



**IN THE MATTER OF**

**FORTISBC ENERGY INC.**

**CORE MARKET ADMINISTRATION EXPENSE  
2014 BUDGET**

**DECISION**

**JUNE 18, 2014**

**BEFORE:**

B.A. Magnan, Panel Chair/Commissioner  
C. Brown, Commissioner  
I.F. MacPhail, Commissioner

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**ORDER NO. G-79-14**

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## EXECUTIVE SUMMARY

The cost of gas includes the Core Market Administration Expense (CMAE) required to manage FortisBC Energy Inc.'s (FEI) and FortisBC Energy (Vancouver Island) Inc.'s (FEVI) natural gas and propane supply functions. These management activities are carried out by FEI's Gas Supply group, which is an area within the Energy Supply and Resource Development department. The gas supply function encompasses most elements of the gas supply procurement function including planning, contracting and daily management and acquisition of gas supply resources, ensuring that there are reliable, secure and cost effective supplies of gas for core customers.

By Order G-201-13, the Commission determined that approval of the CMAE budget was to be deferred pending a separate review process, established by Order G-225-13, which called for a written review process with one round of Information Requests.

Order G-225-13 also defined the scope of the proceeding as follows:

Review and consideration of:

- FEI's proposed 2014 CMAE budget; and
- the appropriate regulatory review and approval process for CMAE budgets for future periods.

The Commission Panel determines that the 2014 CMAE Budget be approved for \$4,344,200 pursuant to section 61 of the *Utilities Commission Act*.

Until such time as FEI files its next revenue requirements application, the Panel directs FEI to submit future CMAE budgets separately to the Commission at least two weeks prior to the fourth quarter gas cost report to allow the Commission sufficient time to review the CMAE budget and to determine if there are sufficient variances to the previous CMAE budget to warrant a more fulsome review.

At such time as FEI files its next revenue requirements application, the Panel directs that the CMAE budget review and approval process be included within the FEI Revenue Requirements Application.

The Panel also directs FEI to file all future CMAE budgets and year end Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account status reports with the CMAE component set out using the templates in Appendix A to this Decision.

## 1.0 INTRODUCTION

In the FortisBC Energy Inc. Multi-Year Performance Based Ratemaking Plan for 2014-2018 (FEI PBR Application), FEI indicated it would include the request for Commission approval of the Core Market Administration Expense (CMAE) budget in its 2013 Fourth Quarter Report on Commodity Cost Reconciliation Account (CCRA), Midstream Cost Reconciliation Account (MCRA) and Biomethane Variance Account balances, for the Lower Mainland, Inland and Columbia Service Areas (FEI 2013 Fourth Quarter Report).

By Order G-201-13, the Commission determined that approval of the CMAE budget was to be deferred pending a separate review process which was established by Order G-225-13. Order G-225-14 called for a written review process with one round of Information Requests (IRs).

### 1.1 Background

The cost of gas includes CMAE costs required to manage FEI and Fortis Energy (Vancouver Island) Inc.'s (FEVI) natural gas and propane supply functions. These management activities are carried out by FEI's Gas Supply group, which is an area within the Energy Supply and Resource Development department. The gas supply function encompasses most elements of the gas supply procurement function including planning, contracting, daily management and acquisition of gas supply resources, ensuring that there are reliable, secure and cost effective supplies of gas for core customers.

In the FEI PBR Application, FEI stated that it was not seeking approval of the 2014 CMAE Budget in that proceeding as it believes it is more appropriate to seek approval of the 2014 CMAE Budget as part of the quarterly gas cost reports as FEI has done previously. In reviewing the request, the Panel notes that FEI sought and obtained Commission approval of the 2010 and 2011 CMAE as part of the FEI 2010/2011 Revenue Requirements Application. FEI also sought and obtained Commission approval of the 2012 and 2013 CMAE budgets as part of the FortisBC Energy Utilities Inc. 2012-2013 Revenue Requirements Application. The last time the CMAE Budget was approved as part of the quarterly gas costs was the 2009 CMAE Budget in Commission Order G-187-08 dated December 11, 2008.

In addition, the difference between the 2013 projected CMAE Budget of \$4.0390 million and the 2014 CMAE Budget of \$4.6722 million represents an increase of 15.7 percent. A significant portion of the CMAE Budget costs, in particular, budgeted labour costs of \$2.7205 million, are for largely controllable costs.

