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FortisBC Energy Inc.

Annual Review for 2020 and 2021 Delivery Rates

Decision
and Order G-319-20

December 8, 2020

Before:
A. K. Fung, QC, Panel Chair
W. M. Everett, QC, Commissioner
K. A. Keilty, Commissioner

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Executive summary

On June 22, 2020, the British Columbia Utilities Commission (BCUC) approved a multi-year rate plan (MRP) for FortisBC Energy Inc. (FEI) covering a five-year period (2020 to 2024) (MRP Decision). The MRP links utility rates to performance, rather than to recovery of the operating and capital costs of service associated with a traditional cost of service approach.

In accordance with the MRP Decision, an annual review process is required to set rates for each year of the MRP. In this application, FEI applies to the BCUC for approval of 2020 and 2021 delivery rates (Application).

Although FEI forecasts an increase in the delivery rates for 2020 of 3.27 percent over the delivery rates for 2019, it seeks to keep the existing interim rate increase of 2.00 percent as the permanent rate for 2020. It proposes to capture the difference between the proposed permanent rate and the forecast increase in the delivery rates for 2020 by drawing down from the existing 2017 & 2018 Revenue Surplus deferral account due to the timing of the expected decision on this Application. FEI also forecasts an increase in the delivery rates for 2021 of 6.59 percent over the delivery rates for 2020, after drawing down the remaining balance of the 2017 & 2018 Revenue Surplus deferral account. In addition, FEI seeks approval of several deferral accounts and rate riders, as well as approval of the treatment of the Midstream Cost Reconciliation Account (MCRA) and the Core Market Administration Expense (CMAE) budget.

After reviewing the Application, the Panel finds the proposed increases in the 2020 and 2021 delivery rates to be just and reasonable. While these delivery rate increases are more than those experienced under FEI's performance based ratemaking plan (PBR) for 2014 to 2019, the Panel notes that the rate increases partially result from inflationary Operating & Maintenance (O&M) cost increases as well as increases in other O&M costs which are outside of management's control. These other O&M cost increases include Pension & Other Post Employment Benefits, insurance expense and higher operating costs necessary for the safety and integrity of the natural gas system. Delivery rates are also increasing due to higher depreciation and increased financing and return on equity costs associated with necessary capital expenditures on FEI's system. Nonetheless, the Panel shares some interveners' concerns about the magnitude of the forecast rate increases and the full utilization of the 2017 & 2018 Revenue Surplus deferral account in 2020 and 2021.

The BCUC approved the MRP for FEI, a performance-based system with incentive mechanisms, to encourage improved performance, to achieve an increase in efficiency, to better control O&M costs, capital expenditures and regulatory costs and to achieve more reasonable utility rates. Keeping rates as low as possible is important for evaluating the success of this MRP. We are therefore concerned that for the first two years of the MRP term at least, rates will be largely mitigated by utilizing a surplus and flow-through credits that arose in the previous PBR period and not through any identifiable efforts on the part of FEI under the current MRP. Since the revenue surplus will be fully depleted by the end of 2021, we strongly encourage FEI to focus on mitigating cost pressures to moderate rate increases for the remainder of the MRP term, particularly in light of the potential impacts of the COVID-19 pandemic.

Notwithstanding these observations, we approve the following:

- the interim 2020 delivery rate increase of 2.00 percent on a permanent basis, effective January 1, 2020 along with the proposed 2021 delivery rate increase of 6.59 percent, effective January 1, 2021, subject to the adjustments to be made by FEI in its compliance filing to account for the updates to the inflation factor;
- the 2021 CMAE budget of $5.524 million, together with the allocation of 30 percent of the CMAE costs to the Commodity Cost Reconciliation Account, and 70 percent to the MCRA in 2021;

- the establishment of a new regulatory proceeding deferral account for the City of Coquitlam Application Proceeding to capture the costs related thereto for amortization over one year, beginning January 1, 2021;
- the other deferral accounts and rate riders; and
- the proposed treatment of the MCRA, CMAE budget, and COVID-19 related incremental costs.

1.0 Introduction

On June 22, 2020, the British Columbia Utilities Commission (BCUC) approved a multi-year rate plan (MRP) for FortisBC Energy Inc. (FEI) covering a five-year period (2020 to 2024) (MRP Decision).[1] In accordance with that decision, this Annual Review process is required to set delivery rates for 2020 and 2021.

Prior to the issuance of the MRP Decision, the BCUC had approved FEI's 2020 rates on an interim basis,[2] pending a decision on the MRP and the 2020 Annual Review. Following the issuance of the MRP Decision, FEI filed its Annual Review for 2020 and 2021 Delivery Rates Application (Application) on August 12, 2020. With the filing of this Application, FEI seeks to complete the Annual Review process and to set permanent delivery rates for 2020 and 2021.

FEI forecasts an increase in the delivery rates for 2020 of 3.27 percent over the delivery rate for 2019. However, FEI applies to keep the existing interim rate increase of 2.00 percent as the permanent rate for 2020. Due to the timing of the expected decision on this Application, FEI proposes to offset the difference between the forecast increase in the delivery rate for 2020 of 3.27 percent and the requested 2.00 percent permanent rate increase by drawing down from the existing 2017 & 2018 Revenue Surplus deferral account.[3]

FEI also forecasts an increase in the delivery rates for 2021 of 6.59 percent over the delivery rate for 2020 after drawing down the remaining balance of the 2017 & 2018 Revenue Surplus deferral account. FEI states that without drawing down the remaining balance of the 2017 & 2018 Revenue Surplus deferral account, the 2021 delivery rate increase would increase by 10.87 percent over the proposed 2020 delivery rates.[4]

In these reasons for decision (Decision), the Panel reviews the relevant evidence, considers the positions of the parties, discusses the issues arising and outlines its determinations.

1.1 Background to FEI's Multi-Year Rate Plan

As mentioned, on June 22, 2020, the BCUC approved an MRP for FEI that establishes the framework for setting rates in the period from 2020 through 2024. This MRP framework is a form of regulatory rate setting that links utility rates to performance, rather than to recovery of the operating and capital costs of service associated with a traditional cost of service approach. The expected benefits of this performance-based approach are increased efficiency, and better control over Operating and Maintenance (O&M) costs, capital expenditures and regulatory costs as well as resulting in more reasonable utility rates. The MRP uses a rate setting mechanism designed to incent FEI to find efficiencies while ensuring that reasonable and measurable service levels are maintained. The MRP includes elements that attempt to strike a balance between the interests of ratepayers and the utility, and appropriately manage and allocate risks and rewards.[5]

Certain cost components of the MRP are determined using a formula or index-based approach that considers inflation and other cost drivers adjusted to reflect FEI's expected productivity improvements. Other revenue and cost components that are not conducive to an index-based approach are determined through a forecast approach like a traditional Cost of Service mechanism or flowed through to the FEI's annual revenue requirement. Revenue and cost components outside FEI's control are handled through a deferral mechanism or are given flow-through or exogenous factor treatment.

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[1] Order G-165-20 dated June 22, 2020.
[2] Order G-302-19 dated November 29, 2019.
[3] Exhibit B-2, Application, p. 2.
[4] Ibid., p. 165.
[5] FortisBC Energy Inc. and FortisBC Inc. Application for Approval of a Multi-Year Rate Plan for the Years 2020 through 2024 (MRP) Decision dated June 22, 2020, p. 167.

FEI's MRP includes the following:

- Use of a formula or index-based approach to controllable O&M and FEI Growth capital, incorporating:
    - An inflation factor based on Statistics Canada BC-CPI and the BC-AWE indexes;
    - A growth factor multiplier for O&M and FEI Growth capital; and
    - A productivity Factor;
- Use of a forecast approach for FEI Sustainment and Other capital;
- A 50 percent sharing between customers and FEI's shareholders if FEI's achieved return on equity is above or below that allowed;
- Specific revenue requirement items approved for flow-through and deferral account treatment of certain items;
- Nine service quality indicators (SQIs);
- A plan off-ramp to be triggered if earnings in any one year vary from the allowed return on equity by more than +/-150 basis points (post sharing); and
- A Clean Growth Innovation Fund funded by a basic charge fixed rate rider of $0.40/month.

