IN THE MATTER OF

FORTISBC ENERGY INC.

PROPOSAL TO INCLUDE FORTISBC ENERGY (VANCOUVER ISLAND) INC. AND FORTISBC ENERGY (WHISTLER) INC. INTO THE 2014-2019 MULTI-YEAR PERFORMANCE BASED RATEMAKING PLAN

DECISION

June 23, 2015

Before:

D. M. Morton, Panel Chair/Commissioner
D. A. Cote, Commissioner
N. E. MacMurchy, Commissioner

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1.0 INTRODUCTION

1.1 Background

On February 26, 2014, the British Columbia Utilities Commission (Commission) approved pursuant to Order G-21-14 the amalgamation of FortisBC Energy Inc. (FEI), FortisBC Energy (Vancouver Island) Inc. (FEVI), FortisBC Energy (Whistler) Inc. (FEW), and Terasen Gas Holdings Inc., effective January 1 ,2015.

On September 15, 2014, pursuant to the decision and accompanying Order G-138-14, the Commission approved a Performance Based Ratemaking (PBR) Plan for FEI covering a six-year period commencing on January 1, 2014 (PBR Decision). The PBR Decision, among other things, established a Base Operations and Maintenance (O&M) and a Base Capital which were based on FEI's 2013 Approved O&M and Capital expenditures with various adjustments. As described in the PBR Decision, the Base O&M and Capital spending envelopes are escalated annually by a formula which takes into account inflation as well as a productivity factor. Any variances between formula amounts and actual spending are shared 50/50 between the ratepayers and FEI through the Earnings Sharing Mechanism.

As part of the PBR Decision, the Commission directed FEI to provide a detailed review of the historical capital and O&M expenditures for FEVI and FEW, as well as a formal proposal for including FEVI and FEW within the PBR Plan starting in 2015. FEI was directed to include as part of its proposal a justification for its proposed additions to FEI's Base O&M and Capital to reflect the amalgamated FEI entity.[1] Since the amalgamation did not take effect until 2015, FEVI and FEW's 2014 rates were determined separately.

With regard to setting 2014 rates for FEW, on December 19, 2013, pursuant to Order G-222-13, the Commission approved FEW's request to maintain existing rates for 2014 and to establish a Revenue Surplus/Deficiency deferral account to capture the actual revenue surplus or deficiency in 2014.

On May 23, 2014, in accordance with its decision and Order G-65-14, the Commission approved permanent 2014 rates for FEVI's core market sales and transportation customers.

1.2 Application review process and approvals sought

FEI filed its Proposal to Include FEVI and FEW within the PBR Plan on November 14, 2014 (Application). In the Application, FEI requests approval of the following:

(i) An increase to its 2014 Base O&M of $39.295 million, which includes an increase of $36.564 million to reflect the O&M required for FEVI and FEW, as well as a further increase of $2.731 million to reflect projected FEVI 2014 company use gas; and

(ii) An increase to its 2014 Base Capital of $28.222 million to reflect the Capital Expenditures for FEVI and FEW.[2]

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[1] FEI 2014-2019 Multi-Year Performance Based Ratemaking Plan Decision (PBR Decision), p. 17.

[2] Exhibit B-1, p. 10.

On November 24, 2014, pursuant to Order G-183-14, the Commission established a preliminary regulatory timetable which included a procedural conference to address matters such as options for review of the Application and the structure of the regulatory timetable. Subsequently on December 3, 2014, the Commission issued Order G-190-14 establishing the date of the Procedural Conference for December 17, 2014.

On December 11, 2014, in advance of the Procedural Conference, the Commission issued a letter to parties stating, among other things, that the Panel has reviewed the Application and has concerns with the deficiencies and lack of detail provided in the filing. The Panel requested that the parties address the issue of how best to deal with the identified deficiencies in the Application at the Procedural Conference.

At the Procedural Conference, FEI proposed to file, on January 16, 2015, an Evidentiary Update providing the information requested by the Commission in the December 11, 2014 letter, including the 2014 Preliminary Actuals for FEVI and FEW and variance explanations.

By Order G-202-14 dated December 19, 2014, the Commission established a regulatory timetable providing for FEI's filing of its Evidentiary Update and one round of Commission and intervener information requests (IRs), followed by parties' submissions on further process. On March 16, 2015, the Commission issued Order G-41-15 establishing the remainder of the Regulatory Timetable, which included a second round of Commission and intervener IRs and parties' written final and reply submissions.

On January 16, 2015, FEI filed its Evidentiary Update. As part of its filing, FEI revised its requested approvals to increase 2014 Base O&M and Capital as follows:

(i) Increase to 2014 Base O&M of $38.976 million, which includes an increase of $36.387 million to reflect the O&M required for FEVI and FEW, as well as a further increase of $2.589 million to reflect preliminary actual FEVI 2014 company use gas; and

(ii) Increase to 2014 Base Capital of $28.222 million to reflect the capital expenditures for FEVI and FEW.[3]

Two interveners registered in the proceeding:

- British Columbia Pensioners' and Seniors' Organization, *et al.* (BCOAPO); and
- Commercial Energy Consumers Association of British Columbia (CEC).

The following sections review the approvals sought by FEI and provide determinations on the Base O&M and Capital spending envelopes for FEVI and FEW to be included as part of the PBR Plan for the amalgamated FEI entity commencing in 2015.

[3] Exhibit B-3, p. 16; Exhibit B-5, BCUC IR 1.11.2.

2.0 FEVI

FEI requests approval to add the following amounts to its 2014 Base O&M and Capital to reflect the inclusion of FEVI in FEI's PBR Plan:

- $35.672 million to Base O&M, representing FEVI's 2014 Approved O&M with adjustments for sustainable savings;
- $2.589 million to Base O&M for FEVI's Preliminary Actual 2014 company use gas; and
- $27.822 million to Base Capital, representing FEVI's 2014 Approved Capital.[4]

2.1 FEVI Base O&M

FEI states that its proposal to combine FEVI's Base O&M with that of FEI is based on "the approach accepted in the PBR decision which used Approved amounts with adjustments."[5] FEVI's approved 2014 O&M is $35.844 million.[6]

In its Evidentiary Update, FEI provided the 2014 Preliminary Actual O&M for FEVI totalling $35.592 million. FEI was subsequently asked in a Commission IR to provide an update of the Approved 2014 O&M using the actual BC Consumer Price Index (CPI) of 1 percent, instead of the forecast 2014 CPI of 1.8 percent used to calculate FEVI's 2014 Approved O&M. This information, along with information provided in the Evidentiary Update, has been combined in Table 1.

Table 1 – Approved and Actual 2014 O&M ($000s) [7]

	A Approved	B Approved Inflation Adjusted	C Preliminary Actual	D Variance C - A	E Variance C - B
Operations	13,556	13,401	13,679	123	278
Customer Service	4,591	4,552	4,402	-189	-150
ES&ER	2,559	2,533	2,583	24	50
ES&RD	102	101	92	-10	-9
Information Technology	401	397	390	-11	-7
Engineering Services and PMO	442	438	443	1	5
Operations Support	322	319	358	36	39
Facilities	582	578	544	-38	-34
Finance and Regulatory Services	471	467	374	-97	-93
Governance	1,300	1,300	1,250	-50	-50
Corporate	11,518	11,503	11,477	-41	-26
Total	**35,844**	**35,589**	**35,592**	**-252**	**3**

[4] FEI Final Submission, pp. 1–2; Exhibit B-3, p. 12.
[5] FEI Final Submission, p. 2.
[6] Ibid., p. 4.
[7] Exhibit B-3, p. 8; Exhibit B-10, BCUC IR 2.4.1.

Based on the Evidentiary Update, FEI proposes a Base O&M for FEVI which equals the 2014 Approved O&M less net sustainable savings achieved of $172 thousand. According to FEI, the net sustainable savings are made up of:

1. Increase to 2014 Approved Operations department O&M of $72 thousand, which is the total variance between approved and actual Operations O&M reduced by the one-time write-off of a cancelled project;
2. Decrease to 2014 Approved Customer Service department O&M of $95 thousand related to lower bad debts;
3. Decrease to 2014 Approved Information Technology department O&M of $11 thousand related to sustained telecommunications savings;
4. Decrease to 2014 Approved Finance and Regulatory department O&M of $97 thousand related to lower bond rating fees due to amalgamation; and
5. Decrease to 2014 Approved Corporate department O&M of $41 thousand related to savings in contracted resources.

As a result, FEI's proposed 2014 Base O&M for FEVI is $35.672 million.[8]

Operations department

The 2014 Preliminary Actuals for the Operations department are $123 thousand higher than 2014 Approved amounts. Contributing to this over-expenditure is $267 thousand of costs related to the regionalization of FEI's dispatch group to facilitate field optimization and customer growth in the region. This change occurred as part of FEI's Regionalization Initiative implemented in 2014.[9] FEI's Regionalization Initiative resulted in certain costs previously residing in FEI and forming part of FEI's Approved 2013 O&M Base going into PBR being subsequently transferred to FEVI.

