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May 8, 2020

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) Application for Approval of COVID-19 Customer Recovery Fund Deferral Account**

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

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On April 3, 2020, FortisBC filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-97-20 setting out the Regulatory Timetable for the review of the Application, FortisBC respectfully submits the attached response to BCOAPO IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

**on behalf of FORTISBC**

***Original signed:***

Doug Slater

Attachments

cc (email only): Commission Secretary  
Registered Parties



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1   **1.0   Reference:   Exhibit B-1, page 2**

2           **Preamble:**   The Application states:

3                           ‘FortisBC has already put a number of measures in place to help all  
4                           customers at this time based on the discretion that FortisBC has within  
5                           the terms of its tariffs. These measures include the cessation of all  
6                           payment collection related activities, the suspension of late payment and  
7                           interest charges, as well as the suspension of disconnections for matters  
8                           other than safety.’

9           1.1   When (e.g., for bills issued after what date) did FortisBC cease all payment  
10                   collection related activities, suspend late payment and interest charges and  
11                   suspend disconnections for matters other than safety?  
12

13   **Response:**

14   All measures were in place by March 20, 2020. Due to different systems for FEI and FBC, there  
15   were slight variations in the dates that the various measures became effective as outlined  
16   below:

- 17           • FortisBC suspended late payment and returned payment charges effective March 16,  
18                   2020;
- 19           • FortisBC ceased all manual collection activity (i.e., all outbound calls and disconnections  
20                   service orders) on March 18, 2020; and,
- 21           • Automated collection activity (i.e., autodialed reminder calls and form letters) was  
22                   ceased on March 19, 2020 for FEI and on March 20, 2020 for FBC.

23  
24

25  
26           1.2   Please outline the specific types of collection activities that FortisBC has ceased.

27

28   **Response:**

29   FortisBC ceased all collections related activities, which include automated calls, reminder  
30   letters, manual call-outs, disconnections for non-payment, and referrals to collections agencies.

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1           1.3     Are each of these measures applied to all accounts and rate schedules? If not,  
2                                 what are the exceptions and why?

3  
4     **Response:**

5     The measures that FortisBC has applied to all accounts and rates schedules include the  
6     cessation of disconnections for financial reasons and the ability to make customized payment  
7     arrangements. The suspension of late payment charges is currently limited to Residential and  
8     Small Commercial customers.

9     FortisBC is reviewing industrial, large commercial and transportation accounts individually and  
10    directly as they have diverse needs and circumstances and, as such, payment arrangements  
11    are made on a case-by-case basis. This customized approach provides the opportunity for  
12    those industrial, large commercial and transportation customers that are significantly challenged  
13    by the pandemic to receive the bill payment support they need, while avoiding the potentially  
14    large financial impact that could result from a utility-wide program.

15



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1   **2.0   Reference:   Exhibit B-1, page 3**

2                                   **Orders G-80-20 and G-81-20**

3           **Preamble:**   The Application states:

4                                   “The second customer relief measure is three-month bill relief for small  
5                                   commercial customers who have been ordered to temporarily close their  
6                                   businesses to comply with public health orders due to the COVID-19  
7                                   pandemic. For eligible small commercial customers who apply and qualify  
8                                   for this measure, FortisBC will apply credits to their bills to offset all  
9                                   applicable fees and charges applied to their accounts for three months  
10                                  starting April 1, 2020 through to July 1, 2020”.

11                                  “FortisBC will review customer consumption at the end of the three month  
12                                  period to confirm that there was no or only very limited consumption  
13                                  during this time. As a result, on an individual customer basis, the total  
14                                  amounts being credited should be minimal”.

15                                  Orders G-80-20 and G-81-20 provided interim approval for FBC and FEI  
16                                  to offer bill relief in the form of bill credits for three months, commencing  
17                                  April 1, 2020 through to July 1, 2020, to small commercial customers  
18                                  served under specific Rate that have closed their businesses due to the  
19                                  COVID-19 pandemic.

20           2.1   Why is FortisBC not offering bill credits to Residential customers who have

21  
22                                  2.1.1   been directed/advised by public health officials to self-isolate (e.g., due  
23                                  to recent out of country travel or suspected exposure) and are unable to  
24                                  work as a result?

25  
26                                  2.1.2   Suffered a loss of employment or income, rendering them incapable of  
27                                  meeting their typical financial responsibilities such as their energy bills?