Given this information, the Commission was of the view that the FEI 2013 Fourth Quarter Report review was not suited to accommodate a proper review of the 2014 CMAE Budget, given the nature of the costs included in the CMAE Budget and the magnitude of the proposed increase for 2014. The quarterly gas cost report review process is an expedited, time sensitive review that is designed to incorporate the most up-to-date forward market price strips in the forecast of prospective gas costs. It was therefore determined that the review of the request for approval of the 2014 CMAE Budget be the subject of a separate review process.

## 2.0 THE APPLICATION

### 2.1 Scope of the Proceedings

Order G-225-13 defined the scope of the proceeding as follows:

Review and consideration of:

- FEI's proposed 2014 CMAE Budget; and
- The appropriate regulatory review and approval process for CMAE budgets for future periods.

In the same order, FEI was directed to provide a copy of Order G-225-13 to all Registered Interveners in the following proceedings:

1. FEI PBR Application; and
2. FEVI 2014 Revenue Requirements and Rates Application (FEVI 2014 RRA).

### 2.2 Regulatory Framework

The costs incurred in the CMAE Budget have been segregated from FEI's Operating and Maintenance (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 and propane supply for its customers. (Exhibit A2-1, BCUC 1.131.8) The costs are subsequently split between the FEI Commodity Cost Reconciliation Account (CCRA), the FEI Midstream Cost Reconciliation Account (MCRA), and the FEVI Gas Cost Variance Account (GCVA) which are charged back to the customer through the gas cost recovery rates, set under section 61 of the *Utilities Commission Act (UCA)*.

### 2.3 The Written Hearing Process

Three organizations intervened in the process taking the opportunity to submit IRs and Final Submissions:

- The British Columbia Pensioners and Seniors' Organization *et al* (BCPSO);
- Commercial Energy Consumers Association of British Columbia ((CEC); and
- Canadian Office of Professional Employees Union - Local 378 (Cope 378).

All three Interveners participated in the one round of IRs. FEI, BCPSO and CEC made Final Submissions, and FEI provided a Reply Submission.

### **3.0 APPROVAL OF 2014 CMAE BUDGET**

FEI notes that the proposed CMAE budget is part of the flow-through gas costs and argues that CMAE budgets are appropriately reviewed and approved as part of the FEI fourth quarter gas cost report. Regardless of the approved budgeted amounts, the actual CMAE costs are allocated to and recorded in the FEI CCRA, MCRA and the FEVI GCVA. The 2013 projected CMAE Budget and the 2014 CMAE Budget have been used in the FEI 2013 Fourth Quarter Report to calculate the CCRA and MCRA gas costs and the gas cost recovery rates proposed by FEI and in the FEVI 2014 RRA.

#### **3.1 CMAE Budget Background**

##### Amount to Approve for the 2014 CMAE Budget

FEI requests approval of a CMAE Budget amount of \$4,672,200 for 2014. FEI has provided a breakout of the cost components on a line item by line item basis (Exhibit B-1, Tab 1, p. 1).

The allocation of the CMAE between FEVI and FEI and, within FEI, the allocation between the CCRA and the MCRA were not identified as an issue by FEI or the Interveners. These allocations were established as 90 percent FEI, which includes FEW (further allocated 70 percent/30 percent between the MCRA/CCRA, respectively) and 10 percent to FEVI (Exhibit B-1, p. 1).

##### Appropriate section of the UCA to approve the CMAE Budget under given the CMAE includes costs that are largely controllable

Gas costs, which the CMAE forms a part of, are approved under section 61(4) of the UCA. FEI confirmed it is seeking approval of the 2014 CMAE Budget under section 61(4) of the UCA on the basis that the CMAE forms part of the gas cost recovery rates (Exhibit B-3, BCUC 1.2.2). FEI states: "the flow-through-to ratepayers practice permitted under section 61(4) remains applicable even if certain components of the CMAE, i.e. the labour expense, is controllable to some extent" and provides a number of reasons (Exhibit A2-2, BCUC 2.293.3.1).