FEI asserts that "the costs of the regionalization initiative were prudently incurred, will improve service to customers and are therefore appropriately included in FEVI's Base O&M."[10]

FEI further explains the $123 thousand over-expenditure in the Operations department as follows:

> Operating costs were also unfavorable due to higher lock-off and meter investigation activities which fluctuate from year to year and are primarily related to the number of customers and bad debt experience and these higher costs are expected to continue. These are the same type of cost increases that were projected for 2014 in the 2014 Base Cost Proposal. In addition, Mt. Hayes LNG operating costs were higher owing to the one-time write-off of a cancelled project ($51 thousand iron sponge).[11]

[8] Exhibit B-3, pp. 6–8.
[9] Exhibit B-5, BCUC IR 1.3.1.
[10] FEI Reply, p. 10.
[11] Exhibit B-3, p. 6.

IRs also inquired into the Mt. Hayes liquefied natural gas (LNG) operating costs, in particular higher liquefaction costs. Liquefaction increased to 95 days in 2014, up from 22 days in 2013, primarily due to weather. FEI provided the forecast and actual quantities of LNG produced in 2013 and 2014 at the Mt. Hayes LNG plant, as shown in Table 2, stating that "the forecast for 2013 and 2014 was based on limited history."[12]

Table 2 – Mt. Hayes LNG Forecast vs Actual

	Forecast (GJ)	Actual (GJ)
2013	565,000	219,067
2014	565,000	974,428

Customer Service department

The 2014 Preliminary Actuals for the Customer Service department are $189 thousand lower than 2014 approved amounts. FEI submits that the $189 thousand favourable variance is due to the following:

(i) A one-time reduction of the required allowance for doubtful accounts balance in the amount of approximately $40 thousand;

(ii) Unanticipated HST-related recoveries from customers related to prior years of approximately $54 thousand; and

(iii) Lower collection agency commissions from a lower number of direct write-offs and bad debts sent to collection agencies.

FEI submits that of these savings, the first two items were one-time savings; as such FEI expects approximately $95 thousand of the savings to be sustainable.[13]

<u>Intervener submissions</u>

BCOAPO recommends various reductions to FEVI's "2014 Base O&M"; however, it does not specify what the starting point for "2014 Base O&M" is when making the proposed reductions (i.e. 2014 approved versus 2014 actual O&M). BCOAPO's proposed reductions are as follows:

1. $267 thousand to reflect the regionalization initiative costs transferred from FEI;
2. The impact of using the average of 2013 and 2014 Mt. Hayes LNG costs;
3. $34 thousand to reflect the impact of including actual 2014 labour inflation; and
4. The impact of including 50 percent of the temporary variances between approved and actual 2014 O&M, excluding the impact of writing down the bad debt provision.[14]

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[12] Exhibit B-10, BCUC IR 2.5.2.
[13] Exhibit B-3, p. 7.
[14] BCOAPO Final Submission, pp. 4–5.

With regard to the Mt. Hayes LNG costs, FEI explained that these costs were higher in 2014 due to colder weather experienced. BCOAPO submits that LNG costs included in the Base should reflect expected normal weather conditions. In its view, an average over a longer period is a better indicator of costs on an ongoing basis, and "as such, the average of 2013 and 2014 is a better cost to include in the base."[15]

In its Final Submission, BCOAPO does not quantify "the impact of writing down 50% of the temporary variances for 2014."[16] However, in response to BCOAPO IR 1.11.1, FEI provided the following information on temporary variances:

Table 3 – FEVI Temporary Variances ($000s)[17]

Variance	Amount
Customer Service	94
Energy Supply and Resource Development	10
Facilities	38
Governance	50
Total	**192**

BCOAPO submits that while some of the variances may reverse, "there will undoubtedly be variances in 2015 and beyond." It cites as an example the Governance department variance, which was a result of lower external legal counsel fees due to lower than expected third party claims. Because FEI has provided no evidence that the level of claims is increasing, BCOAPO concludes that "it is reasonable to assume there will be further temporary variances."[18]

CEC submits that "while it is not unreasonable to carefully consider the 2014 Approved expenditures in establishing base expenditures under PBR, the ultimate determination should be the level of spending that the company, in its amalgamated state, requires to operate with reasonable efficiency under PBR." In CEC's view, this may not necessarily be the same as an approved amount (even with the FEI specified adjustments) that was reviewed under the cost of service revenue requirements proceeding in 2014.[19]

However, CEC also submits that "[i]f the Approved O&M is updated for the actual BC CPI of 1%, the Approved is reduced by approximately $255,000 to $35.589 million; and this figure is very close to the Preliminary Actual of $35.592." In the view of CEC, "such a reduction would be logically included as an appropriate adjustment if the 2014 O&M base were to be employed as the starting point. To the extent that the Commission determines that

[15] Ibid, pp. 3–4.
[16] Ibid., p. 5.
[17] Exhibit B-6, BCOAPO IR 1.11.1.
[18] BCOAPO Final Submission, p. 4.
[19] CEC Final Submission, p. 2.

the 2014 Approved will be the starting point, the CEC recommends a reduction of $255 thousand for CPI and other adjustments."[20]

CEC does not appear to use 2014 Approved O&M adjusted for actual inflation as a basis for its recommended adjustments. Instead, similar to BCOAPO, it proposes the following general reductions without referencing the starting point (i.e. approved versus actual 2014 O&M) to which these reductions should be applied.

Table 4 – CEC Recommended Adjustments to FEVI O&M ($000s)[21]

Item	Proposed Reduction
Difference between actual and forecast CPI	255
Victoria Bridge Crossing O&M	120
Regionalization Initiative	400 or 267
LNG costs	80
Pipeline and Compression Maintenance	100
Anticipated Lease Payments	73
Facilities	38
Finance and Regulatory	20
Governance	50
Corporate	18

Victoria bridge crossing O&M

The O&M for the Victoria bridge crossing repair work was originally approved to be spent in 2013; however, in November 2013 FEVI decided to replace (rather than repair) the pipe. As such, in its 2014 RRA proceeding, FEVI stated that $120 thousand related to the unspent Victoria bridge crossing O&M was instead expected to be utilized on a number of smaller routine repair requirements.[22] In response to BCUC IR 1.1.1 in this proceeding, FEI stated: "While the $120 thousand may have been originally forecast for the Victoria bridge crossing repair work, other work was completed in 2014 that was necessary for service to customers." FEI further stated that "the deferred bridge crossing repairs are now scheduled for 2015."[23]

In CEC's view, pre-completion of other work does not justify including the expenditure in the O&M Base. It submits that this further reinforces the view that FEI has considerable discretion in the timing and extent of their spending.[24]

Regionalization Initiative

CEC submits that since these expenditures have already been included in the FEI PBR base, they must be explicitly excluded from the FEVI Base to avoid double counting these positions.[25]

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[20] Ibid., p. 3.
[21] Ibid., pp. 3–12.
[22] FEVI 2014 RRA, Exhibit B-4, BCUC IR 1.24.13.
[23] Exhibit B-5, BCUC IR 1.1.1.
[24] CEC Final Submission, p. 6.
[25] Ibid., p. 7.

LNG costs

CEC recommends a reduction of $80 thousand with regard to LNG costs. As with BCOAPO's recommendation, CEC's recommendation is based on the average of the actual send-out for 2013 and 2014, which is 596,500 GJ. CEC observes that the difference between the 2013 actual send-out of 219,000 GJ and the 2014 send-out of 975,000 GJ is approximately 750,000 GJ. Basing its calculation on the fact that the increase of approximately 750,000 GJ resulted in increased costs of $250 thousand, CEC submits that reducing this amount by one-third, to reflect the average send-out, would result in a reduction of $80 thousand, which is one-third of $250 thousand.[26]

Pipeline and compression maintenance O&M

CEC notes that the variance between 2014 approved pipeline and compression maintenance of $1.173 million and the 2014 preliminary actuals of $925 thousand is approximately $250 thousand. It submits that since the total variance in Operations cost between 2014 approved and 2014 preliminary actuals is "only $20 thousand excluding the cancelled project" there is no reason to presume that the pipeline and compression maintenance of $1.173 million is required in addition to other costs. CEC concludes by recommending that the Commission reduce Operations Base O&M by $100 thousand to avoid over-providing for pipeline and compression maintenance.[27]

Anticipated lease payments

Anticipated increases to lease payments arise from the completion of the installation of a private radio network. Despite increased spending as a result of that project, FEI states that they are not anticipating a future decrease in costs. However, CEC notes that "[o]f a $159 thousand increase related to repeater site increases, $50 thousand was related to leases although additional leasing expenses will be required in 2015 as the full lease cost was not experienced in 2014." CEC submits that "FEI has not provided an adequate quantification of the anticipated lease payments which appear to represent an additional $109 thousand over the $50,000 already experienced." It concludes that "given the sizeable nature of increases that FEVI has experienced over the last several years, and FEVI's original request for $86 thousand for 2014 above that in 2013 to ensure network coverage, the Commission should reduce the proposed base by $73 thousand ($159 thousand less $86 thousand)."[28]

Facilities O&M

With regard to Facilities department O&M, CEC submits that "establishing the base as $582 thousand when FEI says that they will be able to catch up deferred work from 2014 in the amount of $38 thousand means that the appropriate base going forward should be the approved less $38 thousand, because the $38 thousand catch up would be a one-time cost not applicable to future PBR years."[29]

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[26] Ibid.
[27] Ibid., pp. 7–8.
[28] Ibid., p. 10.
[29] Ibid., pp. 10–11.

