 Huth 2nd Distribution Transformer		2.652	-	-			-	-	-	-	-				
64 RG Anderson Modifications	-	-,	68	3.144	983		-	-	-	-	-				
65 Summerland Transformer Replacement	-	-	-	-,			539	2.022	-	-	-				C-82: BCOAPO 1.62.2
66 Beaver Park Substation Upgrade	-	-	-	-			-		2.634	4.896	-				C-83: BCOAPO 1.62.2
67 DG Bell 2nd Transformer Addition	-	-	-	-			-	-	_,001	.,050	1.004				C-83: BCOAPO 1.62.2
68 Inventory Adjustment	(924)	-	-	-	-	-	-	-	-	-	-,				,
69 Kaleden Feeder 1	(J24) 808	33	-	-	-	-	-	-	-	-	-				
70 DG Bell Feeder 4 Addition	-	-	-	-			1.970	-	-	-	-				C-83: BCOAPO 1.63.3
71 Total Growth Projects	1,233	4,721	68	3.144	983	849	7.142	2.022	2.634	4,896	1.004	1.659	3,539	113.37%	,
72	1,200	.,, 1		5,211	505	0.5	.,	2,022	2,004	.,000	1,004	1,000	3,335		
73 IBO Spillway Gates Refurbishment	Ś -	\$ 111	s - s	125 \$	1 \$	162	\$ 1.467	\$ 1.368	ś -	ś -	s -				C-86: BCUC 1.54.2. 2.199.1: BCOAPO 1.66.1
74 Guarding of Rotating Parts	Υ -		- v	-		17	194	318	- 440	278	265				C-86. BCUC 1.54.2: BCOAPO 1.67.1
75 Station Service Upgrade	4	-	-	8	64	125	333	485	275	270	200				C-88: ICG 2.18.1 - 18.2
76 LIBO Linit 6 Turbine Runner Replacement	-	-	-	-	-	-	-	34	559	1 918					C-87: BCUC 1 54 2 UCG 1 5 1 -5 3
77 Generator Excitation and Control Systems	-		-	-	-		-	66	53/	524					C-87: BCUC 1 54 2
78 Dam Safety Instrumentation	_	_		270	612	454	715	750	554	524	7/15				C-86: BCUC 1 54 2: BCUC 1 199 3
70 Concreter Thrust Rearing Cooling System	-		-	2/0	107	454	247	750	-	196	745 192				C-00, DCUC 1.34.2, DCUC 1.199.3
90 Elear Covers Baplacement	-	-	-	1	100	190	247	200	204	700	103				C-07
91 Poof Poplacement	-	-	-	21	400	100	549	205	224	210	215				C.09
92 Corration Appen Building Penlacement	-	122	- 27	190	-		02	200	224	196	1 /10/				C-00 C-00- RCUC 1 54 3-3 100 13
oz Corra Linn Annex Building Replacement	-	123	27	199	54	-	-	-	-	190	1,484				C-00, DUUC 1.54.2; 2.199.12