##### Does FEI have an incentive to over-estimate the CMAE Budget?

In contrast to the approval of delivery margin rates where FEI can only recover the costs as used to set the approved rate, and where any variances are at the shareholders' risk or benefit, the CMAE is a flow through gas cost expense. Ultimately the actual CMAE costs are the costs that are recovered through the gas cost related rates. FEI submits it has no financial incentive to over-estimate the CMAE (FEI Reply Submission, p. 2).

### Implications if FEI exceeds the approved CMAE budget

The actual CMAE expended is the amount that will ultimately be recorded in the appropriate gas cost deferral account (i.e. FEI CCRA, FEI MCRA or FEVI GCVA), and ultimately recovered from customers unless FEI can be shown to have been imprudent which would need to be decided through a separate prudency hearing. FEI states: "CMAE variances for expenditures above or below the approved budget (whether in aggregate or any single component), would be recovered from or returned to customers as part of future rates, unless the Company is found to have acted imprudently." (Exhibit B-3, BCUC 1.2.3.1) "FEI believes that the Commission could only disallow recovery of gas costs, including the CMAE, if the Company was found to have acted imprudently." (Exhibit B-3, BCUC 1.2.3.2)

### Implications of carrying a variance or of a consistent forecasting bias

Since the actual costs are ultimately what is recorded in the gas cost deferral accounts and recovered in gas cost rates, the issue is in regard to the implications of a variance.

The bill impact of a variance in CMAE is relatively small. The overall annual cost of the entire gas portfolio is currently in excess of \$500 million (Exhibit B-3, BCUC 1.2.3). A \$250,000 increase in CMAE Budget (equivalent to a 5.4 percent increase in the 2014 CMAE Budget) results in a \$0.19 per year increase in a residential customer's bill (Exhibit B-5, CEC 1.2.1).

FEI has consistently over-forecast the CMAE Budget since 2007 (Exhibit B-3, BCUC 1.9.1).

If FEI has forecast CMAE higher than what the actual costs are, all else equal, rates will be set higher than required and a surplus variance will be captured in the gas cost deferral accounts (CCRA and MCRA for FEI and GCVA for FEVI). FEI states that the balances in the FEI CCRA and MCRA deferral accounts attract interest at FEI's short-term composite interest rate (Exhibit B-4, BCPSO 1.3.2).

### CMAE FTE count

The CMAE function is performed by Gas Supply staff in the Energy Supply and Resource Development (ES&RD) Department. The cost of some full time equivalent (FTE) staff in this department are recovered in the CMAE Budget as part of gas costs and the remainder of the staffing costs for this department are recovered as O&M through the delivery margin revenue requirements.

FEI notes that decisions regarding CMAE Budget staffing levels are made at the departmental level, taking into account such factors as departmental functions and objectives, forecasted work volume and organization of the department (Exhibit B-3, BCUC 1.11.6).

FEI noted that the expiry of the Pacific Northern Gas (PNG) Energy Management Services (EMS) agreement provided FEI an opportunity to reallocate responsibilities as part of on-going employee development and organization of gas supply staff, and that through organizational changes, FEI reduced the CMAE ES&RD staffing by one FTE, as reflected in the 2014 CMAE Budget (Exhibit A2-1, BCUC 1.132.4).

As noted by CEC, despite the reduction of one FTE position from the 2013 approved level, 22 FTE positions are provided for in the 2014 forecast while only 19 FTE positions were actually filled in 2013, and 20 FTE positions were filled in the years 2010 to 2012 (CEC Final Submission, p. 12).

### Consulting and Legal CMAE Budget Component

The Consulting and Legal component of the CMAE Budget mainly arises from FEI's Energy Supply and Resource Development department's participation in National Energy Board (NEB) regulatory proceedings, concerning natural gas transportation infrastructure in northeast British Columbia. FEI has been actively involved in such proceedings since the early 1990's and participates either as a member of the Western Export Group or participates directly where an issue is of significant and primary importance specifically to FEI. (Exhibit A2-1, BCUC 1.133.2) FEI notes that it keeps the Commission informed on the significant developments in northeast British Columbia and FEI's potential involvement on an on-going basis, and includes a review of upstream regulatory developments in its annual contracting plan (Exhibit A2-1, BCUC 1.33.2.1).