Finance and Regulatory Services and Governance department O&M

Reductions to both the Finance and Regulatory and the Governance departments arise from savings that CEC submits should be expected from amalgamation.[30]

Corporate department O&M

CEC states that a breakdown of Corporate non-labour O&M shows savings of $59 thousand in the Administration and General category, contrasting with the $41 thousand identified as the variance, and suggesting that there could have been compensating increases in labour in Administration and General. CEC also submits that "total spending in such departments such as Corporate represent significant costs that are difficult to track and provide an opportunity for the utility to readily reduce costs without necessarily being highly efficient. The CEC recommends that the Commission consider such issues when review the effectiveness of PBR." CEC recommends that the Commission reduce the Corporate spending by an additional $18 thousand.[31]

<u>FEI reply</u>

FEI disagrees with CEC's position that the ultimate determination should be the level of spending that the Company, in its amalgamated state, requires to operate with reasonable efficiency under PBR. In FEI's view, this approach would turn this proceeding into a cost of service proceeding, which is inconsistent with the PBR Plan approved by the Commission.

FEI also characterizes a number of recommendations made by CEC and BCOAPO as "fundamentally based on an incorrect forecast cost of service approach" and submits the following:

- *Anticipated lease payments.* CEC's assertion that FEI has not provided adequate quantification of the lease payments is groundless. Although FEI should not have to provide any quantification of lease payments over the PBR period, it is clear from the evidence that FEVI is not anticipating a decrease in costs resulting from the completion of the radio network installation.
- *Facilities.* Temporary savings, such as the $38 thousand in Facilities costs, do not reflect a true reduction in the level of work required in the base year and therefore should not be used to reduce Base O&M.
- *LNG costs*. FEI disagrees with the proposal to reduce LNG costs, and submits that "the Commission should not be reducing 2014 costs based on unsubstantiated expectations about what might happen over the PBR term." Although 2013 costs may be lower than 2014 costs, "2014 is the base year for PBR, not 2013." FEI further argues that higher liquefaction costs were offset by lower repair costs and therefore it is unfair to reduce liquefaction costs without increasing repair costs.
- *Temporary variances*. Contrary to BCOAPO's assertions, FEI assumes no temporary variances in the future. Further, "as temporary variances do not reflect a true savings realized in 2014, FEI has not reduced the 2014 Base O&M for such variances…this is an appropriate, principled approach that is consistent with the PBR Decision."[32]

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[30] Ibid., p. 11.
[31] Ibid., p. 12.
[32] FEI Reply, pp. 3–6.

FEI disagrees with the "line-by-line" approach to each cost item in FEVI's O&M budget. In its view, "[t]his kind of piecemeal approach is not appropriate and would produce unfair results." FEI further states that while one cost item may have been higher than approved levels, others may be lower and "one should not be viewed in isolation from the other." FEI asserts that this approach should be rejected.[33]

However, FEI also addresses the issues raised by CEC and BCOAPO. FEI considers CEC's submission regarding the Victoria bridge crossing project to be illogical and should be rejected. It submits that CEC has provided no reasoning as to why the completion of other work should not be included in the Base. These costs should be included as they were prudently incurred and required for service to customers.[34]

FEI submits that adjusting for actual inflation is neither fair nor reasonable because savings resulting from less than forecast inflation are offset by higher costs due to other drivers.[35]

With respect to the Regionalization Initiative, FEI submits that these costs were prudently incurred and will improve service to customers and should therefore be included in Base O&M.[36]

FEI states that any reductions due to amalgamation that were realized in the 2014 Base costs for FEVI have been identified and have already reduced FEVI's proposed Base O&M. The amount of reduction is $97 thousand, due to a reduction in bond rating fees.[37] FEI also submits that the potential costs and savings during the PBR period due to amalgamation were reviewed as part of the FEU Common Rates, Amalgamation and Rate Design Application and Reconsideration Application and again in the Common Rates Methodology Application.[38]

Commission determination

For the reasons outlined below, the Panel directs FEI to reduce FEVI's 2014 Approved O&M by $631 thousand, as shown in Table 5 below. This results in a 2014 Base O&M for FEVI of $35.213 million.

Table 5 – Panel-directed Adjustments to FEVI 2014 Approved O&M

Item	**Adjustments to 2014 Approved O&M**
Sustainable Savings	-$439 thousand
Temporary Variances	-$192 thousand
Total Adjustment	**-$631 thousand**

[33] Ibid., p. 8.
[34] Ibid., p. 9.
[35] Ibid., p. 10.
[36] Ibid.
[37] Exhibit B-6, BCOAPO IR 1.10.1.
[38] FEI Reply, pp. 10–11.

Both CEC and BCOAPO make a number of recommendations for adjustments to the "Base O&M." However, neither intervener makes it clear what starting point they are working from – actuals or approved. They both propose adjustments to account for greater than average send-out of LNG at Mt. Hayes, yet this adjustment can only be made to 2014 Preliminary Actuals. The remainder of their proposed adjustments apply to 2014 Approved O&M.

2014 Approved O&M as a starting point

The Panel agrees with FEI that 2014 Approved O&M is an appropriate starting point for determining FEVI's Base O&M for PBR. Accordingly, we use the 2014 Approved O&M as our starting point to arrive at the approved O&M Base amount of $35.213 million.

The Panel also agrees with FEI that this proceeding should not be used to determine the required level of spending over the PBR period. The purpose of this proceeding is to determine the appropriate amount by which to increment FEI's formula-driven O&M and capital spending envelopes to account for the inclusion of FEVI and FEW in the amalgamated company. For FEVI O&M, the Panel considers the appropriate starting point for determining this incremental inclusion to be 2014 Approved O&M, which was examined and approved in a cost of service revenue requirements proceeding. It was based on a forward-looking test year, and, as such, is based on forecasts and the assumptions that necessarily underlie those forecasts. Absent the amalgamation and being included in FEI's PBR Plan, the revenue requirements for the subsequent year - i.e. 2015 - would, in all likelihood, have been based on a similar cost of service proceeding. At that time, the accuracy of the assumptions underlying the 2014 approved amounts could be examined in order to inform assumptions about the test year then under consideration.

In the case of this PBR, there will be no further opportunity to revisit the assumptions underlying the 2014 Approved O&M. As FEI correctly points out, "[u]nder the PBR Plan, FEI's controllable O&M and capital expenditures are decoupled from FEI's cost of service as they will be subject to formulaic increases."[39] Accordingly, it is essential that the Base year contain as few incorrect assumptions as possible as these have the potential to distort the formulaic spending envelope as the PBR proceeds, resulting in either gains or losses relative to the approved spending level. As such, it is appropriate to filter out from the Approved 2014 O&M those anomalies that potentially distort the level of formula spending with respect to the amount that is actually needed by the utility to provide safe and reliable service. This can most effectively be done on an item-by-item basis. The Panel notes that although FEI asserts that this approach is neither fair nor appropriate, it applies an item-by-item approach to determining potential sustainable savings.

The Panel acknowledges FEI's submission that in applying an item-by-item approach, cost items that are higher than approved levels should not be viewed in isolation from cost items that are lower than approved. However, we do not agree that "By focussing on a single item, the larger picture of offsetting costs and savings is ignored."[40] The exercise of determining an appropriate Base necessarily entails examination on an item-by-item

[39] FEI Reply, p. 3.
[40] Ibid., p. 8.

basis of both costs that are lower and costs that are higher than approved. Accordingly, the Panel will consider cases where cost items that are higher than approved are offset by cost items that are lower than approved where there is evidence presented that such an offset is justified.