-	22	-	

	Average														
Line	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2017-19	2020-24	Change	Application/ IR Reference
92 20 Line Pehabilitation						1 520	1 100								C-00- RCUC 2 200 1
84 Transmission Line Rebuild/Reconfiguration	_	230	-	-	-	1,550	1,100	-	_		-				C-50, BCOC 2.200.1
85 Ellison to Sexsmith Transmission Tie	8 727	(7)	-	-	-		-	-	-		-				
86 19/30/32 Rights of Way		-	-	-	62	57	647	639	632	618	602				C-90: BCUC 1.10.5: BCOAPO 1.71.1 - 71.2
87 Transformer Replacements	-	-	-	1.349	-	-	2.263	-		-	6.021				C-91-92: BCUC 2.201.1: BCOAPO 1.72.1
88 Station Upgrades	-	-	-	-	-		3.718	7.014	-		3.512				C-92-93; BCOAPO 1.73.1 - 73.6.1 ICG 1.6.1
89 Generation Station Assets	-	-	-	-	418	571	1,088	436	169	103	100				C-93; BCOAPO 1.74.1, 2.139.1
90 Station PCB Mitigation	9.152	676	-	-				-	-	-	-				
91 Bulk Oil Breaker Replacement	-	209	-	799	458	205	619	628	-	-	-				
92 Minor Transformer Replacement	-	-	-	-	36	899	128	253	-	-	-				C-95
93 Animal Protection Coverup	-	-	-	-	-	502	378	415	494	227	277				C-95
94 13kV Switchgear Replacement	-	-	-	-	-	-	1,000	-	-	-	973				C-95
95 Outdoor Isolating Switch Replacement	-	-	-	-	-		-	532	527	-	-				C-95; BCOAPO 1.77.1
96 DG Bell 138 kV Breaker and Transformer	-	-	-	-	-	-	-	785	-	-	-				BCUC 1.51.4, BCOAPO 1.77.1
97 Osoyoos 63 kV Breaker Addition	152	630	-	-	-	-	-	-	-	-	-				
98 Saucier P&M	-	664	-	-	-	-	-	-	-	-	-				BCUC 1.197.4
99 Distribution PCB Mitigation	-	-	699	782	620	884	2,677	2,667	2,560	2,944	2,258				C-97; BCUC 1.57.8, 2.202.1 - 202.2
100 Porcelain Cutouts Replacement	-	-	-	-	-	-	3,233	3,257	3,288	3,282	3,259				C-97; BCUC 1.57.10, 2.202.4 - 202.5; BCOAPO 1.78.1
101 LED Street Light Retrofits	-	-	-	-	414	725	787	-	-	-	-				
102 Fault Indicator Installation	-	149	184	206	145	144	170	168	-	-	-				
103 Saucier Feeder Upgrade	109	-	-	-	-	-	-	-	-	-	-				
104 Ellison F2 to Sexsmith F1 Tie	504	-	-	-	-	-	-	-	-	-	-				
105 ArcFMAudit	-	408	-	-	-	-	-	-	-	-	-				
106 2013 Labour Dispute Carrried Forward	6,364	-	-	-	-	-	-	-	-	-	-				
107 Backbone Transport Technology Migration	-	-	-	32	429	-	-	-	900	898	-				C-100; BCUC 2.203.4 - 203.6
108 SCADA System Replacement	-	529	650	-	-	-	-	1,064	2,107	2,061	1,004				C-101
109 VH Radio System Replacement	-	-	-	-	-	-	-	-	527	825	-				C-101
110 Purchase of Fibre Optic Facilities	-	-	-	-	-	2,871	-	-	-	-	-				
111 Total Sustainment Projects	25,012	3,723	1,560	3,789	3,907	9,630	21,173	21,547	13,631	14,868	21,283	5,776	18,500	220.32%	
112															
113 Total Capital Expenditures	\$ 84,925	\$ 62,980	\$ 55,162 \$	70,141 \$	67,214	\$ 67,290	\$ 93,524	\$ 86,130	\$ 79,013	\$ 81,247	\$ 85,183	\$ 68,215	\$ 85,019	24.63%	
114															
115 Total, \$ nominal	\$ 75,490	\$ 56,752	\$ 50,408 \$	65,582 \$	64,561	\$ 65,971	\$ 93,524	\$ 87,853	\$ 82,205	\$ 86,220	\$ 92,204				

1 Q16: Mr. Bell states that the change to forecasting controllable capital rather than 2 retaining a formulaic approach "has effectively eliminated the reduction in the 3 growth factor directed in the prior decision". What is FortisBC's response?