28  
29   **Response:**

30   With respect to residential customers, FortisBC considered the potential large volume of  
31   customers impacted and the ability to provide meaningful support to those that need it most  
32   while balancing the overall costs to all customers of providing such relief. Offering the ability to  
33   defer payments, free of interest, and a twelve month repayment term, provides immediate  
34   support and relief as well as a reasonable repayment period to help ease financial difficulty over  
35   the longer term, resulting in minimal impact and cost to all other customers.



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1 While FortisBC considered the option of bill credits, residential customers continue to use the  
2 energy and service provided and the provision of such credits at this time implies a  
3 predetermination that residential customers will not be able to pay their bills now or in the future.  
4 However, it is too early to make this determination – a residential customer’s inability to pay  
5 today does not necessarily indicate that they will be unable to pay in the future. While it may be  
6 the case that some residential customers are ultimately unable to pay their deferred balances,  
7 FortisBC’s proposed approach provides a reasonable balance of immediate relief with the  
8 potential opportunity for future targeted recovery programs, thus minimizing the overall financial  
9 impacts to all customers.

10 Further, unlike residential customers, small commercial customers who have closed their  
11 businesses due to the COVID-19 pandemic are not able to continue benefitting from utility  
12 service. In addition, eligible small commercial customers will have minimal consumption and  
13 they represent a relatively small number of customers in relation to total customers so the  
14 impact of the proposed relief is expected to be minimal. In that context, providing bill credits to  
15 small commercial customers provides a reasonable balance between the relief provided and the  
16 cost to all customers.

17 FortisBC recognizes that this is an unprecedented time of uncertainty for all. In addition to the  
18 regular government assistance programs available for individuals, there are significant federal<sup>1</sup>  
19 and provincial<sup>2</sup> COVID-19 relief measures, programs, and benefits available, which have been  
20 designed to assist individuals and businesses with support including managing financial impacts  
21 and help with their financial responsibilities.

22  
23

24

25 2.2 Did FortisBC consider offering a reduction in its delivery charges and/or energy  
26 prices in order to offer relief to affected residential or other ratepayers?

27

28 2.2.1 If so, please explain why the utilities did not proceed with such an  
29 offering.

30

31 2.2.2 If not, please explain why this was not considered?

32

<sup>1</sup> <https://www.canada.ca/en/department-finance/economic-response-plan.html>.

<sup>2</sup> <https://www2.gov.bc.ca/gov/content/safety/emergency-preparedness-response-recovery/covid-19-provincial-support>.



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1 **Response:**

2 Yes, FortisBC did consider temporary rate reductions as a potential relief option; however,  
3 FortisBC determined that its proposed COVID-19 Recovery Fund provided the best balance of  
4 immediate support for those customers that need it most while minimizing the impact on all  
5 customers.

6 With respect to temporary rate reductions, FortisBC considered the following in its analysis:

- 7 • The uncertainty regarding the duration and impact of the pandemic: the longer the  
8 duration of the pandemic, including its associated recovery period, the more likely that  
9 significant unrecovered balances resulting from temporary rate reductions would  
10 accumulate. FortisBC considered the potential future rate impacts and determined that  
11 targeted programs better support customer recovery.
- 12 • The early stage of the pandemic: while all customers are impacted by the pandemic to a  
13 degree, at this time it is unclear how many customers will ultimately require additional bill  
14 payment support and to what extent. A temporary rate reduction would imply that all  
15 customers are impacted in the same way and to the same extent. FortisBC's approach  
16 offers an opportunity to consider additional targeted relief measures in the future.
- 17 • Addressing the needs of significantly impacted customers: support measures such as  
18 temporary rate reductions provide a relatively small measure of support to all customers  
19 while doing little to provide meaningful support to those customers that need it most. As  
20 such, FortisBC has implemented targeted measures in an effort to provide relief to those  
21 customers that need it most.
- 22 • Varying impacts of the pandemic on customers: despite the challenging times, there is a  
23 large portion of customers that maintain the ability to pay their utility bills. FortisBC  
24 believes that it is in the best interest of all customers for those customers that can pay  
25 their bills, to continue to do so.
- 26 • Impacts on financing and liquidity: to the extent that a program could place pressure on  
27 the financing and liquidity position of FortisBC, it would have detrimental impacts overall  
28 for all stakeholders, including customers. FortisBC believes that targeted measures to  
29 provide relief to those who need it most are likely to have more manageable impacts on  
30 financing and liquidity as compared to measures that are broad in nature.

