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June 4, 2021

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC
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Attention: Mr. Patrick Wruck, Commission Secretary

Dear Mr. Wruck:

Re: British Columbia Utilities Commission (BCUC) Generic Cost of Capital Proceeding

FortisBC (comprised of FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC)) Submission on Deferral Account Financing

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Pursuant to Order G-156-21 dated May 21, 2021, the BCUC established the scope for a two-stage Generic Cost of Capital (GCOC) proceeding. The BCUC further sought submissions from the GCOC participants on the following questions:

1. Whether deferral account financing costs should form part of the scope of the GCOC proceeding.
   a. If so, should the Panel review this matter in Stage 1, Stage 2, or initiate a Stage 3 process?
   b. If not, why not?

FortisBC submits, for the reasons articulated below, that deferral account financing costs should be excluded from the scope of GCOC proceedings. The BCUC already considers this issue in revenue requirements and other proceedings for various utilities, and appropriately so.

As confirmed by the BCUC in previous cost of capital decisions, the main objective for the cost of capital proceedings is to estimate investors' expected return and appropriate capital structure such that the Fair Return Standard is met:[1]

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[1] BCUC Decision and Order G-129-16, p. 2.

> The purpose of the proceeding is to establish a fair return for FEI based on the Fair Return Standard and the standalone principle.

By contrast, the issue of deferral account financing is a question of how the approved cost of capital should be applied to specific components of the revenue requirement for individual utilities. This is an issue that is better suited to determination in the context of reviewing the purpose and other parameters of specific deferral accounts, as well as the circumstances of each utility.

The BCUC has already conducted a generic public process related to regulatory deferral accounts in 2016 in order to "facilitate an efficient review of regulated entities' applications for regulatory accounts (often called deferral accounts)." [2] This process culminated in the BCUC issuing the "Regulatory Account Filing Checklist" (Checklist) on May 3, 2017.[3]

The stated purpose of the BCUC's Checklist is, in part, "to provide guidance regarding the information a regulated entity is expected to provide when applying for regulatory account treatment". It states (p.1) that "Applications for regulatory account treatment filed either as a standalone application or as part of a larger application should be prepared in accordance with this checklist." It includes, among other things, a requirement for utilities to explain the proposed carrying cost for the deferral account and why the proposed carrying cost is appropriate (p. 2). In other words, (1) the BCUC's Checklist recognizes that this issue should be examined on a utility-by-utility and account-by-account basis when a utility applies for a regulatory account; and (2) the Checklist already facilitates the efficient review of regulated entities' requests for regulatory accounts, through the application of a consistent set of considerations and principles to specific circumstances.

As recognized by the Checklist, the appropriate financing treatment of deferral accounts can vary from one utility to another, and from account to account, and is not conducive to a one-size-fits-all approach. Every utility has unique considerations, such as:

- Whether specific deferral accounts are included in rate base and the reason for rate base inclusion;
- The financing structure of each utility, including such utility-specific considerations as the ring-fencing conditions which are only applicable to FEI; and
- The method of setting rates for each utility.

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[2] https://www.bcuc.com/Documents/Guidelines/2017/05-03-2017_RegulatoryAccountFilingChecklist.pdf
[3] ibid.

For instance, BC Hydro's actual cost of financing for its deferral accounts is not applicable to FEI's or FBC's circumstances. Even within an individual utility, there can be reasons to have different financial treatment for different types of accounts.

Consistent with the BCUC's Checklist, the issue of deferral account financing has also been scrutinized recently in utility-specific proceedings. In the case of FortisBC, for example, the issue was canvassed in FBC's most recent Annual Review for 2020-2021 Rates. ICG opposed FBC's requested deferral account financing treatment; however, the BCUC approved FBC's proposed financing treatment and accepted FBC's justification for rate base treatment for the requested deferral accounts "since it results in the amounts expended on behalf of customers being financed for rate making purposes at the same rate they are financed by the utility."[4] Similar issues were canvassed in FEI's recent major capital project proceedings, such as the FEI Application for a CPCN for the Pattullo Gas Line Replacement Project and the FEI Application for a CPCN for the Okanagan Capacity Upgrade Project.

In conclusion, FortisBC submits that the GCOC proceeding should remain focused on the investors' opportunity cost based on the Fair Return Standard, not to examine individual components of the revenue requirement. Deferral account financing treatment is an issue which is most appropriately reviewed by the BCUC and interveners on a case-by-case basis as part of a revenue requirement or other proceeding and in consideration of each utility's specific characteristics and circumstances.

If further information is required, please contact the undersigned.

Sincerely,

on behalf of FORTISBC

Original signed:

Diane Roy

cc (email only): Registered Parties

[4] FBC Annual Review for 2020-2021 Rates Decision and Order G-42-21, pp. 21-22.