Consulting and Legal is an example of a component of the budget where variances are likely to occur as these costs are: "lumpy and difficult to forecast because, for example, they are due to how third party regulatory proceedings develop ..." (Exhibit B-3, BCUC 1.4.3). The timing of NEB proceedings is something FEI has very little control over and the scope of the proceedings is subject to change (FEI Final Submission, p. 6).

FEI's participation in the NEB Komie North hearing, cost \$414,000 and was recorded in 2012 (\$248,000 of consulting, \$153,000 of external legal services and \$13,000 in travel expenses). (Exhibit A2-1, BCUC IR 1.133.3-1.333.4) The North Montney Project is expected to be reviewed by the NEB in 2014 and will be of a similar magnitude (Exhibit A2-1, BCUC IR 1.333.5).

FEI has budgeted \$500,000 for Consulting and Legal for 2014. In 2013 FEI budgeted \$326,000 for Consulting and Legal but only spent \$70,000 as the NEB regulatory proceedings for the TransCanada/Nova Gas Transmission Ltd.'s Coastal GasLink "Transportation by Others" (Coastal Gas TBO) and the North Montney applications were both postponed (Exhibit B-3, BCUC 1.9.1, p. 33). The North Montney application was filed with the NEB in late 2013 and is expected to be reviewed in the second and third quarters of 2014 (Exhibit B-3, BCUC 1.10.1). FEI anticipates this NEB proceeding may be of a similar magnitude to the Komie North proceeding (Exhibit A2-1, BCUC 1.133.5).

### **3.2 Intervener Arguments**

By Order G-225-13, the Commission determined the process for the review of the 2014 CMAE Budget. Nevertheless, CEC submits that it is not appropriate to complete the regulatory review and approval of the 2014 CMAE Budget for the 2014 period at the present time given there are ongoing revenue requirements processes for both FEI and FEVI. CEC also submits that the FortisBC Energy Utilities Common Rates, Amalgamation and Rate Design Reconsideration Decision might also influence the proposed 2014 CMAE Budget. CEC is of the view approval of the 2014 CMAE Budget should be considered in the ongoing PBR proceeding (CEC Final Submission, p. 1).

CEC takes issue with FEI's budgeting methodology and certain FEI budgeting practices including the appropriate inflation factor, direct versus inflationary budgeting and potential double counting. CEC provides a line by line review of the components of the CMAE Budget and recommends adjustments to several components, in particular, the IT, Sundries and Subscriptions, Training and Travel and Labour components (CEC Final Submission, pp. 9-13).



CEC has outlined a line item by line item review with recommended reductions to the approved amount for several cost components to arrive at a total recommended budget amount of \$4,351,300, some \$320,900 less than requested by FEI. CEC does not describe to how approving the lower budget amount will incent FEI to achieve lower actual CMAE costs (CEC Final Submission, p. 13).

CEC accepts the budgeted amount of \$500,000 for Consulting and Legal as reasonable given it was developed using a “Direct Budgeting” approach and notes timing of the proceedings are not at FEI’s discretion (CEC Final Submission, p. 10). CEC also indicated a concern about the inflation rates being used were applied to the prior year’s budget rather than more current forecasts. In addition, BCPSO also submits that: “the application of forecast cost increases raises concerns about double counting” (BCPSO Final Submission, p. 2).

### **3.3 FEI Reply Submission**

In the PBR proceeding FEI indicated it was not seeking approval of the 2014 CMAE Budget as part of the PBR proceeding. The evidentiary record for the FEI PBR and FEVI RRA proceedings have closed and FEI submits the CMAE Panel is not in a position to determine the scope of the FEI PBR proceeding. (FEI Reply Submission, p. 3)

In its Reply Submission, FEI goes into some detail to refute each of the arguments contained in the Final Submissions from both CEC and BCPSO. Regarding CEC’s approach to the CMAE Budget, FEI states that:

“CEC’s general approach to the CMAE budget is short-sighted. While the CEC advocates to have CMAE costs reduced, the corresponding impact on gas customers if FEI is unable to properly manage its gas costs (because of a reduction in FTE’s, or subscriptions, or participation in upstream regulatory proceedings, for example), could be greater than any savings achieved.” (FEI Reply Submission, p. 2)

FEI further refutes CEC’s arguments raised in points six through twenty–five of CEC’s Final Submission (FEI Reply Submission, pp. 2–10).