A key element of the MRP is the establishment of an annual review process to set delivery rates (Annual Review) for FEI. As part of the 2020-2024 MRP Decision,[6] the BCUC set out the following items to be addressed at each Annual Review in addition to setting delivery rates:

1. Review of the current year projections and the upcoming year's forecast, including the following items:
    i. Customer growth, volumes and revenues;
    ii. Year-end and average customers, and other cost information including inflation;
    iii. Expenses, determined by the indexing formula plus items forecast annually;
    iv. Capital expenditures;
    v. Plant balances, deferral account balances and other rate base information and depreciation and amortization to be included in rates; and
    vi. Projected earnings sharing for the current year and true-up to actual earnings sharing for the prior year;
2. Identification of any efficiency initiatives that FEI has undertaken, or intends to undertake, that require a payback period extending beyond the MRP term with recommendations to the BCUC with respect to the treatment of such initiatives;
3. Review of any exogenous events FEI or stakeholders have identified that should be put forward to the BCUC for review;
4. Review of FEI's performance with respect to SQIs;
5. Assessment of and recommendations with respect to any SQIs that should be reviewed in future Annual Reviews;
6. Reporting on the Clean Growth Innovation Fund status; and

[6] Ibid.

7. Assessment of and recommendations to the BCUC on potential issues or topics for future Annual Reviews.

In addition to these specific topics, the BCUC may include any other topic for review as it considers necessary.

1.2 Approvals sought

FEI seeks the following approvals pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA):

1. Approval of the existing 2020 interim delivery rates as permanent, effective January 1, 2020;
2. A permanent 2021 delivery rate increase of 6.59 percent, effective January 1, 2021; and
3. Approvals related to several deferral accounts and rate riders, as well as approvals related to the treatment of the Midstream Cost Reconciliation Account (MCRA), Core Market Administration Expense (CMAE) budget, and COVID-19 related incremental costs as outlined in Section 2.2 below.

In Section 2.1 below, the Panel discusses FEI's proposed delivery rates for 2020 and 2021, followed by other issues arising and the other approvals sought in Section 2.2.

1.3 Application review process

In accordance with the regulatory timetable, the following review process was undertaken:[7]

- One round of BCUC and intervener information requests (IRs);
- A virtual workshop on October 14, 2020;
- An opportunity for FEI to file responses to undertakings arising from the information requested at the workshop;
- Written final arguments from interveners filed by November 3, 2020; and
- FEI's written reply argument filed by November 10, 2020.

Following the filing of its reply argument, FEI filed a letter on November 18, 2020, clarifying the form of approval sought for its 2021 delivery rates.[8]

The following registered interveners participated in the proceeding:

- BC Sustainable Energy Association and Sierra Club (BCSEA);
- British Columbia Old Age Pensioners' Organization et al. (BCOAPO);
- Commercial Energy Consumers Association of British Columbia (the CEC); and
- Movement of United Professionals (MoveUP).

2.0 Determinations on Approvals Sought

FEI's approvals sought in the Application are outlined above in Section 1.2. None of the interveners opposed BCUC approval of FEI's requests. However, BCOAPO and the CEC expressed concerns about the magnitude of the delivery rate increases in the first two years of the MRP term as discussed in Section 2.1 below. Furthermore, the CEC recommended certain adjustments as outlined in Section 2.2 below.

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[7] Order G-209-20.
[8] Exhibit B-11.

2.1 2020 and 2021 Delivery Rate Increases

Proposed Mitigation of Rate Increases

During FEI's most recent PBR term, the BCUC approved the 2017 Revenue Surplus deferral account in FEI's Annual Review for 2017 Rates, to capture the 2017 revenue surplus resulting from maintaining 2017 rates at existing 2016 levels.[9] In the Annual Review for 2018 Delivery Rates, this account was renamed the "2017 & 2018 Revenue Surplus deferral account," and the BCUC approved FEI recording in that account the 2018 forecast surplus also resulting from maintaining 2018 rates at 2017 levels.[10]

FEI explains that coming out of its last PBR term, it had the above noted revenue surpluses available to use to mitigate rate increases for 2020 and 2021. These revenue surpluses were not used in 2017 and 2018 to reduce rates in order to avoid rate volatility. FEI acknowledges based on its proposals, these surpluses will be entirely drawn down by the end of 2021. FEI states it does not have any expectations of any surplus going forward, and that it currently does not have any other way to mitigate future rate increases.[11]

Regarding the ability to mitigate rate increases beyond 2021, FEI also states that if it has a surplus in a year, it prefers to use the surplus to mitigate rates. If FEI expects a decrease in rates in future years, it may try to smooth rates over time. However, FEI could not speculate as to whether it will have any of these options available over the remainder of the MRP term.[12]

FEI acknowledges that while the 2021 rate increase is more than the historical increases it would not necessarily characterize the rate increase as large, explaining that the increases over the last number of years have averaged below inflation. FEI also states that it has several upcoming large Certificate of Public Convenience and Necessity (CPCN) projects involving integrity, resiliency or reliability, and these types of projects do not bring in incremental revenues. FEI states, "And as a result of that it is possible we will be seeing higher rate increases than what we've seen over the past number of years."[13]

Given the proposed rate increases, FEI submits that to measure the success of this MRP or any plan or regulatory regime, several factors need to be considered:

- While rates are always important and FEI should strive to keep them as low as possible, there are cost drivers that are outside of the MRP plan that tend to be less controllable as well as large projects that are necessary;
- FEI's ability to successfully manage O&M levels within the constraints that are imposed by the formula;
- Capital spending levels, investing efficiently and the need to make the necessary investments to maintain the safety and reliability of FEI's systems;
- SQIs that help ensure balance between costs and quality of service;
- The importance of regulatory efficiency, including keeping Annual Reviews streamlined and efficient and minimizing regulatory costs for ratepayers;
- Other intrinsic things such as the effectiveness of decision making and customer service; and
- A longer MRP or PBR term that provides more certainty around longer term planning.[14]

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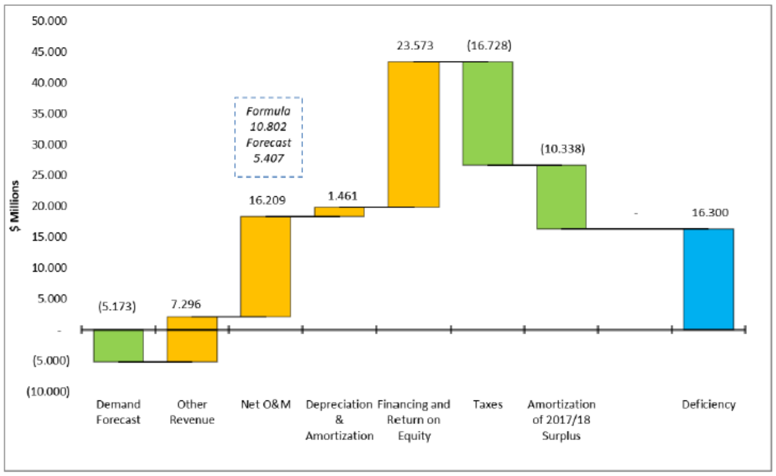
[9] Order G-182-16, FortisBC Energy Inc. Annual Review for 2017 Delivery Rates, December 7, 2016.
[10] Order G-196-17, FortisBC Energy Inc. Annual Review for 2018 Delivery Rates, December 21, 2017.
[11] Workshop Transcript Volume 1, p. 31.
[12] Ibid.
[13] Workshop Transcript Volume 1 – pp. 31-32.
[14] Workshop Transcript Volume 1 – pp. 33-34.

2020 Delivery Rate Increase

As previously described, FEI is requesting permanent approval of the 2020 interim delivery rates, which amount to a 2.00 percent increase over the 2019 delivery rates. FEI submits that it will amortize $10.338 million of the existing 2017 & 2018 Revenue Surplus deferral account to offset the forecast 2020 revenue deficiency, which would otherwise result in a delivery rate increase of 3.27 percent over the 2019 delivery rate. FEI's rationale for using a portion the Revenue Surplus deferral account to offset the forecast 2020 revenue deficiency is due to the expected timing of this Decision.[15]

FEI presents a summary of its 2020 revenue deficiency, as shown in the figure below:[16]

Figure 1: 2020 Delivery Revenue Deficiency



<u>O&M Costs</u>

Most of FEI's O&M costs are set by formula as set out in the MRP Decision. In addition, each year FEI forecasts O&M items not captured in formula. In 2020, as shown in the figure above, the increase in net O&M contributes $16.209 million towards the overall revenue deficiency. FEI states that $10.802 million of this deficiency is related to the MRP formula, while the remaining $5.407 million is related to forecast O&M items.[17] FEI explains that the $16.209 million increase in O&M consists of an increase in forecast gross O&M of $32.777 offset by an increase in capitalized overhead of $16.568.[18] The increase in capitalized overhead results from a change in the capitalized overhead rate approved in the MRP Decision.[19] Notable increases in forecast O&M include an increase in Pension & Other Post Employment Benefits (OPEB) ($7.352 million), and Insurance expense ($3.048 million), as well as increases in costs related to integrity digs, BCUC levies and liquefield natural gas (LNG) Production O&M,[20] offset by the increase in capitalized overhead noted above.

