bcuc
British Columbia
Utilities Commission

Patrick Wruck
Commission Secretary

Commission.Secretary@bcuc.com
bcuc.com

Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3
P: 604.660.4700
TF: 1.800.663.1385
F: 604.660.1102

January 11, 2024

Sent via eFile

BCUC GENERIC COST OF CAPITAL STAGE 2 EXHIBIT A-34

To: Registered utilities and interveners

Re: BCUC Generic Cost of Capital Stage 2 – Project No. 1599176 – Further Regulatory Timetable and Amended Scope with Reasons for Decision

Enclosed is BCUC Order G-6-23 with reasons for decision establishing a further regulatory timetable and amended scope for Stage 2 of the BCUC Generic Cost of Capital proceeding.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

/jb
Enclosure

bcuc
British Columbia Utilities Commission

Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3
bcuc.com

P: 604.660.4700
TF: 1.800.663.1385
F: 604.660.1102

ORDER NUMBER
G-6-24

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

and

British Columbia Utilities Commission
Generic Cost of Capital Stage 2

BEFORE:
A. K. Fung, KC, Panel Chair
K. A. Keilty, Commissioner
T. A. Loski, Commissioner

on January 11, 2024

ORDER

WHEREAS:

A. By Order G-66-21 dated March 8, 2021, pursuant to section 82 of the *Utilities Commission Act*, the British Columbia Utilities Commission (BCUC) established a Generic Cost of Capital (GCOC) proceeding;

B. By Order G-237-23 dated September 5, 2023, the BCUC established a regulatory timetable for Stage 2 of the GCOC proceeding. In Decision and Order G-236-23 dated September 5, 2023 (GCOC Stage 1 Decision), the BCUC indicated that the first step in Stage 2 of the GCOC proceeding is to address whether FortisBC Energy Inc. should continue as the appropriate default Benchmark Utility for some or all other utilities in British Columbia (BC), whether FortisBC Inc. is a more appropriate benchmark, whether neither utility should serve as the benchmark, and whether each utility's allowed return on equity (ROE) and deemed capital structure should be individually determined;

C. In the GCOC Stage 1 Decision, the BCUC also established interim rates effective January 1, 2024 on a refundable or recoverable basis, for all other utilities, except FortisBC Inc., that currently use the Benchmark Utility to set their capital structure and equity return pending the BCUC's final decision on Stage 2 of the GCOC proceeding;

D. By December 4, 2023, the BCUC received submissions from utilities and registered interveners regarding the benchmark and scope for Stage 2 of the GCOC proceeding; and

E. The BCUC has reviewed the submissions received and determines that a further regulatory timetable is warranted.

NOW THEREFORE for the reasons attached as Appendix C to this order, the BCUC orders as follows:

1. The Benchmark Utility will be FortisBC Energy Inc. for all utilities in Stage 2 of the GCOC proceeding.

2. The utility evidence to be filed in Stage 2 of the GCOC proceeding will be reviewed based on the following groupings: (i) gas utilities, (ii) electric utilities, and (iii) thermal energy system utilities.
3. A further regulatory timetable for Stage 2 of the GCOC proceeding is set out in Appendix A of this order.
4. The scope of Stage 2 of the GCOC proceeding is amended as set out in Appendix B of this order.

DATED at the City of Vancouver, in the Province of British Columbia, this 11th day of January 2024.

BY ORDER

Original signed by:

A. K. Fung, KC
Commissioner

Attachment

British Columbia Utilities Commission
Generic Cost of Capital Stage 2

REGULATORY TIMETABLE

<table>
<tr><th>Action</th><th colspan="2">Date (2024)</th></tr>
<tr><td>Utilities file evidence</td><td colspan="2">Thursday, April 4</td></tr>
<tr><td>New utilities and intervener registrations*</td><td colspan="2">Tuesday, April 16</td></tr>
<tr><td>BCUC Information Request (IR) No. 1 on utilities’ evidence</td><td colspan="2">Thursday, May 2</td></tr>
<tr><td>Utility and Intervener IR No. 1 on utilities’ evidence</td><td colspan="2">Thursday, May 9</td></tr>
<tr><td>Utilities responses to IR No. 1</td><td colspan="2">Thursday, May 30</td></tr>
<tr><td>BCUC notice of remaining regulatory timetable</td><td colspan="2">Tuesday, June 18</td></tr>
<tr><th>Action</th><th>No IR No. 2</th><th>With IR No. 2</th></tr>
<tr><td>BCUC IR No. 2 on utilities’ evidence</td><td rowspan="3">Not Applicable</td><td>Tuesday, July 9</td></tr>
<tr><td>Utility and Intervener IR No. 2 on utilities’ evidence</td><td>Tuesday, July 16</td></tr>
<tr><td>Utilities responses to IR No. 2</td><td>Wednesday, August 7</td></tr>
<tr><td>Letters of comment deadline</td><td>Tuesday, June 25</td><td>Wednesday, August 14</td></tr>
<tr><td>Utilities final argument</td><td>Wednesday, July 3</td><td>Wednesday, August 21</td></tr>
<tr><td>Intervener final argument</td><td>Wednesday, July 17</td><td>Wednesday, September 4</td></tr>
<tr><td>Utilities reply argument</td><td>Wednesday, July 31</td><td>Wednesday, September 18</td></tr>
</table>

* Utilities and interveners already registered are not required to re-register to participate in Stage 2.