FEI further states that: “Neither BCPSO nor CEC have demonstrated that overspending, careless or an indifference to the management of the budget has occurred at any time. FEI further submits that the evidence establishes that FEI manages CMAE carefully and prudently” (FEI Reply Submission, p. 13).

### **3.4 Commission Determination**

**The Commission Panel determines that a 2014 CMAE Budget be approved for \$4,344,200 pursuant to section 61 of the UCA.**

The Panel notes that FEI has managed CMAE with approximately the same labour budget over the previous four years. The Panel further notes that FEI no longer has an EMS agreement with PNG resulting in lower revenues and work load. In addition, FEI has indicated it has cut one FTE from the CMAE. At the same time, FEI has submitted a labour budget number that is 17 percent higher than the actual labour costs for the preceding year. In response to CEC IR 1.3.1, FEI indicated it used the BC Average Weekly Earnings (AWE) inflation number of 2.7 percent applied to the 2013 CMAE budget adjusted for identified changes. The Panel agrees with the use of the inflation rate but disagrees with using the 2013 CMAE Budget as the starting point for the calculation of the labour budget instead of 2013 actual costs incurred.

Taking all the above factors into account including application of the AWE inflation to the actual labour expenditures for 2013, the revised labour budget element for 2014 is \$2,392,000 or \$328,000 below the submitted budget. Applying the new labour budget portion to the overall 2014 CMAE Budget, the new budget total is \$4,344,000.

#### **4.0 APPROPRIATE FUTURE REGULATORY REVIEW PROCESS FOR CMAE BUDGET**

In the currently ongoing FEI PBR Application proceeding, FEI confirmed it was not seeking approval of the 2014 CMAE Budget as part of the FEI PBR Application but instead was reverting to the practice of seeking approval of the annual CMAE Budget as part of the regular gas cost reporting and rate setting mechanism (Exhibit A2-1, BCUC 1.131.1). FEI submits that this is the appropriate process going forward and is: “justified on the basis that the CMAE is a critical component of an integrated gas supply function”, and that recent departures from this practice were exceptions due to unique circumstances (FEI Final Submission, pp. 10-11).

On November 22, 2013, FEI filed its 2013 Fourth Quarter Gas Cost Report and, as indicated in the FEI PBR Application proceeding, FEI also included a request for approval of the 2014 CMAE Budget (Exhibit B-1, p. 3).

#### **4.1 Future Regulatory Review Process**

Is the CMAE Budget Review more appropriately part of the gas cost or delivery margin revenue requirements process?

The CMAE has been a component of the cost of gas since 1996 pursuant to Commission Order G-99-95 and the Decision accompanying that Order (Exhibit B-3, BCUC 1.2.3). Gas costs are a flow-through cost to FEI’s customers and gas cost rates are based on forecast gas costs. Variances between the actual gas costs incurred and the forecast gas costs embedded in the approved rates are captured in the gas cost deferral accounts. These variances are refunded to, or recovered from, customers as part of future rates.

FEI has sought approval for CMAE budgets as part of the revenue requirements approval process for the past four years, specifically the FEI 2010-2011 Revenue Requirements Application (2010-2011 RRA) and the FortisBC Energy Utilities (FEU) 2012-2013 Revenue Requirements Application (2012-2013 RRA). Prior to that time FEI more typically included the request for approval of the annual CMAE Budget as part of the gas cost reporting process. In particular, FEI notes that the CMAE budgets for the 2006 through 2009 years were filed, reviewed and approved as part of FEI's fourth quarter gas cost reports. (Exhibit A2-1, BCUC 1.131.3)

FEI submits that the approval of the CMAE in the 2010-2011 RRA was an exceptional situation and FEI only requested approval of CMAE budgets in the 2010-2011 RRA on the basis that there were requests in the 2010-2011 RRA: "related to moving items between O&M and CMAE and development of a shared services methodology for allocating some costs that were easier to review within the context of the company's overall O&M costs" (Exhibit A2-1, BCUC 1.131.3.1). FEI submits that the inclusion of the request for approval of the 2012 and 2013 CMAE budgets in the 2012-2013 RRA was due to the intent to seek the necessary approvals to amalgamate and introduce harmonized rate structures during the 2012-2013 test period. Under those circumstances FEI believes it was appropriate to include the request for approval of the 2012 and 2013 CMAE forecasts and allocation methodologies as part of the 2012-2013 RRA. (Exhibit A2-2, BCUC 2.293.6) Prior to the 2010-2013 test periods, the annual CMAE budget or forecast was typically approved as part of the review of the fourth quarter gas cost report (Exhibit A2-1, BCUC 1.131.3).