Sustainable savings

The Panel generally agrees with FEI's proposal to adjust FEVI's 2014 Approved O&M to account for identified sustainable savings. However, the Panel is persuaded that there is double counting with respect to the Regionalization Initiative. As shown in Table 1 of this Decision, the variance between 2014 approved and 2014 preliminary actual Operations department O&M is an over-expenditure of $123 thousand. Of this $123 thousand, FEI submits that $72 thousand is a sustainable increase, which is the total variance less the one-time write-off of $51 thousand related to the iron sponge. Embedded in FEI's proposed sustainable increase is the $267 thousand in allocated costs to FEVI related to the Regionalization Initiative. These costs are already included in the pre-amalgamated FEI PBR Base O&M.[41] Accordingly, it is inappropriate to also include them in the FEVI 2014 Base O&M. Removing the embedded Regionalization Initiative costs results in a sustainable decrease to the Operations department O&M of $195 thousand. This adjustment to FEI's proposed sustainable savings is shown in the following table:[42]

Table 6 – Sustainable Savings ($000s)

Sustainable Savings Area	FEI Proposal	As Adjusted by the Panel
Increased (Decreased) Costs in Operations	72	-195
Bad Debt	-95	-95
IT	-11	-11
Finance	-97	-97
Corporate	-41	-41
Total	**-172**	**-439**

The Panel notes that FEI has applied to recover the $267 thousand related to the Regionalization Initiative in two proceedings – this one and also the FEI Annual Review of 2015 Delivery Rates (Annual Review). When the issue of double-counting of these costs was raised in the Annual Review, FEI argued that the issue was out of scope in the Annual Review and that it was appropriate for the costs to remain in FEI's Base O&M and to form part of the Earnings Sharing calculation. FEI further submitted that the transfer of the Regionalization Initiative costs was being dealt with in this proceeding.[43] However, FEI did not address the issue here and simply included the $267 thousand as part of FEVI's proposed Base O&M. While the Panel understands that oversights occur, once it was drawn to FEI's attention in the IR process in this proceeding, a simple solution to what appears to be double counting would have been to retract the request to include this amount in FEVI's Base O&M.

[41] FEI Annual Review of 2015 Delivery Rates proceeding, FEI Reply, pp. 12, 22–23.
[42] Calculated by the Panel based on the information in Table 1 of this Decision.
[43] FEI Annual Review of 2015 Delivery Rates proceeding, FEI Reply, pp. 12, 22–23.

Temporary variances

The Panel notes that there has been a history of O&M underspending by FEVI which was discussed in detail in the FEVI 2014 RRA Decision. In the FEVI 2014 RRA Decision, the Commission directed FEVI to reduce its 2014 forecast for O&M by $1 million[44], which was less than the average underspent amounts of previous years. The Panel notes that in spite of this reduction, FEVI still underspent its approved O&M in 2014. While FEI has offered some explanation, it appears that the history of O&M underspending continues.

Accordingly, the Panel agrees with BCOAPO that there will "likely be more temporary variances." The Panel notes that an analogous issue arose regarding the inclusion of non-recurring projects in the sustainment capital base. There, FEI argues that it is not appropriate to reduce the capital base to account for non-recurring projects, as this would be:

> … a "partial and incomplete" approach because it would only consider the expenditures that happened to have occurred in 2014 and would completely fail to consider any expenditures that would arise over the course of the PBR period that did not happen to occur in 2014. Under this partial and incomplete approach, FEI's base capital would be reduced if a 2014 capital expenditure did not reoccur over the PBR Period, but the base capital would not be increased by all the other projects that would in fact occur over the PBR Period.[45]

The Panel accepts this argument and considers that it also applies to temporary variances. While a specific temporary variance is not likely to recur, in aggregate, the quantum of temporary variances is. **Accordingly, the Panel reduces FEVI's 2014 Approved O&M by $192 thousand, as shown in Table 3 of this Decision.**

With respect to other intervener proposals to reduce 2014 Approved O&M, the Panel does not agree that a case has been made for the following reasons:

- *Victoria bridge crossing O&M.* The Panel accepts FEI's argument that the other work that was completed in lieu of the Victoria bridge repairs was necessary for service to customers. We find it reasonable that FEI/FEVI time its work to "ensure that projects are completed with the available resources over time."[46]
- *Pipeline and compression maintenance.* The Panel is not persuaded by CEC's argument that Operations O&M should be reduced by $100 thousand to avoid over-providing for pipeline and compression maintenance. CEC does not provide any direct evidence of this over-provision.[47]
- *Anticipated lease payments.* There is insufficient evidence regarding the quantum of anticipated lease payments. However, we acknowledge FEI's assertion that FEVI is not anticipating a decrease in costs resulting from the completion of the radio network installation.[48] Under these circumstances, the Panel is not prepared to make any reduction.

[44] FEVI 2014 RRA Decision, pp. 30–31.
[45] Exhibit B-5, BCUC IR 1.14.3.
[46] FEI Reply, p. 9.
[47] CEC Final Submission, pp. 7–8; Exhibit B-5, BCUC IR 1.2.1.
[48] FEI Reply, p. 4.

- *Facilities.* The Panel accepts the argument of FEI that this is a deferment of a cost that will have to be incurred in a future period, during the course of the PBR.[49] Therefore, the Panel declines to make any adjustment.
- *Finance and Regulatory and Governance.* The Panel accepts FEI's argument that this is a cost saving related to amalgamation and, as such, has been addressed by the Commission in a previous proceeding.[50] Therefore, the Panel declines to make any adjustment.
- *Corporate.* The Panel notes that the variance between the Preliminary Actuals and the Inflation Adjusted Approved is $26 thousand, which is less than the $41 thousand of sustainable savings identified by FEI. FEI has recognized the entire variance as a sustainable savings. CEC has provided no evidence that any further reductions are required to the Corporate spending. Therefore, the Panel declines to make any adjustment.

Using 2014 Actuals as a starting point

Although the Panel has determined that FEVI's 2014 Approved O&M is the most appropriate starting point to calculate Base O&M, for illustrative purposes, we provide an alternative approach using 2014 Actuals to address the remaining issues raised by interveners. This approach results in a Base O&M of $35.245 million, which is within $35 thousand of the Base arrived at when starting from 2014 Approved. Adjustments to 2014 Actuals are shown in the table below:

Table 7 – Alternative Calculation of Base O&M Using 2014 Actuals ($000s)

2014 Actual Spending	35,592
Regionalization Initiative	-267
LNG	-80
Base O&M	**35,245**

We have previously discussed the reason the $267 thousand cannot be included in FEVI's O&M Base. The Panel further finds it appropriate that, if using the 2014 Actuals, $80 thousand in LNG liquefaction costs also be deducted. The Panel is not persuaded that when setting a baseline for LNG liquefaction costs, it is appropriate to use any single year. LNG liquefaction costs have considerable sensitivity to weather and should ideally be based on a weather-normalized year. This is the same approach to that taken when forecasting demand. FEI argues that there is no evidence that 2014 was not "normal." While the Panel agrees that 2014 may be a normal year, it is also possible that 2013 is a normal year, or that neither 2013 nor 2014 are "normal" years. There is no weather normalized evidence available to the Panel in this proceeding. There is, however, two years of evidence of LNG liquefaction costs. While a two-year average isn't a normalized value, it is likely to be more accurate than a single year. Although FEI asserts that higher LNG liquefaction costs are offset by lower repair costs, it provides no evidence of these lower costs, nor does it provide any quantification.[51] Accordingly, this assertion can be given no weight.

[49] Ibid., p. 5.
[50] Ibid., pp. 10–11.
[51] Ibid. pp. 5–6.

The Panel notes that, while not determinative, this alternative calculation of Base O&M totaling $35.245 million is within a few thousand dollars of the Base O&M amount approved by the Panel earlier in this Decision of $35.213 million. This provides comfort that the determined amount is appropriate.

2.1.1 Incorporation of FEVI's Company Use Gas costs into Base O&M

In order to align the treatment of Company Use Gas between FEVI and FEI, the FortisBC Energy Utilities (FEU) Common Delivery Rates Methodology Application included a request to reclassify the treatment of FEVI's Company Use Gas costs from cost of gas to O&M. That application was approved by Order G-131-14. In the current Application, FEI requests approval to also incorporate FEVI's Company Use Gas costs into the O&M Base. Prior to 2015, FEVI's Company Use Gas was included in the total cost of gas as opposed to O&M.[52]

FEI proposes to include the FEVI 2014 Preliminary Actual Company Use Gas of $2.36 million, including various taxes, and Gas Control Management Fees of $229 thousand in the FEI 2014 Base O&M.[53]

Table 8 – 2014 Preliminary Actual Company Use Gas Including Gas Control Management Fees[54]

Line Item	**2014 ($000)**
Compressor Fuel	$1,859
Fuel Gas (Huntingdon to Eagle Mountain)	152
Line Heater Fuel	349
Company Use Gas Preliminary Actuals	2,360
Gas Control Management Fees	229
Total Reclassification to O&M	$2,589

FEI explains that variances between formula-driven and actual Company Use Gas costs will be captured in the Midstream Cost Reconciliation Account (MCRA), consistent with both FEVI and FEI's current treatment of Company Use Gas cost variances.[55]

FEI states that Company Use Gas costs are determined in the gas supply portfolio and are impacted by factors outside of the Company's control, including the price of natural gas and system throughput.[56] In 2014, FEVI Company Use Gas requirements were sourced 100 percent from Station 2. Pursuant to Commission Letter L-40-14, a single gas supply portfolio representing the forecast resource requirements of FEI, FEW, and FEVI was established effective November 1, 2014. The 2015 amalgamated FEI Company Use Gas is included in the midstream portfolio. On a quantity basis, Station 2 represents approximately 80 percent of the forecast

[52] Exhibit B-1, p. 9; Exhibit B-3, p. 14.
[53] Exhibit B-5, BCUC IR 1.11.2.
[54] Ibid.
[55] Exhibit B-1, p. 10.
[56] Ibid., p. 9.

midstream gas purchases. The remainder of the midstream gas is sourced from the AECO and/or Kingsgate hubs.[57] Station 2 gas costs have declined significantly from the 2014 Fourth Quarter Gas Cost Report to the 2015 First Quarter Gas Cost Report.