Increases in Pension & OPEB expenses are primarily due to an increase in amortization of actuarial losses and increases in current service costs and interest costs due to a decline in discount rates from 3.5 percent, which was used to determine 2019 approved expense, to 3.0 percent, which is used to determine the 2020 projected expense.[21] FEI states that pension and OPEB expense for 2020 is based upon actuarial estimates using a range of assumptions at December 31, 2019, and is provided by Willis Towers Watson. Variances in Pension & OPEB

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[15] Exhibit B-2, Application, p. 2.
[16] Ibid., Figure 1-1.
[17] Exhibit B-10, FEI Undertaking No.1, p. 2.
[18] Figures derived from Exhibit B-2, Section 11 – schedule 1.
[19] FortisBC Energy Inc. and FortisBC Inc. Application for Approval of a Multi-Year Rate Plan for the Years 2020 through 2024 (MRP) Decision dated June 22, 2020, p. 144
[20] Exhibit B-2, Application, Table 6-4, p. 42.
[21] Exhibit B-2, Application, p. 43.

expenses are captured in the Pension & OPEB Variance deferral account and amortized into rates over a three-year period.[22]

Projected insurance expenses for 2020 increase by $3.048 million compared to 2019 approved expense due to the insurance premium expense allocated to FEI by its parent Fortis Inc. FEI states that it has experienced significant increases in insurance expense in the last two renewals as a result of various insurers reducing their capacity and increasing restrictions and retentions.[23]

Depreciation and Amortization

The increase in net depreciation and amortization of $1.461 million consists of net increases in depreciation and amortization expense related primarily to capital and net salvage value of $3.408 million, offset by a net credit related to amortization of flow-through amounts and other deferrals discussed below of $1.947 million.[24]

Under FEI's 2014-2019 approved PBR Plan,[25] a flow-through deferral account was approved to capture annual variances between the approved forecast and actual amounts for certain costs and revenues for all items which did not have a previously approved deferral account. This included certain revenue variances,[26] depreciation expense, insurance premiums, income and property taxes, interest expense, and certain forecast O&M expenses. These variances are then amortized over a one-year period and returned to, or collected from, ratepayers via the delivery rates in the subsequent year. FEI states that the final amount to be distributed to customers in 2020 as a result of the flow-through deferral amortization is a credit of $36.392 million.[27]

This credit consists of a net variance between approved and actuals of $22.243 million in flow-through items for 2019, and a true-up to actuals of $11.617 million of the projected 2018 flow-through account balance.[28] The $11.617 million credit is the difference between the projected ending 2018 flow-through deferral account balance embedded in 2019 delivery rates, and the actual ending 2018 deferral account balance.[29] FEI states that the variances for both 2019 and 2018 primarily resulted from higher delivery margin revenue and lower depreciation expense, as shown in Tables 1 and 2 below:

[22] Ibid., p. 42.
[23] Ibid., p. 44.
[24] Figures derived from Exhibit B-2, Section 11 – schedule 1.
[25] FortisBC Inc. Multi-year Performance Based Ratemaking Plan for 2014 through 2018, Decision dated September 15, 2014.
[26] Ibid., Section 2.2.5
[27] Exhibit B-2, Application, p. 184
[28] Ibid., p. 184.
[29] Ibid., p. 185.

Table 1: 2018 Flow-Through Deferral Account True-up ($ millions)[30]

Line No.	Particulars	FEI APPROVED G-196-17	FEI 2018 ACTUAL	Flow-Through Variance
	(1)	(2)	(3)	(4)
1	Delivery Margin			
2	Residential (Rate 1)	$ (484.373)	$ (488.447)	$ (4.073)
3	Commercial (Rate 2, 3, 23)	(235.157)	(240.050)	(4.893)
4	Industrial (All Others)	(102.503)	(110.780)	(8.277)
5	Total Delivery Margin	(822.033)	(839.277)	(17.244)
6				
7	O&M Tracked outside of Formula			
8	Insurance	5.360	5.203	(0.157)
9	Bio-Methane	1.121	2.634	1.513
10	Bio-Methane O&M transferred to BVA	(1.074)	(2.597)	(1.523)
11	NGT O&M	1.838	2.099	0.261
12	LNG Production O&M	6.650	6.547	(0.103)
13	MSP	-	(0.789)	(0.789)
14				
15	Property and Sundry Taxes	67.157	62.596	(4.561)
16				
17	Depreciation and Amortization	222.212	208.086	(14.126)
18				
19	Other Operating Revenue	(46.048)	(45.666)	0.382
20				
21	Interest Expense	134.461	135.880	1.419
22				
23	Income Taxes	50.137	56.649	6.512
24				
25	2018 Actual After-Tax Flow-Through Addition to Deferral Account (excluding financing)			(28.417)
26	2018 Projected After-Tax Flow-Through Addition to Deferral Account (excluding financing)			(17.111)
27				
28	2018 After-Tax Flow-Through Addition True-up to Deferral Account (excluding financing)			(11.306)
29	2018 Financing True-up			(0.311)
30				
31	2018 Ending Deferral Account Balance True-up			(11.617)

Table 2: 2019 Flow-Through Deferral Account Additions ($ millions)[31]

Line No.	Particulars	2019 Approved	2019 Actual	After-Tax Flow-Through Variance
	(1)	(2)	(3)	(4)
1	Delivery Margin			
2	Residential (Rate 1)	$ (491.826)	$ (495.069)	$ (3.243)
3	Commercial (Rate 2, 3, 23)	(238.980)	(244.667)	(5.687)
4	Industrial (All Others)	(113.352)	(115.929)	(2.578)
5	Total Delivery Margin	(844.157)	(855.665)	(11.508)
6				
7	O&M Tracked outside of Formula			
8	Insurance	5.473	6.294	0.821
9	Bio-Methane	1.369	1.205	(0.164)
10	Bio-Methane O&M transferred to BVA	(1.322)	(1.149)	0.173
11	NGT O&M	2.339	2.060	(0.279)
12	LNG Production O&M	7.432	10.846	3.414
13	MSP Reduction	(0.829)	(0.801)	0.028
14	Employer Health Tax	2.630	2.894	0.264
15				
16	Property and Sundry Taxes	67.559	67.781	0.222
17				
18	Depreciation and Amortization	230.699	226.450	(4.249)
19				
20	Other Operating Revenue	(44.893)	(44.546)	0.347
21				
22	Interest Expense	140.241	139.880	(0.361)
23				
24	Income Taxes	52.972	42.021	(10.951)
25				
26	2019 After-Tax Flow-Through Addition to Deferral Account (excluding Financing)			(22.243)

The variances in delivery margin were primarily due to a higher number of customers.[32] The variances in depreciation, which were treated as flow-through in the PBR plan, were primarily a result of lower opening plant balances for 2019 and the delayed in-service date for the Tilbury Expansion Project for 2018.[33]

[30] Exhibit B-3, BCUC IR 28.1.
[31] Exhibit B-2, Application, Table 14-1, p. 186.
[32] Exhibit B-3, BCUC IR 28.2.
[33] Ibid., BCUC IR 28.3.