Is it relevant whether it is a PBR period or not when considering whether to review the CMAE budget as part of gas cost filings or revenue requirements?

In explaining the rationale for excluding the CMAE from the O&M expenses that the PBR formula will apply to, FEI states that: "applying a PBR formula to the CMAE budget on a stand-alone basis is not appropriate" and "although the 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" (Exhibit A2-1, BCUC 1.131.8).

Conducting a separate review process for a portion of the gas cost expense

There is a precedent for components of the gas cost being reviewed and approved separately from the quarterly gas cost review process. The Gas Supply Mitigation Incentive Program (GSMIP) Incentive Payment is recovered as part of gas costs but has a review and approval process separate from the FEI fourth quarter gas cost report review. (Exhibit B-3, BCUC 1.3.2) In addition, the fact that FEI has requested approval of the CMAE Budget as part of a revenue requirements proceeding in the past is evidence that the CMAE Budget can be reviewed separately from the FEI fourth quarter gas cost report.

FEI also confirms that there are no elements of the CMAE Budget that are updated to reflect the forward market price information that is obtained for setting the gas cost rates (Exhibit B-3, BCUC 1.5.1). The expedited nature of the quarterly gas cost review is required due to the need to use the most up-to-date forward price curve when setting gas cost rates (Exhibit B-3, BCUC 1.4.2). The approval process set out for approving the Biomethane Energy Recovery Charge (BERC) rate was established as a gas cost review process separate from the quarterly gas cost report review process in recognition that it was not appropriate to include it in the expedited fourth quarter gas cost report as the inputs to the BERC rate do not reflect any forward market price information (FEI Biomethane Decision that accompanied Order G-210-13, p. 68 – see also preamble to BCUC 1.5.1 in Exhibit B-3).

FEI agrees a separate review process may be required from time to time (Exhibit B-3, BCUC 1.4.3). FEI notes that: “at times the scope of the review in this process has focussed on immaterial dollar amounts at times less than \$5,000. FEI submits that this demonstrates that the level of review requested by the BCPSO and CEC is not warranted and not in the interest of ratepayers” (FEI Reply Submission, p. 13).

#### What level of review is required and what is the trigger for more in depth reviews when necessary

There is a perceived lack of incentive for FEI to control costs or seek productivity improvements and/or efficiency improvements. CEC expressed concern that FEI did not show concern for costs borne by ratepayers and that there is a need for increased transparency through more explanation and accountability. (CEC Final Submission, p. 8)

FEI states that including the CMAE Budget review in the expedited review of the fourth quarter gas cost report achieves regulatory efficiency (Exhibit B-3, BCUC 1.5.2.2). However, FEI acknowledges that the expedited review of the fourth quarter gas costs can result in a timeline of less than one week from filing date to Commission approval date and agrees the review of the CMAE Budget as part of the fourth quarter gas cost review does not readily allow for stakeholder participation. FEI states it recognizes that a more detailed review may be of value at certain times particularly when significant changes are forecast to occur. (Exhibit B-3, BCUC 1.4.2 and 1.4.3)

## **4.2 Intervener Arguments**

BCPSO does not make any comments regarding reviewing the CMAE Budget as part of the delivery margin revenue requirements. CEC submits that it is inappropriate to separate the CMAE Budget from the revenue requirements process as “it can result in unreasonable prior approvals that compromise the opportunity for interveners such as CEC to comment on the totality of the proposed regulatory mechanism and decision-making underway in Revenue Requirements applications.” CEC expresses concern that segregating portions of the FEI budgets does not provide appropriate accountability for the utility, but CEC does not elaborate on how a cost component that is allocated and recovered in gas costs can be incorporated in the PBR mechanism. (CEC Final Submission, p. 2)

Both CEC and BCPSO submit that the review of the CMAE Budget should be by way of a separate written hearing process with two rounds of IRs. BCPSO notes this is particularly the case when proposed increased costs exceed these due to inflation or where proposed increases over the previous year’s budget are significant. BCPSO submits that Commission oversight should not be streamlined in the name of administrative efficiency and reduced regulatory burden. BCPSO supports a more fulsome review every four or five years. (BCPSO Final Submission, pp. 2-3)

BCPSO submits the CMAE Budget review process should be a process separate from the FEI fourth quarter gas cost report review (BCPSO Final Submission, pp. 2-3).