Table 9 – Company Use Gas Cost[58]

Source	Average Cost of Gas (Excluding Taxes)
2014 Preliminary Actuals	$3.876/GJ
FEI 2014 Fourth Quarter Gas Cost Report - Station 2 Simple Average (Jan, 2015 - Dec, 2015)	$3.35/GJ
FEI 2015 First Quarter Gas Cost Report - Station 2 Simple Average (Jan, 2015 - Dec, 2015)	$2.41/GJ

FEVI reports forecast and actual Company Use Gas costs using different methodologies. The 2014 Approved costs are based on the gas cost forecasting model which excludes taxes; whereas the 2014 Preliminary Actual costs includes taxes (Carbon Tax, Motor Fuel Tax, Provincial Sales Tax, and Innovative Clean Energy Fund Tax). The primary cause of the $1.055 million variance between the 2014 Preliminary Actual cost of $2.36 million and the 2014 Approved cost of $1.306 million is the exclusion of taxes from the 2014 Approved amounts.[59]

FEI considers the full, tax-loaded 2014 Preliminary Actual costs of $2.36 million to be appropriate for the determination of Company Use Gas amounts to be reclassified from cost of gas to O&M and submits that the amount is calculated in a manner consistent with the tax-loaded valuation approach that has been used for FEI Company Use Gas components.[60]

Intervener submissions

CEC states that its review of the Company Use Gas costs for 2014 and for the prior four years shows that there is variability in gas costs from year to year, but there appears to be no consistent pattern. CEC submits that the five-year average Company Use Gas costs of $2.315 million is the appropriate amount to include in the FEI 2014 Base O&M, given the current environment of very low natural gas prices.[61]

BCOAPO notes that the volume of actual Company Use Gas recorded for FEVI has been declining steadily: 462,346 GJ in 2010; 452,963 GJ in 2011; 434,659 GJ in 2012; 431,525 GJ in 2013; and 397,181 GJ in 2014. BCOAPO considers that the downward trend in the volume of actual Company Use Gas will continue and submits that the amount added to FEI's 2014 Base O&M should be reduced by 13,000 GJ, the average decline over the five years.[62]

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[57] Exhibit B-10, BCUC IR 2.6.1; FEI 2014 Fourth Quarter Gas Cost Report, p. 2.
[58] Exhibit B-5, BCUC IR 1.11.2; FEI 2015 First Quarter Gas Cost Report, Section 1, Tab 1, p. 2.
[59] Exhibit B-3, pp. 14–15.
[60] Ibid.
[61] CEC Final Submission, p. 12.
[62] BCOAPO Final Submission, p. 8.

<u>FEI reply</u>

FEI submits that CEC's and BCOAPO's proposals are not relevant to determining the FEVI 2014 Company Use Gas costs and states the following:

> The 2014 company use gas amount is not a forecast for 2015, but should simply reflect the actual 2014 company use gas amounts. Given that 2014 Preliminary Actual amounts are available, there is no need to consider historical averages. With respect to any trends of declining costs, the 2014 Preliminary Actual represents the latest actual figure in that trend. In short, there is no basis on which to reduce the 2014 Preliminary Actual amounts for trends or historical averages because a forecast of 2015 Company Use Gas is not at issue. The 2014 Preliminary Actual amounts that FEI has proposed are the most reasonable amounts to use. …In summary, FEI's proposed amount of FEVI's company use gas to be reclassified to O&M is based on the Preliminary Actual amounts, calculated in the same manner as for FEI and is in accordance with the treatment of these costs approved in Order G-131-14.[63]

Commission determination

The Panel agrees with FEI that the 2014 Company Use Gas amount to be included in FEI's 2014 Base O&M should reflect actual amounts, particularly given that this data is available. Therefore, the **Panel approves FEI's request to include the FEVI 2014 Preliminary Actual Company Use Gas amount of $2.36 million plus gas control management fees of $229 thousand in FEI's 2014 Base O&M.** The re-classification of these costs from FEVI cost of gas to O&M is consistent with FEI's treatment and consistent with the method reviewed and approved in the FEU 2014 Common Delivery Rates Methodology proceeding. The Panel also notes that while the Company Use Gas costs will, going forward, be escalated according to the PBR formula as part of Base O&M, the variances between formula amounts and actual Company Use Gas costs will be recorded in the Midstream Cost Reconciliation Account.

2.2 FEVI Base Capital

FEI's proposed Base Capital for FEVI is $27.822 million, which is net the capital expenditures approved as part of the FEVI 2014 RRA Decision. The proposed Base Capital for FEVI is broken down as follows:

- Sustainment Capital of $15.643 million;
- Growth Capital of $8.802 million;
- Other Capital of $4.230 million; reduced by
- Contributions in Aid of Construction (CIAC) of $853 thousand.[64]

The Panel discusses each of these categories in the following sections and makes separate determinations on the appropriate 2014 Base for each capital expenditure category.

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[63] FEI Reply, pp. 16-17.
[64] Exhibit B-3, Table 4, p. 10.

2.2.1 Sustainment Capital

FEI proposes to set the 2014 Base Sustainment Capital for FEVI at $15.643 million, which equals the amount approved in the FEVI 2014 RRA Decision.[65] FEI states:

> FEVI's 2014 Base Capital should be set by reference to 2014 Approved, which has been subject to a full review by the Commission, and not by reference to 2013 or previous years. Historical cost information from 2013 and previous years was before the Commission when it made the 2014 FEVI RRA Decision. The suggestion that the 2014 Approved amounts should be reduced by reference to past years is therefore either second-guessing the result of the 2014 FEVI RRA proceeding or setting the base amount using a different year.[66]

FEI further states:

> The 2014 base amount should reflect FEVI's capital requirements in 2014, because 2014 is the year prior to PBR (for FEVI and FEW) and so provides the appropriate starting point from which FEI will expect to live within the capital formula approved for PBR. There is no justification for using an earlier year than 2014, as any other year is further away from the start of PBR and therefore less representative of the base costs within which FEI will be expected to manage under the PBR formulas. Furthermore, the capital formula already includes an approved productivity factor. Reducing the 2014 base capital amount below the 2014 base levels has the effect of increasing the productivity factor, which is arbitrary and inappropriate.[67]

The historical approved and actual sustainment capital spending is set out in the following table.

Table 10 – FEVI Sustainment Capital – 2010 to 2014 ($000s)[68]

Sustainment Capital	2010 Actual	2010 Approved	2011 Actual	2011 Approved	2012 Actual	2012 Approved	2013 Actual	2013 Approved	2014 Approved	2014 Actual
Meter Recalls/Exchanges	1,134	1,492	1,112	1,496	1,345	1,215	1,307	1,250	1,358	1,406
Transmission System Reinforcements	3,836	5,045	4,016	7,868	2,751	8,098	4,102	6,328	7,541	5,976
Distribution System Reinforcements	991	1,520	1,487	2,315	1,000	2,685	1,062	935	2,215	1,456
Distribution Mains & Service Renewals & Alt.	1,156	1,000	1,289	1,000	1,737	4,276	3,800	5,646	4,529	5,296
Total Sustainment Capital	7,117	9,057	7,903	12,679	6,833	16,274	10,271	14,159	15,643	14,134
Total Net CAPEX	17,375	21,241	17,939	25,356	20,117	29,525	23,857	28,648	27,822	27,019

FEI originally projected that total capital spending in FEVI would be $600 thousand higher than the approved amount.[69] However, in the Evidentiary Update, FEI reported that the preliminary actual net capital expenditure

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[65] Exhibit B-3, p. 10.
[66] Exhibit B-5, BCUC IR 1.17.5.
[67] Ibid.
[68] Exhibit B-7, CEC IR 1.42.1 (Extracted from the Table set out in CEC IR 1.42.1 which also includes Growth and Other Capital).
[69] Exhibit B-1, p. 7.

figures for FEVI are $803 thousand less than approved. The main sources of under-expenditure are within Transmission System Reinforcements and Distribution System Reinforcements, which are underspent by $1.565 million and $760 thousand, respectively. FEI provides various explanations for these under-expenditures including project delays and lower than anticipated costs.[70]

FEI identifies a number of projects which it characterized as "non-recurring" in the FEVI 2014 RRA, including an inspection of major underwater crossings which FEI does not expect to occur again until 2019, as well as a compressor station upgrade project. FEI states: "Consistent with the treatment of non-recurring expenditures in the PBR Decision, FEI is not proposing to reduce the capital base for these projects."[71]

FEI argues that it is not appropriate to reduce the Sustainment Capital Base to account for non-recurring projects as this would be:

> …a "partial and incomplete" approach because it would only consider the expenditures that happened to have occurred in 2014 and would completely fail to consider any expenditures that would arise over the course of the PBR period that did not happen to occur in 2014. Under this partial and incomplete approach, FEI's base capital would be reduced if a 2014 capital expenditure did not reoccur over the PBR Period, but the base capital would not be increased by all the other projects that would in fact occur over the PBR Period.[72]

Intervener submissions

CEC argues that the Sustainment Capital Base should reflect likely actual expenditures[73] rather than approved expenditures. CEC submits that even using 2014 actual spending as a base could result in an inflated base and recommends that the Commission consider the significance of the increase in capital spending in 2013 and 2014.[74]

CEC submits that a "more rational starting point" for Sustainment Capital, from which adjustments should be made, is 2013 Actual spending, since the Actual spending in 2014 increased by almost 40 percent between 2013 and 2014. It submits that "the downward adjustment from this level is warranted by levels of historical underspending which have averaged 58%." However, CEC also sets out a number of reductions to sustainment capital that should be made if the Commission decides to use the 2014 Approved sustainment capital as the starting point. The proposed reductions include adjustments to account for non-recurring projects or for projects where the majority of the costs are incurred in 2014 with lesser amounts in later years.[75]

CEC submits that the issue of non-recurring projects is illustrative of the difficulty of including capital in the PBR mechanism. However, it argues that given the lumpy nature of expenditures and the opportunity for

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[70] Exhibit B-3, pp. 10–11.
[71] Exhibit B-1, p. 8.
[72] Exhibit B-5, BCUC IR 1.14.3.
[73] The term actual expenditures as used in this section when applicable to 2014 data refers to the 2014 Preliminary Actual figures provided by FEI.
[74] CEC Final Submission, pp. 13–14.
[75] Ibid., pp. 14–16.

underspending and deferring spending, there is no reasonable alternative to establishing the Base other than to consider historical spending patterns and taking into account underspending and non-recurring projects.[76]

BCOAPO argues that because capital spending fluctuates from year to year, it is inappropriate to use only one year as a base. BCOAPO recommends using the average of 2013 and 2014 FEVI sustainment capital costs to set the sustainment capital base.[77]

FEI reply

FEI replies that "[w]hile both CEC and BCOAPO are keen to point to past capital underspending by FEVI, any history of FEVI's underspending relative to approved amounts is not relevant to setting the 2014 Base Capital." FEI further states that it "is not seeking approval of a forecast, but setting a 2014 Base Capital level for which 2014 Preliminary Actual amounts are available" and that "[r]educing the 2014 Preliminary Actual amounts to reflect past variances between actual and approved amounts simply does not make sense."[78]

FEI also argues that "BCOAPO's view that the average of 2013 and 2014 Sustainment and Other capital should be used is based on the incorrect conclusion that in 2014 'FEI was able to complete more capital for less money than approved'." It points out that in the response it provided to BCUC IR 1.17.1 it had demonstrated that FEVI did not complete all the projects that were included in the 2014 Approved amount.[79]

Commission determination

As CEC points out, in the FEVI 2014 RRA Decision, the Commission put significant caveats on its findings with respect to sustainment capital, stating the following:

> For 2014, FEVI forecasts a significant increase over the previous year's actual expenditure in spite of significant underspending relative to the Approved Sustainment Capital budget for the past two years. The Panel is concerned about the amount of spending relative to previous years, in particular 2013. FEVI has provided little detail concerning the timing of these projects. Given the amount of the proposed budget and the number of projects, the Panel considers it highly likely that this budget may not be fully required in 2014. Interveners also express concern about the relative size of the sustainment capital forecast and recommend that it be reduced. The Panel is not persuaded that this approach is necessary. Given the rate freeze, and that FEVI will only recover capital related costs for what it actually spends, an under-spend will have no impact on either rates or the RSDA.
>
> Accordingly, the Panel approves FEVI's proposed sustainment capital budget of $15.643 million, subject to adjustment to account for the determinations of accounting policy changes regarding capitalization in section 6.2 of this Decision. However, this approval is only provided in the context of the unique circumstances of this Application, namely the rate freeze and FEVI's

[76] Ibid., pp. 15–16.
[77] BCOAPO Final Submission, p. 6.
[78] FEI Reply, pp. 11–12.
[79] Ibid., p. 12.

> Application to recover only actual capital expenditures. The Panel is of the view that if this sustainment capital budget were to be used in any other proceeding, it should be reduced to more closely reflect likely actual expenditures. In that circumstance, a more fulsome analysis of the sustainment capital budget, including an analysis of the timing of projects, would be more appropriate.[80]

The Panel finds that the FEVI 2014 RRA Decision makes it clear that for purposes of determining the Base Capital to be included in the PBR, the Approved 2014 Sustainment Capital figure should not be accepted simply on the basis that it has been subject to a "full review" in the FEVI 2014 RRA proceeding.

In assessing the evidence before it, the Panel agrees with the following FEI statement:

> Reducing the 2014 base costs for 2015 projects completed would suggest that this proceeding is about setting rates for 2015, **when it is in fact about setting an appropriate 2014 base level of O&M and capital**. The base levels in the PBR capital formulas and the I-X escalation factors are intended to establish an appropriate reference level of capital spending from which FEI will seek to find efficiencies for the term of the PBR.[81] [emphasis added]

Accordingly, the Panel focuses its efforts on determining the appropriate 2014 Sustainment Capital Base to be incorporated in the PBR. The challenge in making this determination stems from the finding in the FEVI 2014 RRA Decision that the approved sustainment capital budget should not be used in other proceedings without a more fulsome analysis of sustainment capital projects. The determination of the Sustainment Capital Base is further complicated by the inherent variability in spending levels as set out in the evidence, and the difficulty in estimating future expenditures levels. Based on Table 10, it is evident that FEI's projections of future sustainment capital expenditures, as reflected in the Approved expenditure columns, have consistently exceeded the actual expenditures. As can be calculated from Table 10, the approved total sustainment capital budgets over the 2010 to 2014 period were respectively 21.4 percent, 37.7 percent, 58 percent, 27.5 percent and 9.65 percent underspent. The Panel further notes that from the period in which the Application was prepared (which was filed under a covering letter dated November 14, 2014) to the filing of the Evidentiary Update on January 16, 2015, FEVI's actual capital expenditures changed from a projection of $600 thousand in excess of 2014 approved amounts[82] to preliminary actuals that are $1.192 million below approved amounts.[83]

The Panel recognizes that the lumpiness of capital expenditures and factors that impact the timing of projects make forecasting future expenditures a difficult process. The consistent and significant underspending of

[80] FEVI 2014 RRA Decision, pp. 43–44.
[81] Exhibit B-5, BCUC IR 1.18.4.1.
[82] Exhibit B-1 p. 8.
[83] Exhibit B-3, pp. 10, 13.

approved sustainment capital expenditures persuades the Panel that the use of 2014 Approved expenditures as the Sustainment Capital Base is not appropriate.

Utilizing 2014 actual expenditures as the starting point for the Sustainment Capital Base going into the PBR rather than approved spending eliminates the issue of historic underspending of approved sustainment capital. The issue then becomes whether it is fair and reasonable to set the Sustainment Capital Base using the 2014 Preliminary Actual expenditures (adjusted as found to be appropriate) or, as suggested by BCOAPO and CEC, to use a methodology that takes into account in some manner the historic spending pattern for sustainment capital.

Table 11 sets out the historic spending pattern in real (2014) dollars.

Table 11 – FEVI Capital Spending in 2014 $000s[84]

Sustainment Capital	**2010 Actual**	**2011 Actual**	**2012 Actual**	**2013 Actual**	**2014 Prelim Actual**
Inflation Rate	1.30%	2.40%	1.10%	-0.10%	
Meter Recalls/Exchanges	1,188	1,150	1,358	1,306	1,406
Transmission System Reinforcements	4,019	4,153	2,778	4,098	5,976
Distribution System Reinforcements	1,038	1,537	1,010	1,061	1,456
Distribution Mains & Service Renewals & Alt.	1,211	1,333	1,754	3,796	5,296
Total Sustainment	7,456	8,173	6,900	10,261	14,134

Given the significant variability in spending levels from year to year as shown in Table 11 above, the Panel has determined it is reasonable to consider the spending pattern on sustainment capital over the past five years in setting the Base Sustainment Capital amount for inclusion in the PBR. Use of the average of sustainment capital spending over the period 2010 through 2014 allows for the smoothing out of the intrinsic variability in sustainment capital spending due to non-recurring projects and other unpredictable variables such as delays in getting permits or approvals, the absence or availability of needed resources, or changes in management decisions as to the appropriate timing of projects. Further, it provides an inflation-adjusted annual average of a five-year pattern of capital expenditures, a period that is equal in length to the remaining portion of the PBR period. This approach addresses the concerns set out by the Commission in the FEVI 2014 RRA Decision with respect to consideration of the timing of projects.

[84] Derived from Exhibit B-6, BCOAPO IR 1.15.1 and Exhibit B-7, CEC IR 1.42.1.