- 4 The change to forecasting controllable capital (excluding FEI's indexed growth capital) A16: 5 removes the formulaic link to customer growth. FEI is proposing a unit cost approach to 6 determining growth capital, which has a clear and direct relationship to customer growth. 7 However, other categories of capital may have a non-linear or obscure relationship to 8 customer growth. Upstream of customer connections, the nature of utility investment to 9 serve load is frequently described as "lumpy", as capacity increases are built to provide 10 for future growth. As noted previously, FBC's relatively small asset base means that 11 these non-recurring expenditures can exacerbate year-to-year variation or give rise to 12 periods of higher expenditures related to asset renewal. The linkage between customer 13 growth and sustainment capital, which alone accounts for approximately one half of 14 regular capital expenditures, is weak, since equipment condition is the primary driver of 15 sustainment capital. A relationship between customer growth and expenditures in the 16 Other Capital category is also indirect. Therefore, a bottom-up approach to forecasting 17 capital projects is preferable to hypothesizing a relationship between customer growth 18 and total capital expenditures.
- The proposed cost of service approach to forecasting capital expenditures is consistent
 with feedback received from some interveners, including the BCOAPO, as cited on page
 B-64 of the Application:
- 22BCPIAC suggests that cost-of-service (one year or multi-year) or a23modified and much more limited PBR Plan that indexes only O&M24revenues (with capital spending determined/approved in a mini-hearing)25are two alternatives worth considering for the "next generation".
- 26

Q17: Mr. Bell states that he points out the apparent "step change in the level of capital funding for FEI and FBC" as it appears that the change to a forecast for much capital benefits the shareholder through increased revenues. What is FortisBC's response?

- A17: Changes in the levels of expenditures were discussed in the responses to Questions 14
 and 15 above. On an inflation-adjusted basis, the increase in FEI's expenditures over
 the Proposed MRP term is not of a magnitude that should be characterized as a "step
 change". The review of FBC's capital expenditures also shows a relatively modest
 increase in the level of expenditures for ongoing capital programs.
- Mr. Bell's statement appears to suggest that a desire to maximize the return on capital invested influences FortisBC's capital spending forecasts. This suggestion completely disregards the driving factors behind the capital expenditures, which include the capability to serve customer load, safety, reliability, and legislative requirements. The

capital forecasts put forward by FEI and FBC are based on known and demonstrable
 requirements, and have been vetted in this proceeding.

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Q18: Is Mr. Bell correct when he states in his responses to BCUC IR 2.1 and 2.2 that if the utility spends less than forecasted capital, the savings are only to the utility credit?

- A18: No, Mr. Bell is incorrect. Similar to the formula driven costs, FortisBC proposes that any variance between forecasted and actual capital will be subject to the 50/50 earnings sharing mechanism. As such, any savings achieved will be shared equally between the Utilities and the customers throughout the Proposed MRP term.
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Q19: On page 12 of his evidence, Mr. Bell states that the further out the forecast is, the more uncertain it is and the more uncertainty premium one puts into the forecast. Has FEI or FBC included an uncertainty premium in its forecasts?

A19: No. FortisBC has not included any "premium" in its capital forecasts for futureuncertainty.

17 FortisBC agrees that the longer the forecast period, the more uncertain the forecast 18 becomes, but the result of this can go both ways since actual capital requirements may 19 be either more or less than forecast. FEI's and FBC's Capital Planning Process is 20 described in Section C3.2 of the Application. The forecasts provided by FEI and FBC 21 were created using a bottom-up approach to quantify system needs based on identified 22 projects and programs that are planned for execution. Detailed descriptions of the 23 methods used for forecasting non-formulaic capital expenditures during the Proposed 24 MRP term have been provided in various IR responses (for example, BCUC IRs 1.10.6, 25 1.46.5. 1.57.7. 2.202.4). As described in the response to BCUC IR 1.46.5, there is less 26 certainty in the estimates for projects that are planned for execution more than two years 27 in the future, and that uncertainty is reflected by an AACE Class 4-5 cost estimate for the 28 project. In recognition of the uncertainties that are inherent in a five-year forecast, which 29 FortisBC explained in detail in response to BCUC IR 1.51.5, FEI and FBC have proposed to review their 2023 and 2024 forecasts during the Annual Reviews for 2023 30 31 rates.