For 2020 rates, recognition of the flow-through deferral amortization of $36.392 million[34] does not result in a reduction in rates compared to 2019 since there were also flow-through credits and other deferrals credits included in 2019 rates. In 2020, the net increase in amortization related to flow-through and other deferrals is $1.947 million.[35]

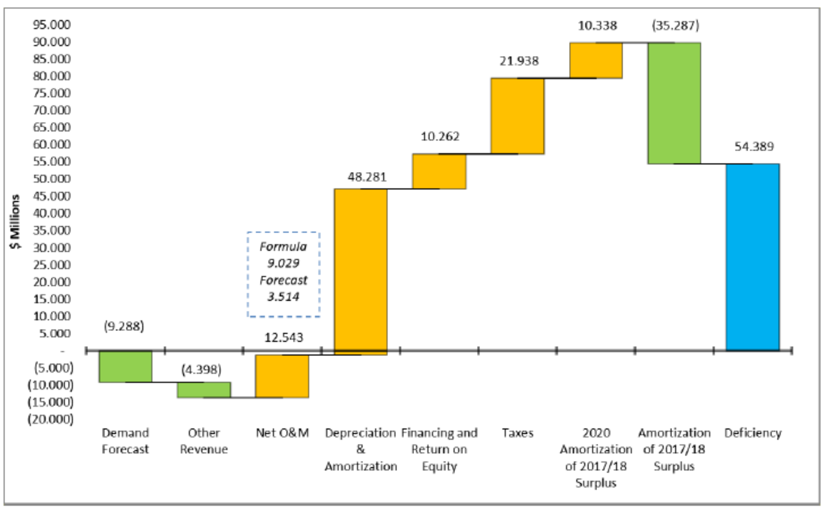
Other Changes

FEI also explains that the $23.573 million from Financing and Return on Equity, and the partially offsetting taxes amount of $10.338 million are primarily caused by all the components that affect the year-over-year change in rate base, such as change in rate base from formula capital, forecast capital, unamortized deferred charges, and CPCN additions, among other things.[36]

2021 Delivery Rate Increase

For 2021, FEI is requesting a 6.59 percent increase over 2020 delivery rates. FEI submits that it will amortize the remaining $35.287 million of the 2017 & 2018 Revenue Surplus deferral account, and presents a summary of the 2021 revenue deficiency as shown in the figure below:[37]

Figure 2: 2021 Delivery Revenue Deficiency



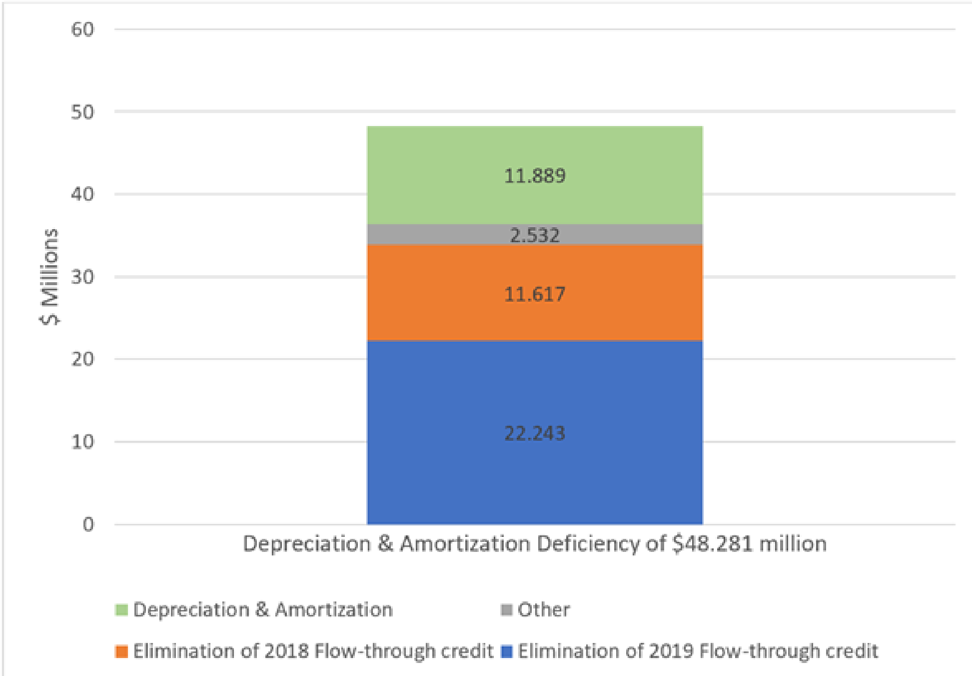
FEI states that without recognizing the remaining portion of the existing surplus in 2021, the 2021 delivery rate increase would be 10.87 percent compared to 2020 levels.[38] FEI explains that the rate increase is due to an increase in 2021 depreciation and amortization expense of $48.281 million,[39] and it further elaborates that this increase is primarily due to the elimination of the credit flow-through variance embedded in 2020 rates resulting from the amortization of the flow-through deferral account, as detailed in the discussion relating to Depreciation and Amortization above.[40]

Elimination of the $36.392 million flow-through credits from the PBR plan recognized in 2020, as discussed above, along with $11.889 million higher Depreciation and Amortization expense in 2021 when compared to

[34] Exhibit B-2, Application, p. 184
[35] Ibid., Section 11 – schedule 1.
[36] Exhibit, B-10, FEI Undertaking No. 1, p. 2.
[37] Exhibit B-2, Application, Figure 1-2.
[38] Ibid., p. 165.
[39] Ibid., p. 2.
[40] Ibid., p. 7.

2020, together make up the $48.281 million deficiency that primarily causes 2021 delivery rates to increase over 2020 rates. The breakdown of the $48.281 million deficiency can be presented as shown in the figure below:

Figure 3: 2021 Depreciation & Amortization Deficiency



FEI notes that the latest available information for the month of May 2020 is used as a placeholder for June 2020 for AWE-BC in the calculation of the inflation factor for 2021 rates, and states that once the June 2020 results are available, the placeholder will be replaced with actuals and included in an evidentiary update or compliance filing.[41]

Positions of the Parties

Two interveners express concern regarding the magnitude of FEI's forecast rate increases for 2020 and 2021. BCOAPO submits that it is no small concern that the entire $35 million balance of the 2017 & 2018 Revenue Surplus deferral account is drawn down to zero in just the first two years of a five-year plan. While it can appreciate that, on average, in past years customers were the beneficiaries of FEI's ability to mostly keep rate increases below inflation, this does not mean a 6.59 percent increase in delivery rates in 2021 is of no consequence or concern. BCOAPO urges FEI to take every opportunity presented in these test years and in those to come, to shave off whatever it can from its revenue requirement where doing so will not compromise worker safety, system reliability, or materially affect service quality.[42]

Similarly, the CEC expresses concern with the significant increases in the revenue requirements, particularly given that current rate increases for 2020 and 2021 are being so extensively mitigated by the drawing down of the 2017 & 2018 Revenue Surplus deferral account. The CEC submits that, in the interests of transparency and intergenerational equity, it is concerning that there was a revenue surplus of more than $31 million in 2019 that was not returned to those ratepayers, but is being used to mitigate the very significant rate increases that would have occurred in 2020 and 2021 in the absence of the deferral account. While the CEC supports the use of the deferral account for rate smoothing, it submits that this was not the intention of the deferral account. The CEC

[41] Exhibit B-2, Application, p. 9.
[42] BCOAPO Argument, pp. 4-6.

states that the benefits could have been returned to the ratepayers during the 2014-2019 PBR instead of being deferred to 2020 and 2021.[43]

In its Reply, FEI recognizes the impact rate increases have on its customers, and states it will continue its efforts to mitigate cost pressures.[44] FEI submits that while the rate increase in 2021 is larger than has been seen in past years, from 2014 to 2021, it has effectively managed costs such that its average delivery rate increases over this eight year period remained below inflation at approximately 1.7 percent.[45] FEI states it has identified upcoming capital expenditures tied to the integrity, resiliency and reliability of its system which may result in higher rate increases as compared to the average increases dating back to 2014. However, it will continue to prudently manage its business, without compromising worker safety, service quality, or the reliability of its distribution system, while managing continued and emerging cost pressures.[46]

FEI also submits that the CEC's submission is misguided, stating the 2017 & 2018 Revenue Surplus deferral account was proposed by FEI and approved by the BCUC precisely for the purpose of rate smoothing. FEI states that its delivery rates did not increase in 2017 or 2018, and only increased by a small amount in 2019, thus presenting 2020 and 2021 as the first opportunity for FEI to return surpluses to mitigate rate increases for customers. As a result, FEI submits that delivery rates from 2017 to 2021 will be smoother than they otherwise would have been without the 2017 & 2018 Revenue Surplus deferral account.[47]

Panel Determination

The Panel agrees with FEI that drawing down the 2017 & 2018 Revenue Surplus deferral account to maintain 2020 permanent rates at the 2.00 percent interim rate increase is appropriate, given the timing of this Decision.