The Panel approves a 2014 Sustainment Capital Base for FEVI of $9.385 million for inclusion in FEI's 2014 Base Capital. This represents the average of actual sustainment capital expenditures (preliminary actual for 2014) in 2014 real dollars over the 2010 to 2014 period. Given the factors set out above that can impact the level of sustainable capital expenditures in any given year, the Panel is not persuaded by FEI's argument that in using an historic average approach the base level will be "less representative" of the base costs going into the PBR then the use of 2014 approved or 2014 preliminary actual costs. Nor does the Panel find this approach to be "second guessing" the FEVI 2014 RRA Decision given the explicit concerns about sustainment capital set out in that decision. The historic average represents expenditures over a 5-year period to sustain the system in a condition that is safe and reliable. Hence, a reliance on the historic average as a basis for future expenditures is reasonable given there was no compelling evidence to suggest that future expenditures need to be increased to deal with new incremental sustainment issues.

2.2.2 Growth Capital

FEI proposes to set the 2014 Base Growth Capital for FEVI at $8.802 million, which equals the amount approved in the FEVI 2014 RRA Decision.[85]

FEVI's historical Actual and 2014 Approved growth capital, as described in the Application, is shown in Table 12.

Table 12 – FEVI Growth Capital ($000s)[86]

2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Approved
7,575	7,668	7,594	8,221	8,802

FEI provided an update when 2014 Preliminary Actuals were available, as shown in Table 13.

Table 13 – FEVI 2014 Approved and 2014 Preliminary Actual Growth Capital ($000s)[87]

	2014 Approved	2014 Preliminary Actuals	Variance
New Customer Mains	2,518	3,062	545
New Customer Services	5,984	6,792	808
New Customer Meters	300	311	11
Total	8,802	10,165	1,363

FEI provides the following explanation for the variances between 2014 Approved and 2014 Preliminary Actual expenditures:

- New Customer Mains are $545 thousand greater than Approved due to increased mains activity, including one larger diameter main extension to support the Nanaimo transit system;

[85] Exhibit B-3, p. 10.
[86] Exhibit B-1, p. 6.
[87] Exhibit B-3, p. 10.

- New Customer Services are $808 thousand greater than Approved due to increased services activity (391 more services than was included in the forecast), partially offset by slightly lower unit costs; and
- New Customer Meters are $11 thousand greater than Approved due to increased meter activity to serve new customers.[88]

When asked why the 2014 forecasts, on which the approval was based, are less than the actuals despite the implementation of a more accurate forecasting method, FEI responded as follows:

> [m]ain installation forecasting is not a precise science in that it is customer driven and unscheduled at the time forecasts are created. There are many variables associated with new main extensions including housing starts, energy choices, gas pricing, subdivision activity, history, size and length of main, location, time of year, and installation workforce. FEI believes the methodology described in FEVI RRA Exhibit B-1, pp 72-74 is a reasonable approach given the many variables involved in forecasting new mains activity.
>
> For 2014 actual new mains costs, if not for the addition of an unusually lengthy (2,395 metres) and large diameter main extension installed in 2014 at a cost of $564 thousand to support the Nanaimo transit system, the new mains capital preliminary actuals would have been $2,498 thousand compared to the 2014 forecast of $2,518. Excluding the one main extension for the Nanaimo transit system, the variance between the 2014 preliminary actuals and forecast is very reasonable considering all the variables impacting the level of these expenditures.[89]

FEI outlined various mitigation strategies it is undertaking to reduce future mains and service costs, including:

- Relocation of the dispatch group from Surrey to Nanaimo and Victoria to improve connection between dispatch and supervisors and to optimize assignment of work to employees;
- More purposeful allocation of work between internal and external crews, e.g. long-side services to contractor, shorter duration stub services to internal crew;
- Standardize service line installation to ¾ inch diameter pipe;
- Pre-inspection of sites to reduce number of pulled jobs where the site may not be ready or regular crew resources may not be appropriate;
- Simplified and reduced number of questions on gas service application;
- Eliminate or reduce planner involvement on less complex jobs; and
- Future implementation of new Vancouver Island Municipal operating agreements, which will result in more efficient, streamlined, improved and consistent operating practices between the company and the municipalities, reduce the time to serve customers, and improve construction scheduling certainty.[90]

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[88] Exhibit B-3, pp. 11–12.
[89] Exhibit B-5, BCUC IR 1.20.1.
[90] Ibid., BCUC IR 1.20.2.

FEI was asked whether historical base years should be used to set the base for distribution system extensions (i.e. new customer mains). FEI submits that information for 2013 and prior years was provided to the Commission during FEVI's 2014 RRA proceeding. Therefore, reducing the 2014 Approved amount would be second-guessing the FEVI 2014 RRA Decision. FEI further submits that this issue was aired extensively in the PBR proceeding and, in that proceeding, the Commission agreed with FEI's approach to use 2013 Approved amounts.[91]

In response to BCUC IR 1.20.3, FEI provided the 2010–2014 Actual and Approved activities, unit cost and expenditures for mains, services and meters. This information is shown in Table 14.

Table 14 – Mains, Services and Meters[92]

FEVI Growth Capital 2010-2014 Actual and Approved

		2010 Actuals	2010 Approved	2011 Actuals	2011 Approved	2012 Actuals	2012 Approved	2013 Actuals	2013 Approved	2014 Actuals	2014 Approved
Mains	Activities (metres of main)	18,282	30,116	26,280	31,610	13,985	26,402	19,479	27,445	22,455	20,000
	Unit Cost ($/metre)	$ 100	$ 90	$ 89	$ 94	$ 125	$ 104	$ 112	$ 107	$ 136	$ 126
	Expenditures ($000s)	**$ 1,836**	**$ 2,725**	**$ 2,330**	**$ 2,966**	**$ 1,745**	**$ 2,758**	**$ 2,173**	**$ 2,925**	**$ 3,062**	**$ 2,518**
Services	Activities (services)	2,501	1,922	2,018	2,017	2,103	2,188	2,047	2,274	2,561	2,167
	Unit Cost ($/service)	$ 2,123	$ 3,091	$ 2,395	$ 3,202	$ 2,648	$ 2,252	$ 2,821	$ 2,320	$ 2,652	$ 2,761
	Expenditures ($000s)	**$ 5,309**	**$ 5,940**	**$ 4,833**	**$ 6,459**	**$ 5,569**	**$ 4,927**	**$ 5,774**	**$ 5,276**	**$ 6,792**	**$ 5,983**
Meters	Activities (meters)	2,432	2,320	1,965	2,430	2,015	2,557	2,331	2,658	3,190	2,077
	Unit Cost ($/meter)	$ 177	$ 233	$ 257	$ 240	$ 139	$ 188	$ 118	$ 193	$ 97	$ 144
	Expenditures ($000s)	**$ 430**	**$ 540**	**$ 505**	**$ 582**	**$ 280**	**$ 480**	**$ 274**	**$ 513**	**$ 311**	**$ 300**
Total	**Expenditures ($000s)**	**$ 7,575**	**$ 9,205**	**$ 7,668**	**$ 10,007**	**$ 7,594**	**$ 8,165**	**$ 8,221**	**$ 8,714**	**$ 10,165**	**$ 8,801**

Intervener submissions

In response to BCOAPO IR 1.14.1, FEI provided the number of new customers added, and the cost per customer, as shown in Table 15.

Table 15 – Number of New Customers Added, and the Cost Per Customer[93]

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Approved	2014 Actual
Growth Capital ($000s)	7,575	7,668	7,594	8,221	8,802	10,165
Contributions (CIACs) ($000s)	(602)	(512)	(593)	(706)	(555)	(763)
Growth Capital less CIACs ($000s)	6,973	7,156	7,001	7,515	8,247	9,402
New Customers Added	2,728	2,217	2,237	2,270	2,167	2,785
Cost per Customer	$2,556	$3,228	$3,129	$3,310	$3,806	$3,376

[91] Ibid., BCUC IR 1.17.5.
[92] Ibid., BCUC IR 1.20.3.
[93] Exhibit B-6, BCOAPO IR 1.14.1.

BCOAPO submits that the actual costs per customer should be used to set the Base Growth Capital, as this would incorporate the reduced cost per site.[94]

CEC states that it is "notable" that there was a significant increase in actual growth capital spending between 2013 and 2014 that had remained much lower for the years 2010 through 2013. It also notes that there is a significant increase in the unit cost per metre of mains between 2013 and 2014 ($107 to $136) and recommends that the Commission consider the full history of FEVI growth capital spending in establishing a PBR base.[95]

FEI reply

In FEI's view, BCOAPO's position regarding using per customer costs for growth capital is incorrect and should be rejected. It submits:

> FEVI's 2014 Preliminary Actual spending on Growth Capital was higher than 2014 Approved by $1,363 thousand, while the number of customers added was also higher than 2014 Approved. If the 2014 Actual growth capital cost per customer is to be incorporated, as BCOAPO suggests, then this entails that the higher 2014 Actual Growth Capital should also be used. This does not result in a reduction to the 2014 Base Capital, but an increase.[96]

Commission determination

The Panel is satisfied with the explanation provided by FEI of the variance between 2014 Approved and Actual growth capital. **Accordingly, the Panel approves FEI's proposal to use the 2014 Approved FEVI growth capital amount of $8.802 million for inclusion in the PBR Base Capital.**

With regard to CEC's note of the increase in actual capital spending between 2013 and 2014, the Panel does not consider this to be relevant to the determination of the Growth Capital Base because we have previously determined to use the 2014 Approved as the Base. FEI has provided a satisfactory explanation of the variances and these variances are not included in the PBR Base. Accordingly, the Panel will consider them no further.