British Columbia Utilities Commission
Generic Cost of Capital Stage 2

AMENDED SCOPE

PROCEEDING SCOPE – Stage 2

1. The equity component and equity risk premium or discount for public utilities, or groups of public utilities, except for BC Hydro.
2. Whether the determination of a deemed interest rate is warranted. If warranted, then:
   a) The circumstances where a deemed interest rate is required.
   b) The determination of the deemed interest rate where required.
   c) Whether an interest rate automatic adjustment mechanism (AAM) is warranted.
   d) The effective date for which the deemed interest rate or interest rate AAM will take effect.
3. Any other items as the BCUC may direct.

PROCEEDING SCOPE – After Completion of Stage 2

1. Deferral account financing costs.
2. Any other items as the BCUC may direct.

British Columbia Utilities Commission

Generic Cost of Capital Stage 2

Reasons for Decision

January 11, 2024

Before:
A. K. Fung, KC, Panel Chair
K. A. Keilty, Commissioner
T. A. Loski, Commissioner

Table of Contents

1.0 Background

On March 8, 2021, the British Columbia Utilities Commission (BCUC) issued Order G-66-21 to establish the Generic Cost of Capital (GCOC) proceeding.[1] The GCOC proceeding is taking place in two stages. On September 5, 2023, the BCUC issued Decision and Order G-236-23 (GCOC Stage 1 Decision), which, among other things, determined the earned return for FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) and established interim rates effective January 1, 2024 on a refundable or recoverable basis, for all other utilities, except FBC, that currently use the Benchmark Utility to set their capital structure and equity return pending the BCUC's final decision on Stage 2 of the GCOC proceeding.[2] On September 5, 2023, the BCUC also issued Order G-237-23 commencing Stage 2 of the GCOC proceeding.[3]

In the GCOC Stage 1 Decision, the BCUC noted that the first step in Stage 2 is to address: (i) whether FEI should continue as the appropriate default Benchmark Utility for some or all other utilities in British Columbia (BC), whether FBC is a more appropriate benchmark, whether neither utility should serve as the benchmark; and (ii) whether each utility's allowed return on equity (ROE) and deemed capital structure should be individually determined in Stage 2 of the GCOC proceeding.[4] By Order G-237-23 dated September 5, 2023, the BCUC invited parties to file submissions with respect to the Benchmark Utility and the scope of Stage 2.[5] These reasons for decision summarize and provide determinations on those submissions. Section 2.1 discusses the scope of Stage 2, Section 2.2 discusses the Benchmark Utility, and Section 2.3 discusses a grouped versus individual approach to Stage 2.

The following parties filed submissions pursuant to Order G-237-23:

- FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC), jointly (FortisBC)
- Pacific Northern Gas Ltd. and N.E. (PNG)
- Nelson Hydro
- FortisBC Alternative Energy Service Inc. (FAES)
- Corix Multi-Utility Services Inc. (Corix)
- Creative Energy Vancouver Platforms Inc. (CEVP)
- River District Energy (RDE)
- Residential Consumer Intervener Association (RCIA)
- British Columbia Old Age Pensioners' Organization et al. (BCOAPO)
- Commercial Energy Consumer Association of British Columbia (the CEC)
- Association of Major Power Customers of BC (AMPC)
- British Columbia Hydro and Power Authority (BC Hydro)

[1] BCUC GCOC Stage 1, Order G-66-21 dated March 8, 2021.
[2] BCUC GCOC Stage 1, Decision and Order G-236-23 (GCOC Stage 1 Decision) dated September 5, 2023.
[3] Order G-237-23 dated September 5, 2023, p. 2.
[4] GCOC Stage 1 Decision, p. 143.
[5] Order G-237-23 dated September 5, 2023, p. 2.

2.0 Issues Arising

2.1 Scope of Stage 2

By Order G-106-22 dated April 21, 2022, the BCUC set the scope of Stage 2 as follows:[6]

1. Whether the Benchmark Utility should be FEI, FBC or both. The groupings of public utilities for cost of capital determinations.
2. The establishment of the cost of capital for public utilities, or groups of public utilities, except for BC Hydro.
3. Whether any range or default in the equity component and equity risk premium is warranted for public utilities, or groups of public utilities.
4. Whether the determination of a deemed interest rate is warranted. If warranted, then:
    a) The circumstances where a deemed interest rate is required.
    b) The determination of the deemed interest rate where required.
    c) Whether an interest rate AAM is warranted.
    d) The effective date for which the deemed interest rate or interest rate AAM will take effect.
5. Any items that may be identified during the proceeding to be considered in Stage 2. The Panel will communicate any additional items to participants.