### 4.3 Commission Determination

The Panel acknowledges FEI's request to submit the CMAE budgets with the fourth quarter gas cost reports. However, the Panel is concerned that if the CMAE Budget is submitted at the same time, the Commission would have insufficient time to properly review the CMAE Budget. **Further, the Panel finds that the appropriate review process for the CMAE Budget is as part of the FEI revenue requirements applications. Therefore, until such time as FEI files its next revenue requirements application, the Panel directs FEI to submit future CMAE budgets separately to the Commission at least two weeks prior to the fourth quarter gas cost report to allow the Commission sufficient time to review the CMAE Budget, and to determine if there are sufficient variances from the previous CMAE Budget to warrant a more fulsome review.**

**The Panel directs that the CMAE Budget review and approval process be included within the FEI revenue requirements application starting with the next such application filed by FEI.**

While the Panel acknowledges FEI's position that CMAE is an essential component of the cost of gas, the Panel believes there is benefit to reviewing the CMAE Budget with other similar costs within the larger FEI budget.

Specifically:

- A significant portion of the CMAE Budget is labour, and the Panel is persuaded that reviewing CMAE labour costs with similar FEI non-CMAE Operating and Maintenance costs would provide context for whether such costs are reasonable. Indeed, FEI has acknowledged that FEI has a degree of control over the labour portion of the CMAE. (Exhibit A2-1, BCUC 1.131.7)
- Consistent with Order G-37-94, where the Commission approved the segregation of CMAE, segregation can still exist with CMAE costs being applied for within the FEI revenue requirements application.
- CMAE was reviewed as part of the revenue requirement proceedings in 2010-2011 and the 2012-2013 revenue requirement proceedings.
- Reviewing the CMAE Budget as part of the FEI revenue requirements process would not be a separate process, therefore not adding additional regulatory process and expenses.
- There may be a benefit to future panels who review the CMAE to consider CMAE in the context of shared services methodology, which could be reviewed in revenue requirements proceedings.

The Panel acknowledges BCPSO's concerns respecting appropriate regulatory review of the CMAE Budget. The Panel considers that this determination supports an appropriate review process until such time as the CMAE Budget again becomes part of the next FEI RRA. A more fulsome review will be considered by the Commission if circumstances warrant it.

With respect to the CEC's concerns of the impact of amalgamation on the CMAE Budget, the Panel respectfully concludes that there is insufficient evidence to persuade the Panel that it impacts this Decision.

**In the interests of transparency, the Panel also directs FEI to file future CMAE budgets and the CMAE component of the year end CCRA and MCRA status reports using the templates in Appendix A to this Decision.**

**DATED** at the City of Vancouver, in the Province of British Columbia, this 18<sup>th</sup> day of June, 2014.

*Original signed by:*

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B.A. MAGNAN  
PANEL CHAIR/COMMISSIONER

*Original signed by:*

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C. BROWN  
COMMISSIONER

*Original signed by:*

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I.F. MACPHAIL  
COMMISSIONER



**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER G-79-14**

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IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by FortisBC Energy Inc.  
regarding its 2013 Fourth Quarter Gas Cost Report  
and Approval of the 2014 Core Market Administration Expense Budget