Using the 2017 & 2018 Revenue Surplus deferral account to lower the 2021 rate increase from 10.87 percent to 6.59 percent helps to mitigate the 2021 rate increase which is largely driven by the elimination of the PBR flow-through credits that were recognized in 2020 and results in rate smoothing which is consistent with the purpose of the approved deferral account. Regarding the CEC's concerns related to intergenerational equity, we note that there was little need to use the surplus given that increases were modest in 2019, rendering 2020 and 2021 the earliest opportunity to use the surplus to offset delivery rate increases. By using the surplus balances to mitigate the impact of increased delivery rates, FEI is effectively returning the surplus in its entirety to ratepayers during 2020 and 2021. Furthermore, without the use of the surplus balance in 2021, ratepayers would otherwise be subject to an increase of more than 10 percent, which is often recognized by regulators as an increase that could result in rate-shock.

While the Panel recognizes that FEI's average delivery rate increase of 1.7 percent over 2014 to 2021 has remained below inflation, the Panel also notes that FEI was under a different PBR plan during that period. Accordingly, the average delivery rate increase between 2014 to 2021 may not be a meaningful basis for comparison if there are significant rate increases during the remainder of the MRP term. As noted above, FEI states it currently does not have any way to mitigate future rate increases, it has a number of large CPCN projects necessary for integrity, resiliency or reliability purposes in the near term and going forward, there is a possibility of higher rate increases than experienced in the previous PBR term.

In this Annual Review, FEI has provided sufficient evidence and submissions to satisfy the Panel that the requested delivery rate increases are just and reasonable. The Panel notes that the rate increases partially result from inflationary O&M cost increases as well as increases in other O&M costs which are outside of management's control. These other O&M cost increases include Pension & OPEB, insurance expense and higher

[43] CEC Argument, p. 4.
[44] FEI Reply Argument, p. 3.
[45] Ibid., p. 4.
[46] Ibid., p. 4.
[47] Ibid., p. 5.

operating costs necessary for the safety and integrity of the natural gas system. Delivery rates are also increasing due to higher depreciation and increased financing and return on equity costs associated with necessary capital expenditures on FEI's system. Nonetheless, the Panel shares BCOAPO's and the CEC's concerns about the magnitude of the forecast rate increases and the full utilization of 2017 & 2018 Revenue Surplus deferral account in 2020 and 2021. As noted previously in this Decision, the BCUC approved the MRP for FEI, a performance-based system with incentive mechanisms, to encourage improved performance, to achieve an increase in efficiency, to better control O&M costs, capital expenditures and regulatory costs and to achieve more reasonable utility rates.

In the Workshop, FEI agreed that keeping rates as low as possible is important for evaluating the success of this MRP. We agree with the importance of this measure. We are therefore concerned that for the first two years of the MRP term at least, rates will be largely mitigated by utilizing a surplus and flow-through credits that arose in the previous PBR period and not through any identifiable efforts on the part of FEI under the current MRP. Since the revenue surplus will be fully depleted by the end of 2021, we strongly encourage FEI to focus on mitigating cost pressures to moderate rate increases for the remainder of the MRP term, particularly in light of the potential impacts of the COVID-19 pandemic.

In assessing FEI's explanations for the requested 2021 rate increase of 6.59 percent, the Panel finds it would be clearer to separate the flow-through deferral account amortization from the depreciation and amortization categories, shown in Figures 2 and 3 above. This will allow for greater transparency and ease of understanding and tracking in future Annual Reviews. Therefore, **the Panel directs FEI to present the amortization of flow-through and other deferral accounts separately from depreciation and amortization in future Annual Reviews.**

Based on its review of the evidence and submissions in this proceeding, the Panel finds FEI's proposed delivery rates for 2020 and 2021 to be just and reasonable and therefore approves them. The existing 2020 delivery rates of 2.00 percent that were approved on an interim basis are approved as permanent, effective January 1, 2020. Furthermore, the 2021 delivery rate increase of 6.59 percent, effective January 1, 2021 is approved, subject to the adjustments to be made by FEI to account for the updates to the inflation factor. FEI is directed to file a compliance filing, within 10 days of issuance of this Decision, reflecting the updated delivery rate increase for 2021.

2.2 Other issues arising

In addition to the approvals sought discussed in Section 2.1 of this Decision, FEI seeks approvals related to several deferral accounts and rate riders, as well as approvals related to the treatment of the MCRA, CMAE budget, and COVID-19 related incremental costs. These requests are set out below:

1. The following FEI deferral account approvals as described in Sections 7.5 and 12.4 of the Application:
    a. Creation of a rate base deferral account for the reviews for 2020 to 2024 rates, with costs of each annual review to be amortized in the subsequent year;
    b. Creation of a rate base deferral account for the 2022 Long-Term Gas Resource Plan (LTGRP), with the amortization period to be determined in a future proceeding;
    c. Creation of a rate base deferral account for BCUC Initiated Inquiries, with balances to be amortized in subsequent years;
    d. Creation of a rate base deferral account for The City of Coquitlam Application Proceeding, to be amortized over three years beginning January 1, 2021;
    e. Renaming the previously approved 2020 Revenue Requirements Application deferral account to the 2020-2024 MRP Application deferral account, to be amortized over the five-year period beginning January 1, 2021; and

f. The draw down of the 2017 & 2018 Revenue Surplus deferral account in the amount of $10.338 million before tax in 2020 and $35.287 million before tax in 2021, which will bring the account balance to zero.

2. A Biomethane Variance Account Rate Rider for 2021 in the amount of $0.022 per gigajoule (GJ) as calculated in Section 10.2.1 of the Application;
3. Revenue Stabilization Adjustment Mechanism riders for 2021 in the amount of $0.087 per GJ as calculated in Section 10.2.2 of the Application;
4. To continue debiting of the MCRA and crediting of Other Revenue in the amount of $300 thousand per month for the period of January 1, 2020 to October 31, 2020 as described in section 5.3.2 of the Application;
5. Effective November 1, 2020 and for the duration of the MRP term, to debit the MCRA and credit Other Revenue in the amount of $346.617 per MMcfd, as described in Section 5.3.2 of the Application;
6. The 2021 CMAE budget of $5,524 thousand, as set out in Schedule 1 in Appendix B of the Application, and the continued allocation of the CMAE between FEI's Commodity Cost Reconciliation Account (CCRA) and MCRA based on the allocation percentages of 30 percent and 70 percent, respectively; and
7. To record COVID-19 incremental costs and related savings from 2020 and 2021 into the previously approved COVID-19 Customer Recovery Fund Deferral Account as discussed in Section 12.2.1 of the Application.

None of the interveners, with the exception of the CEC, raised any issues about the above additional approvals being sought by FEI. We discuss below the CEC's recommendations with regards to certain issues, followed by our determination on these approvals sought.

2.2.1 Forecasting Method for Long-Term Gas Resource Plan (LTGRP) Application

FEI explains that the demand forecast for residential and commercial customers is based on forecasts for the number of customers and use per customer (UPC) rates.[48] Consistent with past practice, FEI uses the Conference Board of Canada (CBOC) housing starts forecast as a proxy for residential net customer additions.[49] The residential UPC forecast is developed using the exponential smoothing (ETS) method with the most recent 10 years of historical weather-normalized UPC.[50]

For commercial customers, the net commercial customer additions forecast is based on the average of the actual net customer additions over the last three years for which a full year of actual data is available (i.e., 2017 to 2019). The commercial UPC forecast was developed using the ETS method as described above.[51]

FEI also notes that its demand forecast methods are consistent with the recommendations in the FEI Forecasting Method Study filed as Appendix B2 in FortisBC's 2020-2024 MRP Application, which represented several years of research and testing of alternative forecasting methods. As a result of this study, FEI adopted the ETS method for the purpose of forecasting UPC rates, as FEI submits it proved to be the most accurate method for this purpose.[52]

[48] Exhibit B-2, Application, p. 13.
[49] Ibid., p. 15.
[50] Ibid., p. 16.
[51] Ibid., pp. 18-19.
[52] Ibid., Appendix A3, p. 1

Positions of the Parties

None of the interveners comment on FEI's forecasting methods for determining 2020 and 2021 delivery rates. However, the CEC raises an issue with the forecasting method with regards to the LTGRP. The CEC submits that the variance in the residential UPC made a significant impact on FEI's forecast variation, and submits that further work into developing UPC forecasting methodologies could be useful for the LTGRP.[53] The CEC also notes there has been some significant variation in residential customer additions since 2010, and submits that improvement to customer addition forecasting could also be undertaken in the next LTGRP.[54]