By Order G-237-23 dated September 5, 2023, the BCUC invited parties to file submissions with respect to any appropriate modifications to the scope of Stage 2.[7]

Positions of Parties

Parties either had no comment or submit that the current Stage 2 scope is appropriate.[8]

Panel Determination

The Panel finds that the Stage 2 scope as set out by Order G-106-22 remains appropriate, with revisions to clarify wording and remove references to items already addressed in this Order G-6-24. The Panel also combines items 2 and 3 above to remove duplication. The Panel considers that there could be either a premium <u>or a discount</u> for public utilities or groups of public utilities as compared to the Benchmark Utility. Accordingly, the scope of Stage 2 of the GCOC proceeding has been amended as set out in Appendix B of this Order G-6-24. Regarding item 5 above, the Panel has no further additions to the Stage 2 scope at this time but reserves the right to determine additions at a later date as required.

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[6] BCUC GCOC Stage 1, Order G-106-22 dated April 21, 2022, Appendix C, p. 1.
[7] Order G-237-23 dated September 5, 2023, p. 2.
[8] Exhibit B3-5, p. 4; Exhibit B4-5, p. 3; Exhibit B6-7, p. 11; Exhibit B7-7, p. 5; Exhibit B9-8, p. 4; Exhibit C1-14, p. 2; Exhibit C7-12, p. 3.

2.2 Benchmark Utility

By Decision and Order G-75-13 dated May 10, 2013 to the 2013 BCUC Generic Cost of Capital Proceeding Stage 1 (2013 GCOC Stage 1 proceeding), the BCUC established that FEI would serve as the Benchmark Utility for any other utility in BC that uses a Benchmark Utility to set rates.[9] In Decision and Order G-129-16 dated August 10, 2016 to the FEI Application for its Common Equity Component and Return on Equity for 2016, the BCUC directed that FEI's common equity component and ROE would continue to serve as the benchmark cost of capital for any other utility in BC that uses the Benchmark Utility to set rates.[10]

By Order G-237-23 dated September 5, 2023, the BCUC in the GCOC Stage 2 proceeding invited parties to file submissions with respect to whether FEI should continue as the appropriate default Benchmark Utility for some or all other utilities in BC, whether FBC is a more appropriate benchmark, or whether neither utility should serve as the benchmark.[11]

Positions of Parties

Broadly, parties propose two options for the Benchmark Utility: (1) only FEI as the benchmark; and (2) a mix of FEI and FBC as the benchmark. PNG, Nelson Hydro, FAES, CEVP and RDE support only FEI as the benchmark. Corix, RCIA, the CEC, and BCOAPO support a mix of FEI and FBC as the benchmark.

PNG submits that FEI remains the appropriate benchmark utility for PNG as its business risk profile as a gas utility generally aligns with the business risk characteristics and circumstances of FEI. PNG submits that FEI is the largest investor-owned utility in this proceeding, and while its equity is not publicly traded, it does have publicly-rated debt and is the most optimal candidate for inclusion in a proxy group with other utilities for whom market data is available. PNG notes that the use of FEI as the benchmark in past proceedings also makes it the most logical choice.[12]

Nelson Hydro submits that FEI continues to be the most appropriate utility to serve as the benchmark for similar reasons in terms of size and availability of market data.[13]

Thermal energy system (TES) utilities FAES[14], CEVP[15], and RDE[16] submit that FEI continues to be the appropriate benchmark. Their reasons include:

i. TES utilities are familiar with FEI's operations and risk profile.

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[9] 2013 BCUC Generic Cost of Capital Proceeding Stage 1 (2013 GCOC Stage 1 proceeding), Decision and Order G-75-13 dated May 10, 2023, p. 114.
[10] FortisBC Energy Inc. Application for its Common Equity Component and Return on Equity for 2016, Decision and Order G-129-16 dated August 10, 2016, p. 90.
[11] Order G-237-23 dated September 5, 2023, p. 2.
[12] Exhibit B9-8, PNG submission, pp. 1–3.
[13] Exhibit B4-5, Nelson Hydro submission, p. 2.
[14] Exhibit B3-5, FAES submission, pp. 1–3.
[15] Exhibit B7-7, CEVP submission, pp. 2–5.
[16] Exhibit B8-3, RDE submission, pp. 1–2.

ii. FEI's overall risk profile is most analogous to those of regulated TES utilities, specifically in regard to macro supply risks, cybersecurity, protection of critical infrastructure, financing risks and regulatory risks. FEI's risk profile is also more stable than FBC's due to its size.

iii. FEI's data is more widely available than FBC.

iv. There is general agreement with other TES utilities that FEI is appropriate and so setting FEI as the benchmark will increase administrative efficiencies and avoid unnecessary controversies.

v. There is transparency and efficiency in using the same benchmark as prior proceedings.

vi. There is no clear benefit or data source for an alternate benchmark.

vii. FBC is not an appropriate benchmark for TES utilities because FBC's business (i.e. electricity distribution) has different capital demands, rate structures and business risks.