**BEFORE:** B.A. Magnan, Panel Chair/Commissioner  
C.A. Brown, Commissioner June 18, 2014  
I.F. MacPhail, Commissioner

**O R D E R**

**WHEREAS:**

- A. On July 5, 2013, FortisBC Energy Inc. (FEI) filed an Application for Approval of a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018 (FEI PBR Application);
- B. In the FEI PBR Application, FEI stated that it was not seeking approval of the 2014 Core Market Administration Expense (CMAE) Budget in the FEI PBR Application as FEI believes the CMAE Budget is more appropriately reviewed as part of quarterly gas cost reports, and that it would be seeking approval of the 2014 CMAE Budget as part of the 2013 fourth quarter gas cost report;
- C. On November 22, 2013, FEI filed its 2013 Fourth Quarter Gas Cost Report on Commodity Cost Reconciliation Account (CCRA), Midstream Cost Reconciliation Account (MCRA), and Biomethane Variance Account (BVA) balances, for the Lower Mainland, Inland and Columbia Service Areas (2013 Fourth Quarter Report);
- D. The 2013 Fourth Quarter Report requested approval of the CMAE Budget for 2014 in the amount of \$4,672,200 as set out in Tab 1, Page 1 of the 2013 Fourth Quarter Report (the Application). The 2014 budgeted amount represents an increase of \$633,000 over the 2013 projected CMAE;
- E. The CMAE is allocated 10 percent to FortisBC Energy (Vancouver Island) Inc. and 90 percent to FEI gas cost recovery accounts, respectively;
- F. On November 29, 2013, the Commission issued Order G-201-13 approving the requested rate changes as outlined in the 2013 Fourth Quarter Report and determined that, given the nature of the costs included in the CMAE and the significant increase in the 2014 budgeted amount over the 2013 projected amount. The request to approve the 2014 CMAE Budget is more appropriately reviewed in a regulatory review process separate from the review of the 2013 Fourth Quarter Report;

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- G. On December 19, 2013, the Commission issued Order G-225-13 establishing a separate written hearing process with one round of Information Requests for review of the FEI request for approval of the proposed CMAE Budget for 2014, and for consideration of the appropriate regulatory review and approval process for future CMAE budgets;
- H. Three parties registered as Interveners in the proceeding: The British Columbia Pensioners' and Seniors' Organization *et al* (BCPSO), the Commercial Energy Consumers Association of British Columbia (CEC) and the Canadian Office of Professional Employees Union – Local 378 (COPE 378); and
- I. The Commission reviewed and considered the proposed 2014 CMAE Budget filed as part of the 2013 Fourth Quarter Report, the evidence and submissions of the parties, and determines the proposed 2014 CMAE Budget should be approved with certain modifications and sets out the reporting and regulatory review process going forward.

**NOW THEREFORE** pursuant to section 61 of the *Utilities Commission Act* and for the reasons contained in the Decision to which this Order is attached, the Commission determines as follows:

- 1. A 2014 Core Market Administration Expense (CMAE) Budget is approved for \$4,344,200.
- 2. The appropriate review process for the CMAE Budget is as part of the FortisBC Energy Inc. (FEI) Revenue Requirements Application. The CMAE Budget review and approval process is to be included within the FEI Revenue Requirements Application starting with the next such application filed by FEI.
- 3. Until such time as FEI files its next revenue requirements application, FEI is directed to submit future CMAE budgets separately to the Commission at least two weeks prior to the fourth quarter gas cost report to allow the Commission sufficient time to review the CMAE Budget and to determine if there are sufficient variances from the previous CMAE Budget to warrant a more fulsome review.
- 4. FEI is directed to file future CMAE budgets and the CMAE component of the year end Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account) status reports using the templates in Appendix A to the Decision.

**DATED** at the City of Vancouver, In the Province of British Columbia, this 18<sup>th</sup> day of June, 2014.

BY ORDER

*Original signed by:*

B.A. Magnan  
Panel Chair/Commissioner





**Template for Reporting CMAE Actuals as part of 2014 CCRA/MCRA/BVA Status Report  
(Required to be filed by April 30, 2015)**

<b>CMAE Cost Component</b>	<b>2014</b>				
<b>(\$000, unless specified otherwise)</b>	<b>Approved</b>	<b>Actual</b>	<b>Variance</b>	<b>Variance %</b>	<b>Variance Explanation</b>
IT					
Consulting & Legal					
Subscriptions & Memberships					
Sundries					
Training & Travel					
COPE Salaries before Benefits & Incentives					
COPE Benefits					
COPE Incentives					
M&E Salaries before Benefits & Incentives					
M&E Benefits					
M&E Incentives					
Energy Management Service Revenue					
Shared Services					
<b>Total</b>					

<b>CMAE FTE</b>	<b>2014</b>				
<b>(Number)</b>	<b>Approved</b>	<b>Actual</b>	<b>Variance</b>	<b>Variance %</b>	<b>Variance Explanation</b>
COPE					
M&E					
<b>Total</b>					