For commercial customers, the CEC again notes there has been some significant variation in net customer additions over time. The CEC references FEI's statement that it has tested 11 econometric forecasts prepared by the CBOC for their suitability to forecast commercial customer additions, and that none of the forecasts passed the T-test at the required confidence limit. The CEC submits that it is therefore appropriate for FEI to continue to examine the reasons for the variation in net customer additions.[55]

In reply, FEI disagrees with the CEC, stating it just completed an extensive, multi-year review of its UPC forecasting methodologies from 2015 to 2019, which resulted in the ETS method being adopted in this Application. It states that the 2019 UPC forecast, resulting in the forecast variance referenced by CEC in its argument, was developed using the previous method, and further work is not useful at this time having just completed an extensive review and adoption of a new method.[56]

FEI further submits that there is no evidence to support the CEC's recommendation that FEI conduct a review of the residential and commercial customer additions forecast in its LTGRP. FEI states it reviewed its commercial customer additions forecast as part of the multi-year forecast method review, and the existing forecast method performed better than other methods. For its residential customer additions forecast, FEI reiterates that it uses the CBOC as it is the only guidance that forecasts both BC single and multi-family housing starts independently, which continues to be important.[57]

FEI also points out that its demand forecast method is performing well, better than its internal benchmark of plus or minus 4 percent, that a forecast methodology review could not reasonably be completed as part of the upcoming LTGRP due to the time and effort, and that the LTGRP includes a long-term forecast that is separate and distinct from the short-term forecast used for rate setting purposes. Therefore, the short-term forecast used for rate setting purposes is not relevant to the LTGRP.[58]

2.2.2 CMAE Budget

Background to CMAE Budget

The costs incurred in the CMAE Budget have been segregated from FEI's O&M cost category since the 1994-1995 Revenue Requirements Application Phase 1 Decision and accompanying Order G-37-94, and are deemed to be part of flow-through gas costs associated with managing the natural gas supply for its customers.[59] In FEI's 2014 CMAE Budget Application, FEI stated that the flow-through to ratepayers practice permitted under section 61(4) remained applicable even if certain components of the CMAE, i.e. the labour expense, is controllable to some extent, and provided a number of reasons.[60] In that application, FEI also stated that "applying a PBR formula to the CMAE budget on a stand-alone basis is not appropriate" and "although the

[53] CEC Argument, p. 10.
[54] Ibid., pp. 11-12.
[55] Ibid., p. 13.
[56] FEI Reply Argument, p. 6.
[57] Ibid., pp. 6-7.
[58] Ibid., p. 8.
[59] FortisBC Energy Inc. Core Market Administration Expense 2014 Budget, Decision and Order G-79-14, June 18, 2014, p. 2.
[60] FortisBC Energy Inc. Core Market Administration Expense 2014 Budget proceeding, Exhibit A2-2, BCUC IR 2.293.3.1.

labour-related costs within the CMAE are subject to the same inflationary components as the labour in the Company's O&M budgets, the fact that the CMAE is a relatively small and distinct pool of costs severely restricts the Company's ability to generate ongoing productivity savings built into the PBR formula."[61]

In the BCUC's Decision regarding FEI's 2014 CMAE Budget, the BCUC acknowledged that while CMAE is an essential component of the cost of gas, there is benefit to reviewing the CMAE budget with other similar costs within the larger FEI budget.[62] The BCUC was also concerned with not having enough time to review the CMAE budget if it was submitted at the same time as the fourth quarter gas report, and thus determined that the appropriate review process for the CMAE budget was as part of the FEI's revenue requirements application. However, because FEI was entering the 2014-2019 PBR plan at the time, the BCUC directed FEI to submit its CMAE budget separately at least two weeks prior to the fourth quarter gas cost report until such time that FEI filed its next revenue requirements application.[63]

In FEI's following revenue requirements application, which was FEI's 2020-2024 MRP application, FEI continued to file the 2020 CMAE budget two weeks prior to the filing of the fourth quarter gas cost report, due to the anticipated timing of the MRP Decision. [64]

Starting with 2021, FEI is now filing for BCUC approval of the CMAE budget as part of each Annual Review.

<u>2021 CMAE Budget</u>

The CMAE budget funds the costs that FEI's Gas Supply Department incurs to plan, manage and optimize the commodity and midstream gas supply portfolios, mitigate unneeded resources, manage the credit exposure to counterparties, and minimize the impact of unfavourable upstream regulatory developments. FEI states that since these activities are performed to serve core market customers, the CMAE budget is recovered separately from delivery costs through gas cost recovery rates.[65] Variances between the actual gas costs incurred and the forecast gas costs embedded in recovery rates are captured in the gas cost deferral accounts and refunded to or recovered from customers as part of future commodity and midstream rates.[66]

In the Application, FEI is requesting the approval of the 2021 CMAE Budget of $5.524 million; and approval of the allocation of the 2021 CMAE between the Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) based on the allocation percentages of 30 percent and 70 percent, respectively. FEI states that this allocation reflects the level of work performed by employees in the Gas Supply area to support each of the portfolios. [67]

Table 3: 2021 CMAE Summary ($ millions)[68]

	Actual 2019	Approved 2020	Projected 2020	Forecast 2021
Labour	2.637	2.957	2.724	3.041
Non-Labour	1.495	1.670	1.903	1.797
Shared Services	0.686	0.686	0.686	0.686
Total CMAE	**4.818**	**5.313**	**5.313**	**5.524**

61 Ibid., Exhibit A2-1, BCUC IR 1.131.8.
62 Order G-79-14.
63 FortisBC Energy Inc. Core Market Administration Expense 2014 Budget, Decision and Order G-79-14, June 18, 2014, p. 10
64 FortisBC Multi-Year Rate Plan Application for 2020 to 2024 Rates, Exhibit B-1-1, Appendix B4 – FEI Review of CMAE Budget.
65 Exhibit B-2, Application, Appendix B, p. 1.
66 Ibid., p. 3.
67 Ibid., pp. 1-3.
68 Ibid., Table B-1.

FEI states that the budget of $5.524 million, shown in Table 3 above, is an increase of $0.211 million from 2020 approved, and is primarily related to inflation.[69] FEI states the forecast for MoveUP labour has increased as a result of labour inflation.[70] Additionally, FEI partly attributes the increases to a higher Information Systems (IS) budget, as 2020 and 2021 continue to be transition years related to the replacement of the current Entegrate deal capture system with a new Energy Trading and Risk Management (ERTM) system. FEI explains that during this period, software maintenance and support costs will be incurred on both systems until the new system is fully functional and the Entegrate system can be retired.[71] FEI supplies further detailed variances for these costs in Appendix B, Schedule 1 of the Application.[72]

Positions of the Parties

The CEC notes that the total CMAE budget has increased by more than $1 million, or about 23 percent, since 2016, stating that the most significant increases relative to 2020 relate to IS, and Subscriptions and Memberships, which together account for increases of over $230,000. The CEC further notes that IS expenditures have more than doubled since 2016.[73]

The CEC states it has concerns about the extent to which ratepayers may be expected to pay for overspending over the course of the MRP if IS expenditures are flowed through, and states it may be difficult to quantify benefits for IS expenditures. The CEC recommends that the BCUC approve the CMAE budget, with the expectation that benefits for IS spending should be accounted for in future Annual Reviews as they are forecast for the whole project and as they occur and are captured and realized.[74]

In reply to the CEC, FEI states that it will be seeking approval of its CMAE budget in its Annual Reviews and revenue requirement applications going forward, and that this will provide an opportunity for the BCUC and interveners to ask any questions about the benefits of completed IS projects.

2.2.3 City of Coquitlam Deferral Account

FEI requests approval for a deferral account to capture costs related to the ongoing dispute with the City of Coquitlam arising from FEI's application in 2018 regarding the use of City land in connection with the Lower Mainland Intermediate Pressure System Upgrade (LMIPSU) Project to install a new NPS 30 Pipeline to replace the aging NPS 20 IP gas line NPS 20 Pipeline which, when decommissioned, FEI proposed to abandon in place.[75] That proceeding has since given rise to other related BCUC and judicial proceedings due to ongoing disputes between FEI and the City of Coquitlam related to the LMIPSU Project.