Corix submits that the BCUC should discontinue the use of a "Benchmark Utility" from the 2013 GCOC proceeding and in its place, the BCUC should instead establish a "Prime Benchmark Utility" in the current GCOC Stage 2 proceeding. Corix submits that FEI should be the "Prime Benchmark Utility" for all regulated BCUC utilities for the following reasons: (i) it is the only utility with robust available market data; (ii) it is a large, investor-owned BC-wide utility that frequently issues bonds in the capital markets, is a subsidiary of a publicly traded company, and has robust analyst reviews through its credit rating reports; and (iii) there is continuity of data by using the same "Prime Benchmark Utility" in the current GCOC Stage 2 proceeding as the "Benchmark Utility" from the 2013 GCOC Stage 2 proceeding.[17] Corix submits that after the "Prime Benchmark Utility", there should be an "Electric Benchmark Utility" (FBC) and a "Gas Benchmark Utility" (FEI). Corix further submits that there should be a "Default Electric Utility" for small electric utilities that is based on the "Electric Benchmark Utility", a "Default Gas Utility" for small gas utilities that is based on the "Gas Benchmark Utility", and a "Default TES Utility" for thermal energy utilities that is based on the "Prime Benchmark Utility".[18]

The CEC recommends FEI as the benchmark for gas utilities, and FBC as the benchmark for electric utilities. The CEC does not provide a submission on the benchmark for TES utilities. The CEC considers that the rapidly changing risk circumstances due to the energy transition are incompatible with the use of a single benchmark utility. The CEC recommends the use of two benchmark utilities to reflect the significant differences in social licence and potential economic outlooks between the gas and electric utility environments due to the changing operating environment.[19]

BCOAPO submits that the benchmark should be FEI for gas and TES utilities, and FBC for electric utilities due to the energy transition and divergence of gas and electric business risks. BCOAPO states that the benchmark for TES utilities could go either way, and BCOAPO would be interested to see TES utilities' submissions on this matter. However, BCOAPO initially submitted FEI as the benchmark for TES utilities because the distribution system more closely aligns with that used for natural gas.[20]

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[17] Exhibit B6-7, Corix submission, pp. 8–9.
[18] Exhibit B6-7, Corix submission, pp. 8–9.
[19] Exhibit C6-18, The CEC submission, pp. 5–6.
[20] Exhibit C7-12, BCOAPO submission, pp. 4–5.

RCIA submits that FEI should be the benchmark for other natural gas utilities or for utilities that can credibly argue material hydrocarbon delivery exposure and FBC should be the benchmark for all other utilities. RCIA states that FEI has a higher business risk profile relative to its recent past because it operates in the natural gas sector, while FBC remains a small regional utility which historically implied the need for a higher allowed cost of capital relative to the benchmark utility. RCIA states that the removal of any differential between FEI's and FBC's approved ROE in the GCOC Stage 1 Decision suggests that the relative risk profiles of the two utilities are comparable. RCIA further states that neither FEI nor FBC can be deemed a "low-risk" utility in the current context, and the higher deemed equity component of FEI suggests that FEI has a higher risk profile than FBC.[21]

In reply, the CEC agrees with RCIA that any utility being assigned FEI as its benchmark should be able to credibly argue material hydrocarbon delivery exposure. The CEC submits that if TES utilities do not have significant greenhouse gas (GHG) emissions exposures, then FEI would not be the appropriate benchmark. The CEC submits that to the extent that a utility has the opportunity to transition away from natural gas or other carbon-based resources within a reasonable timeframe, and without jeopardizing the viability of its business, it should adopt FBC as the benchmark, even if it does not undertake this transition. The CEC further notes that TES and alternative energy utilities may have significantly different sizes and risks relative to the FBC proposed benchmark, and therefore should have the right in the setting of their capital structure and return on equity to make their case for differences from the FBC benchmark.[22]

In reply, BCOAPO also agrees with RCIA's distinction between TES utilities that have a low carbon exposure versus those that do not.[23]

Panel Determination

The Panel notes that all parties support the use of a benchmarking methodology, and the use of FEI as a benchmark in some capacity. **The Panel determines that the use of a benchmarking methodology is appropriate for regulatory efficiency in the GCOC Stage 2 proceeding.**

In determining whether to use one or multiple benchmarks for the purposes of the GCOC Stage 2 proceeding, the Panel considered efficiency, consistency, and comparability. The Panel views that efficiency and consistency are best achieved by using only one Benchmark Utility, as this would result in all utilities comparing to the same utility which would lead to efficiency in preparation of evidence as well as review of such evidence by the BCUC and interveners. The Panel views that comparability is also best achieved through the use of a single benchmark so that all utilities can compare to the same starting point and argue their relative business risk from that same starting point.