32 3.3 Impact of changes to O&M and Capital determination on incentives

Q20: On page 11 of his evidence, Mr. Bell states that "the proposed changes in the MRP effectively reduce the risk to each of FEI and FBC. The impact is to increase the revenue provided under the MRP and reduce the incentive properties." At page 12, Mr. Bell states that "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." How does FortisBC respond to these claims?

- A20: Mr. Bell's arguments regarding both the reduced risks to the Utilities and reduced overall
 incentives for the MRPs are misguided.
- 5 Mr. Bell ignores several important factors that have been explained in FortisBC's 6 Application and responses to information requests (e.g., BCUC IR 1.17.8 and 1.19.8). A 7 summary is provided below:
- Although the majority of capital is forecast, the variance between the forecast and actual amount is still subject to the earnings sharing mechanism. This means that the Utilities have incentives to manage their capital expenditures.
- Contrary to Mr. Bell's claim regarding reduced risks to the Utilities, the elimination of the capital dead band as a safeguard mechanism increases the risks and rewards of the Proposed MRPs. This is particularly true for FEI's growth capital since, unlike other capital categories, there is no opportunity to update the related funding in year three of the Proposed MRPs.
- The proposed changes to the Flow-through deferral account will also increase the
 Plans' risks and rewards and therefore the incentives. This is because cost items
 such as depreciation expense that are currently subject to flow-through treatment will
 be subject to the earnings sharing mechanism.
- The Proposed MRPs do not change the balance of risks and rewards in either the
 Utilities' or the customers' favour since the Proposed MRPs continue to maintain the
 50/50 symmetric earnings sharing mechanism.
- The proposed efficiency carryover mechanism will increase the incentives in the last two years of the Proposed MRPs.
 - The more stringent service quality indicator targets will increase the risk of penalties.

In summary, due to the reasons listed above, the proposed changes do not reduce the
incentive properties of the Proposed MRPs nor would they change the balance of risk
and rewards in the Utilities' favour.

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- Q21: On page 11 of his evidence, Mr. Bell states: "Having one component based on a
 formula and one component based largely on forecasts may be inconsistent. In
 my experience there are trade offs between various inputs such as O&M and
 Capital, and the basis of each should as much as possible be consistent. FortisBC
 appears to agree with me." How does FortisBC respond?
- A21: Mr. Bell's argument is flawed and Mr. Bell's characterization of FortisBC's response to
 BCOAPO 1.24.4 is incorrect.

- 1 Under FortisBC's Proposed MRPs, the variance between forecast capital and actual 2 capital is still subject to the earnings sharing mechanism. This means that any achieved 3 capital and O&M savings would be subject to the same treatment and that there is no 4 inconsistency in their associated incentives.
- 5 Mr. Bell conflates tradeoffs between capital and O&M spending with tradeoffs between 6 the use of forecast and formulas in ratemaking. BCOAPO IR 1.24.4 asked whether a 7 utility should trade-off capital and O&M expenditures to maximize efficiency. In 8 response, FortisBC explained that as long as the incentives between O&M and capital 9 are similar, trade-offs between O&M and capital may be used to increase overall 10 efficiency. In the Proposed MRPs, both O&M and capital are subject to the same 11 incentive mechanism and therefore any trade-off between O&M and capital expenditures 12 that can increase overall efficiency will be pursued.
- FortisBC's response to BCOAPO IR 1.24.4 also explained that, irrespective of the 13 14 methodology used to determine the capital and O&M expenditures (forecasts or 15 formulas), certain innovative O&M-intensive solutions disrupt the balance of incentives. 16 In these cases, more innovative regulatory and accounting treatments may be needed 17 (examples provided are non-wire and non-pipe solutions as well as on-premise versus 18 cloud-based computing systems). These innovative treatments are needed even if the 19 capital expenditures were set using a formula since using a formula does nothing to 20 balance the incentives associated with these projects.
- In summary, none of the points made in FortisBC's response to BCOAPO IR 1.24.4 have any bearing on tradeoffs between the use of forecast and formulas. The incentive issues associated with O&M versus capital spending arise from factors such as implications of capitalization versus expensing for earnings, the ability of certain O&M programs and practices to defer (but not eliminate) the need for capital replacement and new capital expenditures, and other factors that do not arise when considering the use of forecast versus formula.