31  
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33

34 2.3 If the rationale relies in full or in part on the fact gas/electricity usage for  
35 Residential customers will be more than "minimal", please confirm that FortisBC  
36 will not provide bill credits (and will seek the return of any credits provided) to



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1 commercial customers whose natural gas/electricity usage is more than  
2 “minimal”.

3  
4 2.3.1 If confirmed, how will FortisBC define “minimal”?

5  
6 2.3.2 If not confirmed, please reconcile the inconsistency of the treatment for  
7 the two types of customers in circumstances where they are similarly  
8 impacted by public health directives/advisories.

9  
10 **Response:**

11 FortisBC will provide bill credits to small commercial customers that confirm they have closed  
12 their business. Although the expectation is that these customers will have minimal  
13 consumption, FortisBC has not pre-determined an amount that will be considered minimal.  
14 Instead, as set out in the preamble, FortisBC will review consumption after the three month  
15 period and compare against historical consumption on an individual customer basis to  
16 determine if further investigation is required. Please refer to the response to BCOAPO IR1 2.1  
17 for the rationale behind FortisBC’s approach to residential and small commercial customers.

18



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1   **3.0   Reference:   Exhibit B-1, page 3**

2                                   **Exhibit B-2, BCUC 2.4**

3           **Preamble:**   The Application states:

4                                   “The deferral account will capture any unrecovered revenue resulting  
5                                   from customers in any rate class being unable to pay their bills due to the  
6                                   COVID-19 pandemic. Billed amounts for energy services only become  
7                                   unrecoverable from customers if, after FortisBC exhausts its reasonable  
8                                   and practical collection efforts, amounts are ultimately unable to be  
9                                   collected from customers over a reasonable period of time given the  
10                                  circumstances. FortisBC will track all unrecovered revenue by rate  
11                                  schedule.”

12           3.1   Please confirm that the proposed PBR plans for both FEB and FEI included in  
13                   Base O&M provisions for bad debt expense.

14  
15   **Response:**

16   Confirmed. As part of the proposed MRPs, FortisBC’s proposed Indexed-Based O&M funding  
17   includes approximately \$1.8 million for FEI and \$1.0 million for FBC annually to manage bad  
18   debts under normal circumstances and normal course of operations.

19  
20

21  
22           3.2   How will FortisBC determine whether unrecovered revenue should be attributed  
23                   to bad debt expense and treated as an O&M expense versus being captured in  
24                   the proposed deferral account?

25  
26   **Response:**

27   To the extent that unrecovered revenue is deemed to be uncollectible and considered bad debt,  
28   FortisBC will determine whether it should be captured in O&M expense or the COVID-19  
29   deferral accounts based on information provided to FortisBC by customers.

30   In this regard, unrecovered revenue related to COVID-19 is expected to accumulate in the  
31   deferral accounts in one of two ways:

32           1.   Confirmed Applicants to the COVID Customer Recovery Fund

33                   Customers who qualify for and are granted bill relief in the form of a payment deferral  
34                   also agree to a repayment plan of one year. The deferred payment amounts will be  
35                   added to the deferral account and subsequently drawn down over the twelve-month





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1 repayment term as payments are received. To the extent that customers do not pay  
2 their deferred balances, and those balances are deemed uncollectible, the residual  
3 difference between the payments deferred and payments received will remain in the  
4 deferral account rather than be transferred to O&M expense as bad debt.

5 2. Customer Accounts Identified Through the Collections Process

6 As part of the typical collections process, and prior to the classification of unrecovered  
7 revenue as bad debt, there are several touchpoints with the customer to attempt to  
8 resolve a payment issue or challenge. In this regard, customer service, or other  
9 personnel working with the customer, will have the ability to classify the primary reason  
10 that the customer is unable to pay some or all of their energy bills based on the  
11 information provided by that customer (i.e., loss of employment, business closure due to  
12 COVID-19, etc.). This classification will drive reporting of amounts recorded in the  
13 COVID-19 deferral accounts.

14  
15 FortisBC believes that this approach provides a reasonable method to account for bad debt  
16 specific to COVID-19 while maintaining the ability to identify bad debt expense within O&M  
17 through the normal course.