The Panel is concerned that the use of multiple benchmarks or tiered approaches to the benchmarks would result in overly complicated comparisons and is not persuaded that such comparisons will yield a better process to determine a fair return for utilities in the GCOC Stage 2 proceeding. Therefore, **the Panel determines that a**

[21] Exhibit C1-14, RCIA submission, pp. 1–2.
[22] Exhibit C6-19, The CEC reply submission, p. 2.
[23] Exhibit C7-13, BCOAPO reply submission, p. 4.

single Benchmark Utility is appropriate for efficiency, consistency, and comparability in the GCOC Stage 2 proceeding.

The Panel agrees with various interveners' comments on the characteristics of FEI that make it a suitable Benchmark Utility including that it is the largest investor-owned public utility in BC, it carries third-party debt and has independent credit ratings, and it provides a consistent and familiar benchmark for utilities given its status as the Benchmark Utility in previous GCOC proceedings. Therefore, **the Panel determines that FEI will be the Benchmark Utility for all types of utilities (i.e. gas, electric, and TES) in the GCOC Stage 2 proceeding.**

While the Panel finds the use of a single Benchmark Utility to be appropriate for Stage 2, the Panel does note that FBC's earned return (deemed capital structure and ROE) as determined in the GCOC Stage 1 Decision will be used as an additional data point in the Stage 2 analysis. Therefore, utilities should perform their Stage 2 analysis in relation to FEI as the Benchmark Utility, but they should also consider how their proposals in Stage 2 relate to the FBC earned return values as determined by the BCUC in the GCOC Stage 1 Decision. In particular, it should not be assumed that all utilities in Stage 2 will be receiving premiums above the earned return of FEI due simply to differences in size. Rather, utilities in Stage 2 should provide a comprehensive summary of their business and financial risks given the nature of their operations as compared to FEI as the largest investor-owned natural gas provider in BC. The Panel expects that the direction of business risk (i.e. premium or discount) will be similar by type of utility (i.e. gas, electric, and TES), but may also be subject to the unique arguments and characteristics within each utility type. The Panel now turns to discussion of a grouped or individualistic approach to the filing of evidence in Stage 2.

2.3 Analysis by Groups or Individually

In Order G-77-13 dated May 13, 2023, from the 2014 BCUC Generic Cost of Capital Proceeding Stage 2 (2014 GCOC Stage 2 proceeding), utilities were grouped as follows: (1) FortisBC Utilities (FEI, FBC, FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc.); (2) PNG Utilities; and (3) Small TES utilities including Corix and FAES and other small utilities, if any.[24]

By Order G-237-23 dated September 5, 2023, the Panel invited parties to file submissions with respect to whether each utility's allowed ROE and deemed capital structure should be individually determined in the GCOC Stage 2 proceeding.[25]

Positions of Parties

RDE, CEVP, Corix, and BCOAPO support a group approach to Stage 2. Nelon Hydro and the CEC support an approach that falls somewhere in the middle of a group and individual approach. No parties support a fully individual, utility-by-utility approach. PNG, FAES and RCIA did not provide submissions on this matter.

RDE believes that TES utilities should continue to be considered a discrete class of utility and does not have a position for other utilities that use the benchmark. RDE submits that TES utilities are sufficiently different to

[24] 2014 BCUC Generic Cost of Capital Proceeding Stage 2 (2014 GCOC Stage 2 proceeding), Order G-77-13 dated May 13, 2023, Appendix A, Attachment 1, p. 1.
[25] Order G-237-23 dated September 5, 2023, p. 2.

other utilities to merit being a discrete class of utility, with materially different overall business risk profiles and thresholds. RDE submits that establishing individual utility's allowed ROE and deemed capital structure would introduce significant regulatory inefficiency for both the BCUC, extant TES utilities and potential future TES utilities. RDE believes that given the similarities in TES systems and business risks, the allowed ROE and deemed capital structure would not be materially different enough to justify the efforts needed to develop utility-specific earned returns. RDE supports the use of a single earned return for all TES utilities.[26]

CEVP submits that the BCUC should set the benchmark ROE based on a benchmark utility, and the second stage should continue to use a generic methodology for each utility (or group of utilities) to determine its unique cost of capital in reference to the benchmark. Through this generic process, the BCUC and public utilities would be able to review the matters relating to the cost of capital in a cost-effective and efficient manner. CEVP states that any process that establishes individual reviews for each utility would frustrate these benefits and should not be pursued. This is particularly true for smaller utilities, whose resources are limited and whose customers would bear the burden of any expenses incurred for additional specialized regulatory expertise.[27] CEVP states that TES utilities should continue to be viewed as a separate asset class with a unique set of factors that affect the overall business and financial risks.[28]