28 4.0 Efficiency Carry-Over Mechanism

- 29 Q22: At page 13 of his evidence, Mr. Bell says that FortisBC appears to have changed the ECM to be based on two years data, and not a five-year rolling average. Mr. 30 31 Bell states his concern is that an ECM should not reward a continuation of 32 performance that has been ongoing, but should be based on truly new 33 innovations that have occurred in the last two years of the plan. He suggests that 34 the average achieved ROE for the first three years should be used as the base for 35 calculating the ECM calculated in the last two years to avoid double counting. 36 What is FortisBC's response?
- 37 A22: The calculations for the proposed ECM are as follows:

- Step one: Calculate half of the variance between the achieved ROE (after sharing) and approved ROE for year 4 and 5 of the MRPs; and
 - Step two: Average the calculated amounts in step one and cap the average at 50 basis points.

As confirmed by Mr. Bell in his response to FortisBC IR 1.5.1, the proposed approach is similar to the ROE-based approach approved in Alberta. The Alberta ECM, however, provides for stronger incentives as there is no earnings sharing mechanism and it is more affected by the performance in earlier years as it is based on 5 years of data as opposed to the last two years as proposed in FortisBC's Application.

- As explained in FortisBC's response to BCOAPO IR 1.26.1, by excluding the achieved ROEs in the first three years of the MRPs from the average calculation, the impact of the achieved ROEs in the first three years on the ECM is reduced. For instance, if the achieved ROE in the first years of the plan are higher than in year 4 and 5 (which has been the case under the Current PBR Plans), then excluding the first three years from the average will reduce the ECM. Nevertheless, some of the efficiencies from the first three years will continue to be reflected in the achieved ROEs in last two years.
- Halving the variance between achieved ROE and approved ROE and capping the ECM
 to 50 basis points are other items that further minimize the impact of any temporary
 savings in the first three years on the ECM. With Mr. Bell's proposal to use the achieved
 ROEs as the base for the calculating of variances, there would no longer be a need to
 impose these two constraints on the proposed ECM.
- 23 Further, FortisBC disagrees with Mr. Bell that the use of allowed ROE as the base would 24 cause double counting issues, where the utility is compensated for efficiencies found in 25 the early stages of the PBR, and then again in the ECM. Mr. Bell's definition of double 26 counting is incorrect. With his definition, every dollar of incurred costs or savings during 27 the PBR term is double counted since the costs and savings from the first year are 28 carried over for five years. As Mr. Bell himself discussed in response to CEC IR 7.1, 29 what he is referring to is the compounding effect of savings and costs during the MRP 30 term, which is different from a double counting error.
- FortisBC also notes that the responses to BCUC IR 6.1 and 6.2 include a number of typos where the Efficiency Carry-over Mechanism (ECM) is mistakenly replaced with Earning Sharing Mechanism (ESM). These typos may create confusion for the reader. For instance, response to BCUC IR 6.2 states "Mr. Bell is aware of the ESM include[d](sic) in Alberta".
- 36 Alberta PBR models do not have any ESM but do include an ECM framework.