FEI states that as a result, it has incurred costs of $0.285 million to date for legal fees, BCUC costs, and consulting fees, and anticipates further costs of $0.100 million in 2020 and $0.250 million in 2021. However, FEI submits that there is uncertainty at this time over the remainder of the process. FEI proposes to establish a new deferral account for these costs and to amortize them over three years beginning January 1, 2021, stating it is consistent with the recovery period of other similar regulatory proceeding applications and balances potential rate impacts with the benefits of the LMIPSU Project.[76]

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[69] Exhibit B-2, Application, Appendix B, p. 4.
[70] Ibid., p. 6.
[71] Ibid., p. 4.
[72] Exhibit B-2, Application, Appendix B, Schedule 1.
[73] CEC Final Argument, p. 19.
[74] Ibid., p. 20.
[75] Order G-80-19, FortisBC Energy Inc. Application for Use of Lands under sections 32 and 33 of the *Utilities Commission Act* in the City of Coquitlam for the Lower Mainland Intermediate Pressure System Upgrade Projects, April 15, 2019.
[76] Exhibit B-2, Application, p. 68.

Positions of the Parties

In its Argument, the CEC notes that the City of Coquitlam has now been given leave to appeal the BCUC decision,[77] and expects that there could be significant additional costs. The CEC submits that since the benefits extend much longer than the proposed recovery period, and to the extent that costs are substantial, the amortization period should be extended to a period of between five to seven years.[78]

In its reply, FEI states the CEC's suggestion is based on speculation about the cost and length of ongoing litigation, and should therefore be rejected. FEI states that its proposal is based on the best information available, and is consistent with similar deferral accounts and the expected amount to be amortized does not warrant a longer period. FEI submits that if its costs are greater than expected, the amortization period can be adjusted in future years.[79]

Panel Determinations

In this section, the Panel provides its overall findings and determinations on the other approvals sought by FEI and issues raised by the CEC.

<u>Forecasting Method for LTGRP Application</u>

FEI has recently completed an extensive, multi-year review of its UPC forecasting methodologies from 2015 to 2019, and the Panel considers that the load forecast methodology used for the purpose of setting rates for 2020 and 2021 is reasonable. Neither the CEC, nor any other parties, raise any issues with regards to the forecasting method for the Annual Review – rather, the CEC's concern was with respect to the load forecast methodology for the LTGRP. FEI states it uses a different forecasting methodology for the LTGRP. The Panel agrees with FEI that the short-term forecasting methods used for the Annual Review are not appropriate for use for the LTGRP, which is based on a much longer time horizon. As a result, the **Panel dismisses the CEC's submission that further work into developing forecasting methodologies is needed at this time for the LTGRP.**

<u>CMAE Budget</u>

The Panel accepts FEI's explanations for the increase in the CMAE budget, and finds that an increase in IS costs is reasonable during the transition to the new system while both systems are running concurrently. The Panel also agrees with FEI that the benefits of IS projects can be investigated during the Annual Review process. Finally, the Panel finds the proposed allocation of 30 percent and 70 percent of the CMAE costs to the CCRA and MCRA respectively, to be consistent with the allocation in previous years. **As a result, the Panel approves the 2021 CMAE budget of $5.524 million, and consistent with previous years, the allocation of 30 percent to the CCRA, and 70 percent to the MCRA in 2021.** Nonetheless, the Panel shares the CEC's concerns regarding the increases in these costs which are recognized on a flow through basis. Therefore, the Panel **directs FEI to include, in its next revenue requirements or MRP application following the MRP term, a comprehensive review of the CMAE costs including consideration of whether these costs are conducive to a formulaic approach or whether they should continue to be forecast with flow-through treatment, and whether the current allocation percentages to the CCRA and MCRA remain appropriate.**

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[77] *Coquitlam (City) v British Columbia Utilities Commission*, 2020 BCCA 289, leave to appeal granted October 23, 2020.
[78] CEC Argument, p. 31.
[79] FEI Reply Argument, p. 10.

City of Coquitlam Deferral Account

FEI's request to establish a new regulatory proceeding deferral account for the City of Coquitlam Application Proceeding is consistent with its previous treatment of regulatory proceeding costs, and the Panel finds the request reasonable. However, the Panel notes that the expected amount to be amortized is currently minimal, and therefore, does not see a benefit to extending the amortization period to three years as FEI proposes.

The Panel also notes that many of FEI's deferral accounts with larger balances, including the flow-through account, are amortized over a period of one year only. FEI submits that if its costs are greater than expected, the amortization period can be adjusted in future years and the Panel agrees. As a result, the **Panel denies FEI's request for approval of a three-year amortization period for this new deferral account. Instead, the Panel approves the establishment of a new regulatory proceeding deferral account for the City of Coquitlam Application Proceeding to capture the costs related thereto for amortization over one year, beginning January 1, 2021.**

Other Deferral Account and Rate Rider Requests

With regards to FEI's requests for approval of several other deferral accounts and rate riders, as outlined in Section 2.2, the Panel finds these are consistent with previous BCUC approvals and there are no circumstances currently that would compel a different treatment. Therefore, **the Panel approves the following:**

- **As described in Sections 7.5 and 12.4 of the Application:**
    - **Creation of a rate base deferral account for the reviews for 2020 to 2024 rates, with costs of each Annual Review to be amortized in the subsequent year;**
    - **Creation of a rate base deferral account for the 2022 Long-Term Gas Resource Plan, with the amortization period to be determined in a future proceeding;**
    - **Creation of a rate base deferral account for BCUC Initiated Inquiries, with balances to be amortized in subsequent years; and**
    - **Renaming the previously approved 2020 Revenue Requirements Application deferral account to the 2020-2024 MRP Application deferral account, to be amortized over the five-year period beginning January 1, 2021;**
- **A Biomethane Variance Account Rate Rider for 2021 in the amount of $0.022 per gigajoule (GJ) as calculated in Section 10.2.1 of the Application;**
- **Revenue Stabilization Adjustment Mechanism riders for 2021 in the amount of $0.087 per GJ as calculated in Section 10.2.2 of the Application;**
- **To continue debiting of the Midstream Cost Reconciliation Account (MCRA) and crediting of Other Revenue in the amount of $300 thousand per month for the period of January 1, 2020 to October 31, 2020 as described in section 5.3.2 of the Application;**
- **Effective November 1, 2020 and for the duration of the MRP term, to debit the MCRA and credit Other Revenue in the amount of $346.617 per MMcfd, as described in Section 5.3.2 of the Application; and**
- **To record COVID-19 incremental costs and related savings from 2020 and 2021 into the previously approved COVID-19 Customer Recovery Fund Deferral Account as discussed in Section 12.2.1 of the Application.**

Dated at the City of Vancouver, in the Province of British Columbia, this 8th day of December 2020.

Original signed by:

A. K. Fung, Q.C.
Panel Chair / Commissioner

Original signed by:

W. M. Everett, Q.C.
Commissioner

Original signed by:

K. A. Keilty
Commissioner

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ORDER NUMBER
G-319-20

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Energy Inc.
Annual Review for 2020 and 2021 Delivery Rates

BEFORE:
A. K. Fung, QC, Panel Chair
W. M. Everett, QC, Commissioner
K. A. Keilty, Commissioner

on December 8, 2020

ORDER

WHEREAS:

A. On June 22, 2020, the British Columbia Utilities Commission (BCUC) issued its Decision and Orders G-165-20 approving a Multi-Year Rate Plan (MRP) for 2020 through 2024 (2020-2024 MRP Decision) for FortisBC Energy Inc. (FEI) and G-166-20 for FortisBC Inc. (FBC) respectively. In accordance with the 2020-2024 MRP Decision, FEI is to conduct an annual review (Annual Review) process to set the delivery rates for each year;

B. By Order G-302-19, the BCUC, subject to the pending 2020-2024 MRP Decision, approved a 2.0 percent increase in its delivery rates over FEI's 2019 delivery rates on an interim and refundable/recoverable basis, effective January 1, 2020;

C. By letter dated July 20, 2020, FEI proposed a regulatory timetable for the Annual Review of its 2020 and 2021 delivery rates;

D. By Order G-209-20 dated August 10, 2020, the BCUC established the regulatory timetable for the Annual Review for FEI's 2020 and 2021 delivery rates, which included FEI filing its Annual Review materials, intervener registration, one round of information requests, a workshop, FEI's response to undertakings at the workshop, and written final and reply arguments;

E. On August 12, 2020, FEI submitted its materials for the Annual Review for 2020 and 2021 Delivery Rates Application (Application). In the Application, proposed FEI's revenue requirements for 2020 result in a delivery rate increase of 3.27 percent over the 2019 delivery rates. FEI requests approval to make the existing 2020 interim rate permanent, effective January 1, 2020, and to capture the revenue deficiency greater than the 2 percent delivery rate increase already incorporated in the interim rate in the existing 2017 & 2018 Revenue Surplus deferral account as an offset to prior years' revenue surpluses;

F. The Application also requests approval of a delivery rate increase of 6.59 percent over the 2020 delivery rate, effective January 1, 2021, after drawing down the remainder of the 2017 & 2018 Revenue Surplus deferral account; and

G. The BCUC has reviewed the Application, evidence and arguments filed in the proceeding and considers the following order is warranted.