Corix submits that each individual small utility regulated by the BCUC should be able to rely on a relevant "Default Benchmark" grouping (as discussed in Section 2.2 above) to set its ROE and capital structure without any further justification to save time and costs. Corix supports a process of grouping small utilities for cost of capital purposes so they can all rely on the following default groups: (a) thermal energy utilities utilizing the "Default TES Utility"; (b) small electric utilities utilizing the "Default Electric Utility"; and (c) small gas utilities utilizing the "Default Gas Utility". Corix notes that the three default utilities described above are small utilities and not medium or large size utilities. However, Corix states that each small utility should retain the right to submit evidence in its revenue requirement application in support of a higher return on equity or higher equity risk premium than the default established in the GCOC Stage 2 proceeding.[29]

In reply, RDE supports Corix's submission that TES utilities should retain the opportunity to make their case to the BCUC that they should be afforded a higher return on equity or a higher equity risk premium than the default.[30]

BCOAPO submits that a similar grouping to the 2014 GCOC Stage 2 proceeding would be appropriate for the current Stage 2 proceeding. BCOAPO outlines its proposed groupings as follows: (1) gas utilities with FEI as benchmark; (2) electric utilities with FBC as benchmark (including Boralex and Nelson Hydro); (3) PNG utilities with FEI as benchmark; and (4) TES utilities with FEI as benchmark.[31]

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[26] Exhibit B8-3, RDE submission, p. 2.
[27] Exhibit B7-7, CEVP submission, pp. 1–2.
[28] Exhibit B7-7, CEVP submission, p. 5.
[29] Exhibit B6-7, Corix submission, p. 10.
[30] Exhibit B8-4, RDE reply submission, p. 2.
[31] Exhibit C7-12, BCOAPO submission, pp. 4–5.

Nelson Hydro does not support the use of proceedings on an individual utility case-by-case basis to set the applicable ROE as this would reduce regulatory efficiency, increase regulatory costs passed on to ratepayers, and result in inconsistent determinations. Additionally, Nelson Hydro notes that for many small utilities, there is a lack of comparable publicly-traded company data such that the BCUC would likely not be able to meet the fair return standard. However, Nelson Hydro submits that as a small, municipally-owned utility, it is unique from all of its regulated counterparts. Nelson Hydro does not believe it can be fairly grouped with any utility to set a standard overall cost of capital as Nelson Hydro does not have the flexibility that other non-municipal utilities do to manage its capital structure and also because Nelson Hydro is a non-taxable utility which adds risk and requires an upward adjustment in ROE compared to taxable utilities. Nelson Hydro expects that the best outcome for its purposes is to set the cost of capital for smaller and less diversified utilities (e.g. geographically, customer type, services delivered) and this rate of return can then be adopted by Nelson Hydro for application to its actual equity investment.[32]

The CEC recommends a blended approach, including secondary groupings overlaid with individual analysis. The CEC submits that the BCUC should determine a rough, preliminary grouping of utilities according to rate base, and then assess each utility's ROE and deemed capital structure considered for potential modification to reflect the key issues faced by each utility and changing circumstances. However, the CEC recognizes that certain utilities may be sufficiently different from others, even of a similar size, such that it may be appropriate to establish modifications to ROE and deemed capital structure from the groupings. The CEC considers that it is fair and reasonable for each utility to have an opportunity to present its case individually, at least to some degree, which would be the most appropriate way to achieve goals of regulatory efficiency and effectiveness as well as fairness to all parties.[33]

Panel Determination

The Panel notes that parties either support a group approach or a mixed approach for efficiency and cost-effectiveness, but no parties support a fully individualistic approach to utility submissions in Stage 2. **The Panel finds that there is merit in an approach that provides for preliminary grouping of similar utilities, but also allows for individual differences within those preliminary groupings to be argued in the course of Stage 2.** The Panel agrees with various interveners that such an approach would promote cost-effectiveness and regulatory efficiency for all parties.

In determining the manner by which to group utilities in Stage 2, the Panel considered grouping in a similar manner to the prior 2014 GCOC Stage 2 proceeding, grouping by size, and grouping by energy type. In terms of grouping in a similar manner to the prior 2014 GCOC Stage 2 proceeding, the Panel views that such a grouping is no longer relevant considering the various changes in entities from 2014 to present as well as the establishment of FBC's cost of capital in Stage 1 of the current GCOC proceeding. In terms of grouping by size, the Panel views that this would not be a particularly informative for the purposes of segregating utilities in Stage 2 given the size of a utility depends on the characteristics being compared (e.g. customer base, rate base, usage, etc.). The Panel determines that it is appropriate to initially group utilities in Stage 2 by energy type (i.e. gas, electric, and TES)

[32] Exhibit B4-5, Nelson Hydro submission, pp. 2–3.
[33] Exhibit C6-18, The CEC submission, pp. 7–8.

given the finding in the GCOC Stage 1 Decision that there is a divergence in risk profiles by energy types in light of the energy transition.

The Panel requests the utilities in each of these three groups to collaborate on their submissions in Stage 2, including on whether to engage one or more external experts**.** The Panel discusses the matter of external expert funding further in Section 3.1 below. While the groups should coordinate on their submissions in Stage 2, the Panel acknowledges that there may be valid arguments for differences within a group. Following the group analysis portion of utility submissions, utilities are free to advocate and make a case for different or preferential treatment as they see fit based on their individual characteristics as part of their respective submissions.