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1 5.0 Off-ramps and Reopeners

- Q23: At page 13 of his evidence, Mr. Bell states: "FortisBC added a reopener for 150
 Bps for two consecutive years and removed the reopener for a serious
 degradation in SQIs. While I have no issue with the inclusion of the second level
 for returns, the removal of SQIs is a concern". Has FortisBC changed any
 elements of its financial and SQI off-ramp provisions?
- A23: No, FortisBC's Proposed MRPs include exactly the same off-ramp provisions as
 approved by the BCUC in its 2014 PBR Decision.
- 9 The 150 basis points threshold for two consecutive years was included in the Current 10 PBR Plans and will continue as part of the financial off-ramp provisions in the Proposed 11 MRPs:
- 12 The Companies propose to retain the financial off-ramp provisions as 13 determined for the Current PBR Plans whereby an off-ramp is triggered if 14 earnings in any one year varies from the approved ROE by more than +/-15 200 basis points (post sharing) or if earnings average more than +/- 150 16 basis points (post sharing) from the approved ROE for two consecutive 17 years.¹⁴
- Further, FortisBC did not remove the reopener for a serious degradation of service
 quality from its non-financial off-ramp. FortisBC states in the Application:
- 20 Also consistent with the Current PBR Plans, failure to meet SQI 21 benchmark thresholds, if determined by the BCUC after further process to 22 be considered a serious degradation of service quality in whole or in part 23 due to the actions (or inactions) of the Companies, may result in a 24 reduction to the share of earnings sharing retained by the Companies, up 25 to a maximum reduction to reflect a 60 percent share to the customer 26 (i.e., penalty of 10 percent of the earnings sharing earned to the 27 Companies), instead of the standard 50 percent.¹⁵

28 6.0 Comparison to Alberta

Q24: At page 14 of his evidence Mr. Bell states "when the Alberta Utilities Commission ("AUC") rebased its PBR, it looked at a narrow set of issues and that the AUC did not change all components of the plan, but only specific issues". How does
 FortisBC respond?

A24: FortisBC finds Mr. Bell's preference for looking at a narrow set of issues similar to the
 case in Alberta puzzling. In Alberta's second generation proceeding, Mr. Bell himself

¹⁴ Application, page C-12.

¹⁵ Application, page C-147.

- argued for significant changes to the Alberta model. The AUC determined that Mr. Bell's
 proposals were out of scope and therefore rejected his requests, stating:
- 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 ...
- The Commission considers that adopting a FortisBC type of building
 blocks model for the next generation PBR plans would involve changes to
 many elements of the plan other than just the treatment of capital and is
 out of scope of this proceeding.
- 11 It is clear that Mr. Bell's comment regarding the preference for a narrower scope is not 12 about regulatory efficiency but rather relates to his reliance on achieved ROEs as the 13 only quantitative measure of PBR success or failure. In Alberta, where the utilities were 14 able to achieve higher ROEs, he proposed significant changes and in this proceeding, 15 he is a proposing a status quo option. As explained above, sole reliance on ROE as a 16 measure of need for change or determination of scope is flawed since it does not 17 consider the forward-looking nature of MRP design.
- FortisBC's response to BCUC IR 1.17.12 explained the preceding background to the 18 19 AUC's decision to limit the scope of Alberta's second generation PBR proceeding. In 20 summary, the AUC's decision to limit the scope of its PBR proceeding was influenced by 21 the timing of its proceeding. The issues list was finalized in August of 2015, less than 22 three years after the start of the plan. The Companies pointed out that it may not be 23 meaningful at that time to assess the success of the existing PBR plans in order to 24 explore options for the next generation of PBR plans. Customer groups on the other 25 hand, advocated that a full review was needed and suggested that significant changes 26 may be required. The AUC agreed with the utilities.
- FortisBC does not have the same timing issue. FortisBC's Application includes a thorough assessment of the Current PBR Plans' strength and weaknesses and provides proposals to build on their success and mitigate the assessed weaknesses.
- 30 FortisBC also notes that limited scope does not necessarily translate into less complex 31 and/or burdensome regulatory process. Despite the more thorough approach adopted by 32 FortisBC, the magnitude and significance of changes approved/proposed in the two 33 jurisdictions are comparable. This is because the majority of the items that were 34 excluded from the AUC's scope are also the ones that are proposed to remain more or less unchanged in FortisBC's Application (e.g., SQIs, off-ramps, inflation factor, 35 36 exogenous factors, annual review process). For instance, the AUC's changes to the 37 treatment of excluded capital (K-bar calculations and capital tracker mechanism) is 38 considerably more technically complex than the changes proposed to capital 39 expenditure determination in FortisBC's Application. FortisBC also notes that the 40 complexity of changes made to capital determination in the AUC's initial decision was