18



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1 **4.0 Reference: Exhibit B-1, page 3**

2 Preamble: The Application states:

3 "The deferral account will capture all deferred bill payments as a result of  
4 the COVID-19 pandemic. It will also capture all payments of these  
5 deferred amounts according to the repayment arrangements made with  
6 the customers. Accordingly, the balance in the deferral account will  
7 ultimately only reflect the unrecovered amounts related to the deferral of  
8 bill payments due to the COVID-19 pandemic".

9 4.1 If all deferred payments are ultimately paid by customers, will the balance in the  
10 account which is attributable to the Payment Deferral (Customer Relief Measure  
11 #1) be: i) zero, ii) equal to the carrying cost accumulated on the deferred  
12 payments or iii) some other amount?

13  
14 4.1.1 If it will be "some other amount", please explain the basis for the  
15 amount.  
16

17 **Response:**

18 Based on FortisBC's Application for approval of rate base deferral accounts, in relation to  
19 Customer Relief Measure #1, Payment Deferrals, if all deferred payments are ultimately paid by  
20 those customers, the ending balance in the deferral accounts related to this measure would be  
21 zero after those payments are collected. Carrying costs are not recorded within the rate base  
22 deferral account.

23  
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25  
26 4.2 Will the proposed deferral account separately track the deferred amounts  
27 attributable to: i) Unrecovered Revenue due to COVID-19; ii) Bill Payment  
28 Deferrals and Subsequent Payments and iii) Bill Credits?  
29

30 **Response:**

31 Yes, the proposed FEI and FBC deferral accounts are designed to separately track the deferred  
32 amounts attributable to unrecovered revenue due to COVID-19, bill payment deferrals and  
33 subsequent payments, and bill credits.

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1           4.3    Will the deferred amounts be tracked by Rate Schedule?

2

3                   4.3.1    If yes, does FortisBC anticipate requesting recovery on the amounts on  
4                                   a Rate Schedule specific basis?

5

6    **Response:**

7    The amounts recorded in the deferral accounts will be tracked by rate schedule. As part of this  
8    Application, FortisBC has not proposed how the final balances in the deferral accounts will be  
9    recovered. Rather, FortisBC expects to apply for the method of recovery of any final balances  
10   in the deferral accounts once the balances are known with reasonable certainty. Tracking  
11   amounts by rate schedule will allow for the option of recovery by rate schedule.

12



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1   **5.0   Reference:   Exhibit B-2, BCUC 2.0**

2           **Preamble:**   2.0 Fortis states that “Residential and small commercial customers who  
3                                   apply and qualify for the three-month bill deferral will also enter into  
4                                   repayment arrangements for their deferred balance to be paid over the  
5                                   twelve months following the deferral period, commencing July 1, 2020.”

6                                   Question:

7                                   2.1 What are FortisBC’s actions if customers fail to meet these repayment  
8                                   plans following July 1, 2020?

9                                   Response: Depending on the state of the economic recovery post  
10                                   COVID-19 pandemic, FortisBC’s would work with customers on a case-  
11                                   by-case basis given their individual circumstances and enter into different  
12                                   payment arrangements or, if appropriate, FortisBC would institute its  
13                                   regular collections process.

14           5.1   Numerous epidemiologists and medical experts here and abroad have opined  
15                                   that this pandemic is far from over, that reopening will result in multiple waves,  
16                                   requiring multiple responses similar to, less than, or greater than those already in  
17                                   place. What provisions has FortisBC made or plans does FortisBC have in place  
18                                   to account for this likelihood in relation to the relief they are offering and the  
19                                   repayment period?

20  
21   **Response:**

22   FortisBC expects the COVID-19 pandemic situation will continue to evolve. As a result,  
23   FortisBC will continue to work with its customers and monitor the impacts of the pandemic. If  
24   FortisBC believes a change or extension to relief measures is necessary, it will apply to the  
25   BCUC.

26



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1   **6.0   Reference:   Exhibit B-2, BCUC 2.4**

2           **Preamble:**   The response states:

3                           A benefit of the proposed deferral account is to provide greater  
4                           transparency into the amount of uncollected revenue that results from the  
5                           COVID 19 pandemic specifically which will help to “normalize” the bad  
6                           debt expense.

7           6.1   Is it i) the deferral account or ii) the proposals to defer bill payments/offer bill  
8                   credits that will help to “normalize” the bad debt expense? Please explain.