In response to Corix's submission that each small utility should retain the right to submit evidence in its revenue requirement application in support of a higher return on equity or higher equity risk premium than the default established in Stage 2,[34] the Panel will determine this matter in the course of Stage 2.

3.0 Other Matters

Some parties raised additional issues regarding participant funding, further process after the conclusion of Stage 2, and setting a regular schedule for review of the GCOC in the future. The Panel discusses these items below.

3.1 Participant Funding

Rules 33.02 and 33.03 of the BCUC's Rules of Practice and Procedure state:[35]

> 33.02 The following participants are not eligible for a cost award in a proceeding unless otherwise ordered by the BCUC:
>
> (a) public utilities and other BCUC regulated entities;
> (b) municipalities and associations of municipalities;
> (c) provincial, territorial and federal government agencies;
> (d) participants that represent solely their own business interests; and
> (e) participants in a proceeding arising out of a complaint.
>
> 33.03 A participant who, pursuant to Rule 33.02 is not eligible for a cost award, may apply for an order granting eligibility. Such application must be made as soon as practicable following commencement of the proceeding.

In GCOC Stage 1 Order G-66-21, the BCUC encouraged "Affected Utilities" and "Other Utilities" to collaborate and/or combine their efforts, if appropriate.[36]

In GCOC Stage 1 Order G-231-21, the BCUC stated that Participant Assistance/Cost Award (PACA) cost allocation determinations will depend on the timing and progress of the GCOC Stage 1 proceeding including a

[34] Exhibit B6-7, Corix submission, p. 10.
[35] BCUC Rules of Practice and Procedure, Order G-72-23 dated April 3, 2023.
[36] BCUC GCOC Stage 1, Order G-66-21 dated March 8, 2021, Appendix C, p. 1.

determination on the use of a Benchmark Utility. The cost allocation may vary depending on whether a benchmark will continue to exist and, if applicable, which utility will serve as the benchmark. Therefore, PACA cost allocation matters will be addressed in due course.[37]

Positions of Parties

Corix notes it is the only TES provider in the list of Affected Utilities and submits that filing expert evidence is a cost that its customers and shareholder cannot fully bear. Corix requests that the Panel allow it to be eligible to receive participant funding regarding external expert costs that are required to fulfil the BCUC Order G-66-21 designated lead role requirement to file evidence for the current GCOC proceeding. Corix requests that the next Stage 2 order address this matter.[38]

In reply, FortisBC submits that the issue of cost eligibility for Participant Cost Awards (PCA) funding was already considered in Order G-231-21. FortisBC submits that utilities should fund their own participation, as there is no compelling reason to have the customers of one utility cross-subsidize those of another utility. FortisBC submits that by Corix's logic, Corix should have contributed to the costs of FortisBC's expert in Stage 1 that assisted in setting the benchmark return for Stage 2 utilities. FortisBC clarifies that it is not seeking a contribution to its expert costs because it alone made the determination to advance expert evidence for its own purposes, not as part of a coalition. FortisBC submits that if Corix had wanted other utilities to contribute to the cost, it should have sought to jointly retain an expert from the outset. FortisBC submits that seeking a contribution from other utilities after the fact, without having discussed it up front, is unreasonable as other utilities may have made the considered decision not to advance expert evidence because the cost outweighed the benefits in their view.[39]

In reply, FAES notes that Corix does not identify which utilities would pay for the participant funding they are requesting. FAES submits that it should not be required to fund any participant costs on the basis that it has a very limited number of ratepayers that could support these costs and there is also currently a very small impact of the Stage 2 proceeding on any FAES projects. FAES states that it intends to file evidence and is not seeking participant funding in the GCOC Stage 2 proceeding. Instead, FAES will evaluate its own costs and benefits of filing evidence in the Stage 2 proceeding and should not be expected to share in the costs of other utilities filing of the expert evidence that they choose to obtain to support their positions.[40]

In reply, BCOAPO submits that the BCUC needs to: (i) determine whether it would find expert evidence for TES utilities to be useful in Stage 2; and (ii) determine which TES utility or utilities it would invite to sponsor such evidence or whether it would sponsor such evidence itself. BCOAPO submits that if the BCUC determines that it is appropriate for a party or parties other than itself to sponsor this evidence, then Corix is a candidate that can then be considered. BCOAPO agrees that the invited utility or utilities may be eligible for participant funding in accordance with Rule 33.03 for any external cost provided the evidence deals with TES utilities as a group.[41]

[37] BCUC GCOC Stage 1, Order G-231-21 dated July 30, 2021, Appendix A, p. 3.
[38] Exhibit B6-7, Corix submission, pp. 11–12.
[39] Exhibit B1-55, FortisBC reply submission, pp. 1–2.
[40] Exhibit B3-6, FAES reply submission, p. 2.
[41] Exhibit C7-13, BCOAPO reply submission, pp. 7–8.