1 the main cause of the need for issuing errata to the AUC's initial decision. Further, as 2 explained on page 8 of the Appendix C4-3 (Jurisdictional Comparison), pursuant to the 3 AUC's decision, a number of utilities filed review and variance applications for 4 reconsideration of the AUC's decision. The AUC agreed that the applicants 5 demonstrated the existence of an error of law and a review of the decision with respect 6 to the anomaly adjustment was granted. Recently, on November 1, 2019¹⁶ (almost four and a half years since the proceeding began¹⁷), AUC heard oral argument session on 7 8 these matters.

9 10 In summary, it is reasonable to conclude that despite its limited scope, the AUC's proceeding was not less burdensome nor less technically complex.

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12 At page 14 of his evidence, Mr. Bell states: "In Alberta the issue of incremental Q25: 13 funding for capital was an issue in the first generation PBR. In the second 14 generation the AUC moved to a more formulaic method of providing incremental 15 capital funding known as the K Bar model. In the K Bar model, incremental capital 16 funding is determined by averaging the first four years of capital on an inflation 17 adjusted basis. It is interesting that in Alberta, the AUC is moving to a more 18 formulaic approach to get away from testing forecasts, while in BC, both Fortis 19 utilities are moving away from a formulaic approach." What is FortisBC's 20 response?

- 21 A25: As provided in the preamble to FortisBC IR 1.1.1 and confirmed in Mr. Bell's response, 22 during the first generation PBR period, Alberta utilities were able to achieve significantly 23 higher ROEs. Indeed, ATCO Electric and ATCO Gas surpassed their one-year (300 24 basis points) and two consecutive years (500 basis points) off-ramp threshold, triggering 25 the plans' reopener provisions. In Alberta's second generation PBR proceeding, 26 intervener groups argued that the utilities' high earnings during the 2013-2017 PBR 27 plans were mainly due to the capital tracker mechanism and requested that the capital 28 exclusion mechanism be eliminated or significantly narrowed. Others recommended that 29 capital spending be subject to cost of service regulation. Still others proposed a variety of new capital cost recovery mechanisms. While acknowledging interveners' concerns, 30 31 the AUC did not believe that the incremental capital mechanism was the primary reason 32 for utilities' higher earnings; nevertheless, it determined that certain changes to the 33 incremental capital model would be needed to address interveners' concerns. This led to 34 the creation of a K-bar mechanism in addition to the K-Factor approach that continues to 35 require testing of the forecasts annually.
- In any case, as acknowledged by Mr. Bell in his response to BCUC IR 3.1, there is no proof that the K Bar approach in Alberta will be an effective approach to incremental

¹⁶ <u>http://www.auc.ab.ca/pages/Anomaly-rate-adjustment-under-PBR.aspx</u>

¹⁷ The proceeding initiated on May 8, 2015. The Companies' applications were filed almost 10 months later on March 23, 2016.

capital funding and despite his comments about the K-bar approach, he is not
 recommending a K-bar approach for the Proposed MRPs (please refer to Mr. Bell's
 response to BCSEA IR 6.2)

The situation in BC is opposite to that in Alberta. As recognized in Mr. Bell's evidence, the capital formulas consistently underfunded the Utilities' capital needs, as opposed to overfunding. Despite recognizing the capital underfunding problems, Mr. Bell does not provide any proposal in response.