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act*, for the reasons for decision issued concurrently with this order, the BCUC orders as follows:

1. FEI's 2020 interim delivery rate increase of 2.00 percent is approved as permanent, effective January 1, 2020.

2. FEI is approved to recover the 2021 revenue requirement and the resultant delivery rate changes on a permanent basis, effective January 1, 2021, as filed in the Application, subject to any adjustments identified by FEI during the regulatory process and from any directives or determinations made in the reasons for decision issued concurrently with this order.

3. The following FEI deferral account treatments are approved:
    a. Creation of rate base deferral accounts for the following regulatory proceedings:
        i. The Annual Reviews for 2020 to 2024 Rates, with the costs of each annual review to be amortized in the subsequent year;
        ii. 2022 Long-Term Gas Resource Plan, with the amortization period to be determined in a future proceeding;
        iii. BCUC Initiated Inquiries, with balances to be amortized in the subsequent years; and
        iv. The City of Coquitlam Application Proceeding to capture the costs related thereto for amortization over one year, beginning January 1, 2021;
    b. The previously approved 2020 Revenue Requirements Application deferral account is renamed to the 2020-2024 MRP Application deferral account, to be amortized over the five-year period beginning January 1, 2021; and
    c. Draw down of the 2017 & 2018 Revenue Surplus deferral account in the amount of $10.338 million before tax in 2020 and $35.287 million before tax in 2021, which will bring the account balance to zero.

4. A Biomethane Variance Account Rate Rider for 2021 in the amount of $0.022 per gigajoule (GJ) as calculated in Section 10.2.1 of the Application is approved.

5. Revenue Stabilization Adjustment Mechanism riders for 2021 in the amount of $0.087 per GJ as calculated in Section 10.2.2 of the Application is approved.

6. FEI is approved to continue debiting of the Midstream Cost Reconciliation Account (MCRA) and crediting of Other Revenue in the amount of $300 thousand per month for the period of January 1, 2020 to October 31, 2020 as described in section 5.3.2 of the Application.

7. Effective November 1, 2020 and for the duration of the MRP term, FEI is approved to debit the MCRA and credit Other Revenue in the amount of $346.617 per MMcfd, as described in Section 5.3.2 of the Application.

8. The 2021 Core Market Administration Expense (CMAE) budget of $5,524 thousand, as set out in Schedule 1 in Appendix B of the Application, and the continued allocation of the CMAE costs in 2021 between FEI's Commodity Cost Reconciliation Account and MCRA based on the allocation percentages of 30 percent and 70 percent, respectively, are approved.

9. FEI is directed to include, in its next revenue requirements or MRP application following the MRP term, a comprehensive review of the CMAE costs including consideration of whether these costs are conducive to a formulaic approach or whether they should continue to be forecast with flow-through treatment, and whether the current allocation percentages to the CCRA and MCRA remain appropriate.

10. FEI is approved to record COVID-19 incremental costs and related savings from 2020 and 2021 into the previously approved COVID-19 Customer Recovery Fund Deferral Account as discussed in Section 12.2.1 of the Application.

11. FEI is directed to comply with all reporting requirements outlined in the reasons for decision issued concurrently with this order.

12. FEI is directed to file as a compliance filing the finalized financial schedules for 2021 no later than 10 days from the date of the issuance of this order.

DATED at the City of Vancouver, in the Province of British Columbia, this 8th day of December 2020.

BY ORDER

Original signed by:

A. K. Fung, Q.C.
Commissioner

GLOSSARY AND LIST OF ACRONYMS

2017 & 2018 Revenue Surplus deferral account	2017 Revenue Surplus deferral account renamed in the Annual Review for 2018 Delivery Rates
Annual Review	Annual Review process to set delivery rates
Application	Annual Review for 2020 and 2021 Delivery Rates
BCOAPO	British Columbia Old Age Pensioners' Organization *et al.*
BCSEA	BC Sustainable Energy Association and Sierra Club
BCUC	British Columbia Utilities Commission
CBOC	Conference Board of Canada
CCRA	Commodity Cost Reconciliation Account
CEC	Commercial Energy Consumers Association of British Columbia
CMAE	Core Market Administration Expense
CPCN	Certificate of Public Convenience and Necessity
ETRM	Energy Trading and Risk Management
ETS	Exponential smoothing
FEI	FortisBC Energy Inc.
GJ	Gigajoule
IRs	Information Requests
IS	Information Systems
LMIPSU	Lower Mainland Intermediate Pressure System Upgrade
LTGRP	Long-Term Gas Resource Plan
MCRA	Midstream Cost Reconciliation Account
MoveUP	Movement of United Professionals
MRP	Multi-year rate plan
MRP Decision	FortisBC Energy Inc. and FortisBC Inc. Application for Approval of a Multi-Year Rate Plan for the Years 2020 through 2024 Decision dated June 22, 2020
O&M	Operating & Maintenance
OPEB	Other Post Employment Benefits
PBR	Performance based ratemaking plan
SQI	Service Quality Indicators
UCA	*Utilities Commission Act*
UPC	Use per Customer

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Energy Inc.
Annual Review for 2020 and 2021 Rates

EXHIBIT LIST

Exhibit No.	**Description**
COMMISSION DOCUMENTS	
A-1	Letter dated August 4, 2020 – Appointing the Panel for the review of FortisBC Energy Inc.'s Annual Review for 2020 and 2021 Rates
A-2	Letter dated August 10, 2020 – BCUC Order G-209-20 establishing a regulatory timetable for the review of the Application
A-3	Letter dated September 4, 2020 – BCUC issuing Information Request No. 1 to FEI
APPLICANT DOCUMENTS	
B-1	**FORTISBC ENERGY INC. (FEI)** – Letter dated July 20, 2020 – Proposed Process for the Annual Review for 2020 and 2021 Rates
B-2	Letter dated August 12, 2020 – FEI Submitting Annual Review for 2020 and 2021 Delivery Rates Materials
B-3	Letter dated September 28, 2020 – FEI submitting responses to BCUC IR No.1
B-4	Letter dated September 28, 2020 – FEI submitting responses to BCOAPO IR No.1
B-5	Letter dated September 28, 2020 – FEI submitting responses to BCSEA IR No.1
B-6	Letter dated September 28, 2020 – FEI submitting responses to CEC IR No.1
B-7	Letter dated September 28, 2020 – FEI submitting responses to MoveUP IR No.1
B-8	Letter dated October 7, 2020 – FEI submitting workshop agenda
B-9	Letter dated October 14, 2020 – FEI submitting workshop presentation
B-10	Letter dated October 20, 2020 – FEI submitting response to workshop Undertakings
B-11	Letter dated November 16, 2020 – FEI submitting updated draft order

INTERVENER DOCUMENTS

C1-1	**BC SUSTAINABLE ENERGY ASSOCIATION AND SIERRA CLUB (BCSEA)** - Letter dated August 14, 2020 Request to Intervene by William Andrews
C1-2	Letter dated September 4, 2020 – BCSEA Submitting Information Request No. 1 to FEI
C2-1	**BRITISH COLUMBIA OLD AGE PENSIONERS' ORGANIZATION ET AL. (BCOAPO) -** Letter dated August 19, 2020 Request to Intervene by Leigha Worth & Irina Mis
C2-2	Letter dated September 4, 2020 – BCOAPO Submitting Information Request No. 1 to FEI
C3-1	**COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF BRITISH COLUMBIA (CEC) -** Letter dated August 19, 2020 Request to Intervene by Christopher Weafer
C3-2	Letter dated September 4, 2020 – CEC Submitting Information Request No. 1 to FEI
C4-1	**MOVEMENT OF UNITED PROFESSIONALS (MOVEUP)** – Letter dated September 2, 2020 request for Late Intervener Status by Jim Quail
C4-2	Letter dated September 3, 2020 – MoveUP Submitting Information Request No. 1 to FEI