Panel Determination

The Panel acknowledges Corix's submission on participant funding. The Panel notes that under the Rules of Practice and Procedure,[42] Rules 33.02 and 33.03 state that utilities are not eligible for a cost award in a proceeding unless the utility applies for and is granted eligibility by the BCUC. The Panel does not view such eligibility to be necessary for Corix in the GCOC Stage 2 proceeding.

The Panel reiterates its encouragement to Affected Utilities as defined in Order G-66-21 and Other Utilities to collaborate and/or combine their efforts, if appropriate.[43] Given the preliminary groupings outlined in Section 2.3 above, each group should work together to weigh the costs and benefits of external experts to represent their interests in this proceeding. On this note, the Panel encourages utilities to consider what value an external expert could provide that their own internal resources could not, given the scope of Stage 2 and the focus on business risks as opposed to financial models. Any such costs would then be borne by each group as that group determines appropriate. Each utility can then apply for recovery of regulatory costs via rates in the course of their respective revenue requirement applications, and apply for deferral accounts as needed. Therefore, the Panel declines to grant Corix or any other utility in the GCOC Stage 2 proceeding eligibility for participant cost awards under Rules 33.02 and 33.03.

3.2 Process After Stage 2

By Order G-106-22 dated April 21, 2022, the Panel set the scope after completion of Stage 2 as follows:[44]

1. Deferral account financing costs.
2. Other matters as may arise out of Stage 1 and Stage 2.

Positions of Parties

PNG was the only party to comment on this matter. It considers deferral account financing costs an important issue and would like to ensure that this matter remains within the scope of the GCOC proceeding following the completion of Stage 2.[45]

Panel Discussion

The Panel acknowledges PNG's submission and confirms that the scope after completion of Stage 1 and 2 as set out by Order G-106-22 will continue to include deferral account financing costs. The Panel notes this is a discrete issue that does not affect all utilities and therefore is best addressed after the conclusion of Stage 2, as previously scoped by Order G-106-22. Minor clarifying changes have been made to the scope after completion of Stage 2 as set out in Appendix B of this order G-6-24 to reflect this.

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[42] BCUC Rules of Practice and Procedure, Order G-72-23 dated April 3, 2023.
[43] BCUC GCOC Stage 1, Order G-66-21 dated March 8, 2021, Appendix C, p. 1.
[44] BCUC GCOC Stage 1, Order G-106-22 dated April 21, 2022, Appendix C, p. 1.
[45] Exhibit B9-8, PNG submission, p. 4.

3.3 Setting Regular Schedule for GCOC Review

In the GCOC Stage 1 Decision, the BCUC stated:[46]

> Nothing in the UCA prescribes a statutory timeframe for reviewing a utility's cost of capital. The BCUC has the power to initiate a cost of capital review at any time within its discretion, as it did in this instance. Similarly, a utility can apply to the BCUC for review of its cost of capital at any time.
>
> […]
>
> As for determining specific triggers that would prompt a cost of capital review, we see no merit to doing so in the absence of any evidence or submissions from parties as to what may be appropriate objective triggers. We agree with FortisBC that maintaining overall flexibility over the timing of the next cost of capital review is desirable as a more appropriate response to dynamic market and business factors that are not always foreseeable. For the same reason, we do not consider it particularly helpful to limit the triggers for review to specific occurrences which are only at best speculative.

Positions of Parties

The CEC recommends the BCUC set a regular schedule for (i) review of the GCOC for the benchmarks, and (ii) a subsequent stage review for all other utilities against the benchmarks.[47]

In reply, BCOAPO agrees with the CEC that there is merit in considering the review period for the next GCOC hearing. BCOAPO submits that if a regular review period is not established, then it could be explored under what circumstances would the need for a future GCOC proceeding be triggered.[48]

In reply, FortisBC submits that this issue was already dealt with in Stage 1 where the BCUC agreed with FortisBC that a flexible periodic review process is appropriate. FortisBC submits that CEC's proposal to revisit this issue as part of the scope in Stage 2 is indirectly seeking reconsideration of the Stage 1 GCOC Decision.[49]

In reply, FAES adopts the submissions of FortisBC on this matter and submits that there is sufficient flexibility in both the frequency of review and the project specific characteristics for TES utilities to adapt to changes in market conditions and business risks.[50]

Panel Discussion

The Panel agrees with FortisBC and FAES that the CEC's submissions on this matter have already been addressed in the GCOC Stage 1 Decision. The Panel declines to make any further comment on this matter at this time.

[46] GCOC Stage 1 Decision, pp. 149–150.
[47] Exhibit C6-18, The CEC submission, p. 8.
[48] Exhibit C7-13, BCOAPO reply submission, p. 5.
[49] Exhibit B1-55, FortisBC reply submission, p. 3.
[50] Exhibit B3-6, FAES reply submission, p. 2.