8 Further, as confirmed in Mr. Bell's response to FortisBC IR 3.2, the "AUC created an 9 integrated plan where all components are intended to be taken as a whole." Indeed, 10 regulators have consistently recognized that there is no "one size fit all" approach to 11 incentive regulation and that the framework adopted for each utility should be in keeping 12 with their specific circumstances and their history with performance based rate-setting. 13 For instance, in its decision to reject Mr. Bell proposal for adoption of a building block 14 approach AUC stated:

- Further, a consideration of possible adoption of one component of a another jurisdiction's PBR plan would necessitate an understanding of the various other elements of the plan and the potential impacts of these changes to Alberta's PBR plans. For these reasons, the Commission does not approve Mr. Bell's building blocks model¹⁸.
- 20 A similar quote from the OEB was provided on page B-67 of the Application:
- 21 Although no regulatory model has yet emerged as the preferred "industry standard", other regulators are grappling with many of the same 22 23 challenges facing the OEB during a period of sector evolution. Those 24 challenges include the setting of utility remuneration to encourage 25 efficiency and innovation, the design of rates to provide appropriate 26 guidance to consumers regarding their own consumption and investment 27 decisions, the mitigation of regulatory barriers to innovation and new 28 business models, and the protection of consumers during sector 29 transformation. The ways in which other utility regulators are addressing 30 these issues reflect the particular institutional arrangements, market 31 structure and broader policy framework prevailing in their jurisdictions. 32 Although the work of other regulators is instructive, the OEB's own 33 approach must be grounded in an appreciation of the circumstances in 34 Ontario and of its own mandate. [Emphasis added.]
- 35In summary, FortisBC's Proposed MRPs are custom made to address the36challenges and opportunities that are unique to the Utilities' circumstances during37the next five years.

¹⁸ AUC Decision 20414-D01-2016, Paragraph 209.

1 7.0 Targeted Incentives

2 Q26: In response to CEC IR 10.1, Mr. Bell provides high-level comments on FEI's 3 proposed targeted incentives. How does FEI respond to these comments?

- A26: Mr. Bell's high-level comments have been addressed by evidence already on the record in this proceeding. Mr. Bell states that he has only been retained to comment on the PBR structure, but nonetheless provides his comments which appear to be based only on a reading of Table C8-1 of the Application. The topics referred to by Mr. Bell in his comments have already been addressed by FEI in the Application and in responses to information requests. Examples of this more in depth discussion include:
- The rationale for proposing the targeted incentives is discussed in Section C8 of the
 Application and in response to BCUC IRs 1.96.1 through 1.96.5;
- The benefits shared between end users, ratepayers and society related to the use of
 renewable gas, as well as the other targeted incentives, are discussed in Section C8
 of the Application and in response to BCUC IR 1.96.7 and BCSEA IR 2.32.1;
- The rationale for funding investments such as NGT Fueling and EV Charging
 Stations within customer rates is discussed in response to BCOAPO IR 1.82.2.
- The level of effort required to achieve the targets, including GHG Emissions
 Reduction (Internal), was discussed in detail in response to BCUC IR 1.96.7 and
 BCSEA IR 1.14.10;
- The potential for cost savings related to the adoption of digital communication channels was discussed in response to BCUC 1.96.9 and BCOAPO IR 1.92.7.1; and
- FortisBC addressed how the Power Supply Incentive can create outcomes above the
 normal course of business in response to BCUC IR 1.102.17, BCUC IR 2.241.7 and
 CEC IR 2.63.2.

25 8.0 <u>Conclusion</u>

- 26 Q27: Does this conclude FortisBC's Rebuttal Evidence?
- 27 A27: Yes.

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