9  
10   **Response:**

11   It is the proposed deferral account that will help normalize the bad debt expense. By capturing  
12   the customer relief measures separately in the COVID-19 deferral accounts, the impacts of all  
13   unrecovered revenue due to the COVID-19 pandemic are separated from the bad debt expense  
14   that is factored into Base O&M which accounts for typical or normal customer payment default  
15   or bad debts.

16   Please also refer to the response to BCOAPO IR1 3.2.

17



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1 **7.0 Reference: Exhibit B-1, page 3**

2 **Fortis BC Energy Inc. and FortisBC Inc., 2020-2024 Multi-Year Rate**  
3 **Plan Application, page C-118**

4 7.1 Please confirm that, for both FBC and FEI, differences between forecast and  
5 actual revenues are captured in (already) existing flow-through deferral accounts.  
6

7 **Response:**

8 Confirmed. To clarify, FEI and FBC were approved to capture differences between forecast and  
9 actual revenues in their respective flow-through deferral accounts during the 2014-2019 PBR  
10 period. The Companies have requested to continue that treatment in the 2020-2024 MRP  
11 Application.

12  
13

14  
15 7.2 Please explain how revenue loss due to bad debt is currently treated for  
16 purposes of these flow-through accounts (e.g., does the calculation of the actual  
17 revenues for the flow-through accounts assume all billed revenues are received)  
18 and, in doing so demonstrate that the proposed COVID-19 Customer Recovery  
19 Fund deferral account will not result in these amounts being double counted.  
20

21 **Response:**

22 FortisBC confirms these amounts will not be double counted as the recognition of revenue,  
23 which is subject to already established revenue flow-through mechanisms, is distinct from the  
24 recognition of bad debt expense, which normally resides in O&M expense and occurs at a later  
25 point in time.

26 If a customer does not consume as much energy due to the pandemic, the revenue shortfall  
27 compared to what was forecast for rate-setting purposes is captured in specific revenue flow-  
28 through mechanisms. However, as a customer is billed, the actual revenue is recognized with  
29 an equivalent setup of an accounts receivable with the expectation of a cash receipt from the  
30 customer. If there is determination at a later point that the cash is unlikely to be received from  
31 the customer, a bad debt expense is booked as a reserve against the accounts receivable and  
32 the previously recognized revenue remains unchanged. With the establishment of the COVID-  
33 19 Recovery Fund deferral account, the total bad debt expense will be split into two amounts –  
34 that which is due to the COVID-19 pandemic and recorded in the deferral account, and normal  
35 course bad debt expense that continues to reside in O&M expense.



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1 Please also refer to the response to BCOAPO IR1 8.1 for a discussion of the parallel treatment  
2 between the COVID-19 Customer Recovery Fund deferral account and exogenous factor  
3 treatment.

4  
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6  
7 7.3 Please explain how revenue losses attributable to the proposed Bill Credits will  
8 be treated for purposes of the flow-through account calculations and, in doing so,  
9 demonstrate that the proposed COVID-19 Customer Recovery Fund deferral  
10 account will not result in these amounts being double counted.

11

12 **Response:**

13 Consistent with the response to BCOAPO IR1 7.2, FortisBC confirms these amounts will not be  
14 double counted as the recognition of revenue, which is subject to already established revenue  
15 flow-through mechanisms, is distinct from the bill credits which are proposed to be captured in  
16 the deferral account and are provided at a later time.

17 Actual revenue recorded is not impacted by the proposed bill credits, and therefore, there is no  
18 impact to the revenue flow-through deferral accounts and no amounts being double-counted.

19 Instead, the bill credits result in the following accounting entry which shifts the accounts  
20 receivable over to the COVID-19 Customer Recovery Fund deferral accounts, so that the  
21 deferral accounts can be recovered through customer rates at a future date:

22 Debit (DR) Covid-19 Customer Recovery Fund deferral

23 Credit (CR) Accounts Receivable

24

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1   **8.0   Reference:   Exhibit B-1, pages 2-3**

2           8.1    The Application outlines a number of initiatives that FortisBC is undertaking to  
3           respond to COVID-19 and proposed a COVID-19 Customer Recovery Fund  
4           deferral account to track (and eventually recover) related costs/lost revenues.  
5           Overall, does the proposed deferral account in conjunction with the proposed  
6           FEI/FBC PBR Plans for 2020-2024 mean that the cost of these initiatives will all  
7           be (eventually) borne by ratepayers?

8  
9           8.1.1   If not, what impacts are to the account of the shareholders?

10  
11          8.1.2   If yes, is a deferral account that holds harmless the shareholder the  
12          only revision appropriate given that many other shareholders/owners in  
13          the economy – those who provide goods or services - have incurred  
14          extra costs as a result of the coronavirus pandemic?

15  
16    **Response:**

17    Confirmed. The proposed deferral account treatment will allow for visibility into the impacts of  
18    COVID-19 on unrecovered revenues, the method of recovery of which will be the subject of a  
19    future application. However, within the terms of its proposed multi-year ratemaking plans for  
20    2020 to 2024, FortisBC views the COVID-19 pandemic as an exogenous event that is  
21    uncontrollable and unforeseen. In the absence of this deferral account approval, FortisBC  
22    would have applied to the BCUC to recover these additional bad debts and bill credits along  
23    with other COVID-19 pandemic related costs and savings as an exogenous factor in its  
24    upcoming annual reviews.

25    The proposed deferral accounts for the COVID-19 Customer Recovery Fund are consistent with  
26    the exogenous factor treatment included in FortisBC's previous PBRs (2014-2019) and  
27    proposed MRPs (2020-2024), where costs that are uncontrollable and unforeseeable and not in  
28    the Companies' Base O&M or capital funding are recovered from customers through a flow-  
29    through mechanism or deferral account. One of the reasons for exogenous factor treatment for  
30    uncontrollable and unforeseeable costs is to provide the utilities with a reasonable opportunity to  
31    recover their fair rate of return. This fair rate of return is approved by the BCUC and is  
32    considered and determined through a separate process.

33





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1 **9.0 Reference: Exhibit B-1, page 3**

2

3 9.1 FortisBC is requesting approval to establish a rate base deferral account. Why is  
4 FortisBC seeking to establish a rate base as opposed to non-rate base deferral  
5 account considering that no interest will be charged on overdue balances?  
6

7 **Response:**

8 The treatment of the financing costs for the deferral account and the late payment charges  
9 (interest) recovered from customers are two separate considerations, with different purposes.  
10 Late payment charges are levied against customers to incent them to pay their bills on time.  
11 The financing of the deferral account is to recognize the additional working capital requirements  
12 for FortisBC as a result of the longer time period between when service is provided and  
13 payments are received.

14 FortisBC is requesting approval to establish rate base deferral accounts to reflect the carrying  
15 costs (rate base rate of return) required to fund the balances. The rate base treatment of the  
16 COVID-19 deferral account is directly comparable to the inclusion of revenue lead lag days in  
17 the cash working capital component of rate base, to which the rate base rate of return is applied  
18 and approved by the BCUC. In absence of the rate base deferral account, FortisBC would, in  
19 its exogenous factor proposal, account for the additional costs to finance the revenue lead lag  
20 adjustment; however, the establishment of a specific rate base deferral account is preferred as it  
21 provides greater transparency and tracking of the costs.

22

23

24

25 9.2 What will the interest be on the balance in the deferral account?

26

27 9.2.1 How does it compare to the interest rate that would otherwise be  
28 charged?  
29

30

30 **Response:**

31 Since the deferral accounts are proposed for inclusion in rate base, they will attract a weighted  
32 average cost of capital (WACC) return rather than solely an interest charge. The WACC return  
33 incorporates an interest component and is usually presented as an after-tax rate due to the tax  
34 deductibility of the interest component. The pre-tax weighted average interest rates embedded  
35 in the 2020 forecast WACC are approximately 4.78 per cent for FEI and 4.94 per cent for FBC.  
36 With the equity component included, the WACC rates for FEI and FBC are 5.51 per cent and  
37 5.83 per cent, respectively.



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- 1 As noted in the response to BCOAPO IR1 9.1, absent the deferral account, the return on rate
- 2 base would otherwise apply to the cash working capital impact of the delay in revenue collection
- 3 and as such, there is no difference from the “rate that would otherwise be charged”.
  
- 4 If the question is seeking a comparison to the late payment charge, it is important to note that
- 5 the late payment charge is not an accurate indication of the carrying costs that would apply.
- 6 However, for comparison purposes, the late payment charge for both FEI and FBC is 1.50 per
- 7 cent per month or approximately 19.56 per annum on a compounded basis.
  
- 8