With regard to BCOAPO's position that "actual costs per customer should be used to set the base growth capital," the Panel does not agree. BCOAPO is not clear on exactly how it proposes the calculation should be made. However, if the actual cost per customer is used, the Panel agrees with FEI that the actual number of customers should also be used, in which case the Base will be equal to the actual growth capital. This will result in an increase in growth capital, not a reduction.

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[94] BCOAPO Final Submission, p. 6.
[95] CEC Final Submission, p. 18.
[96] FEI Reply, p. 14.

2.2.3 Other Capital

FEI proposes to set the 2014 Base Other Capital for FEVI at $4.230 million, which equals the amount approved in the FEVI 2014 RRA Decision.[97]

CEC states it is "satisfied" with the Other Capital amount applied for, noting that it is very close to the Preliminary Actual figure of $4.293 million.[98] BCOAPO argues that the Sustainment and Other capital included in the Base should be determined by the average of 2013 actual spending and 2014 preliminary actuals.[99]

Commission determination

The Panel approves FEI's proposal to use the 2014 Approved FEVI Other Capital amount of $4.230 million for inclusion in the PBR Base Capital. We do not find there are any issues that warrant adjustment to this amount. We also note that there were no issues raised by interveners in the FEVI 2014 RRA proceeding and that the Commission approved the Other Capital amount as applied for subject to accounting policy changes regarding capitalization.[100]

To summarize, the Panel approves a total Net Base Capital for FEVI of $21.564 million for inclusion in the 2014 FEI PBR Base Capital. The approved FEVI Net Base Capital is comprised of the following: (i) Sustainment Capital Base of $9.385 million; (ii) Growth Capital Base of $8.802 million; (iii) Other Capital Base of $4.230 million; reduced by (iv) Contributions in Aid of Construction of $853 thousand.

3.0 FEW

FEI requests approval to add the following amounts to its 2014 Base O&M and Capital to reflect the inclusion of FEW in the PBR Plan:

- $715 thousand to Base O&M, representing FEW's 2014 Forecast O&M with adjustments for sustainable savings; and
- $400 thousand to Base Capital, representing FEW's 2014 Preliminary Actual Capital expenditure.[101]

3.1 FEW Base O&M

FEI states it has set the 2014 Base O&M for FEW using the 2014 projected O&M of $720 thousand as it did not have approved O&M for 2014. The 2014 projected O&M for FEW is based on ten months of actual cost information which FEI considers to be the best information available.[102] As outlined in its response to BCUC IR 1.24.2, FEI considers this approach to be a reasonable proxy for 2014 Approved O&M. FEI submits the only

[97] Exhibit B-1, p. 6.
[98] CEC Final Submission, p. 19.
[99] BCOAPO Final Submission, p. 6.
[100] FEVI 2014 RRA Decision, p. 47.
[101] Exhibit B-3, pp. 9, 14.
[102] Exhibit B-1, p. 2.

reasonable alternative approach would be to rely upon 2014 Preliminary Actuals adjusted for one-time savings and adjustments ($44 thousand for HST recovery and $15 thousand for a reduction to doubtful accounts allowance). This would result in the 2014 O&M Base being $723 thousand, a figure similar to what has been proposed.[103]

The following table shows FEW's historical and projected O&M.

Table 16 – FEW Historical O&M ($000s)[104]

	Actual				Projected
	2010	2011	2012	2013	2014
O&M	773	803	655	654	720

As outlined in Table 16, the 2014 projection is $66 thousand higher than 2013 actual. FEI explains this is the result of the following additional expenditures: a $14 thousand increase in customer service expenditures in line with experience; a $17 thousand shared services fee from FEI which was approved; $29 thousand for Operations reflecting a return to more sustainable maintenance levels; and $5 thousand in support of its energy efficiency program.[105]

As noted previously, FEI filed its Evidentiary Update on January 16, 2015. With reference to FEW's 2014 Base O&M, FEI states the following:

> At the time of filing the 2014 Base Cost Proposal, FEW's O&M was projected at $720 thousand, which was approximately $20 thousand less than Forecast, primarily due to a favourable projected variance in the Energy Solutions and External Relations (ES&ER) department. As shown in Table 3 below, Preliminary Actuals for the ES&ER department continue to be favourable to Forecast, but the Preliminary Actuals also show net favourable variances in other departments, particularly Customer Service. Overall, FEW's Preliminary Actual O&M is $76 thousand less than Forecast.[106]

Table 17 shows by department, the 2014 Forecast, 2014 Preliminary Actual and any variances. Of reported variances, the most significant of these are Operations and Customer Service.

[103] FEI Final Submission, p. 19.
[104] Exhibit B-1, Table 3, p. 4.
[105] Exhibit B-1, pp. 4–5.
[106] Exhibit B-3, p. 8.

Table 17 – FEW O&M ($000s)[107]

	2014 Forecast	2014 Prelim Actual	Variance
Operations	242	268	27
Customer Service	141	57	(84)
Energy Solutions & External Relations	16	4	(12)
Governance	26	23	(3)
Corporate	315	312	(3)
Total	740	664	(76)

FEI states that the unfavourable variance of $27 thousand for Operations occurred because of higher than anticipated corrosion repair costs. These are expected to return to more sustainable levels in the future. The positive variance in Customer Service relates to some unanticipated HST recoveries from prior years and lower numbers of bad debts and write-offs. Of these savings FEI projects $25 thousand to be sustainable. Deducting these from the $740 thousand forecast, FEI proposes the 2014 Base O&M for FEW to be $715 thousand.[108]

Intervener submissions

CEC notes that in the Evidentiary Update the 2014 Preliminary Actual O&M is a significant reduction from that of 2014 Projected in the initial Application. CEC states that FEI "undertakes to effectively establish the 2014 Forecast as the base from which adjustments should be made in its Evidentiary Update"…and "uses this approach to arrive at a similar amount to the original Projected, rather than adjusting their proposal to reflect preliminary actuals." CEC asserts this was effectively FEI's starting premise in using a projection based on 10 months actual. CEC submits that the 2014 Forecast was not subject to a full vetting nor was it examined in an RRA and approved. In CEC's view departing from the original rationale "illustrates the potential for the utility to cherry pick the evidence presented in its favour, and brings into question the validity of attempting to arrive at an objective base by adjusting a single year's spending."[109]

CEC considers the 2014 Preliminary Actual of $660 thousand to be the best information available and recommends the Commission largely disregard the information regarding 2014 Forecast. CEC notes the existence of the $44 thousand HST recovery as well as the $15 thousand allowance for bad debts but points out there was a further $25 thousand in sustainable savings from lower bad debts that need to be considered. Adjusting for these amounts against the 2014 Preliminary Actual O&M increases the Base to $698 thousand, $17 thousand below what is proposed.[110]

CEC refers to FEI's response to CEC IR 1.29.3 which shows historical actuals versus approved amounts by department as further evidence as to why FEW's actual spending should be considered. In each of 2010 through

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[107] Ibid., p. 9.
[108] Ibid.
[109] CEC Final Submission, pp.19–20.
[110] Ibid., p. 20.

2013 actual expenditures were well below approved amounts. CEC also points out that the Preliminary Actuals of $664 thousand are comparable to the $654 thousand spent in 2013 and $655 thousand spent in 2012.[111] In addition to a reduction of $17 thousand from FEI's proposal, CEC submits the Commission should also consider a further reduction of $28 thousand to account for expected reductions in corporate costs due to amalgamation. Taking these reductions into consideration, CEC's recommended amount for the 2014 Base O&M is $670 thousand.[112]

Based on FEW's historical actual O&M expenditures from 2012 to 2014 of $655 thousand, $654 thousand and $664 thousand respectively, BCOAPO considers the FEI proposed Base O&M of $715 thousand to be unreasonable. BCOAPO points out that the range in these years has been very narrow and does not support the amount requested by FEI. It submits that Base O&M for FEW should be limited to 2014 actual results, noting this amount is much more consistent with the most recent two years of actual results.[113]

<u>FEI reply</u>

With reference to CEC's recommendations for changes to FEW's Base O&M, FEI states that the $25 thousand in savings from lower bad debts are already considered in Preliminary Actuals; hence, there is no need for a further reduction. In addition, FEI points out that the Commission, in an earlier proceeding, already addressed savings resulting from amalgamation over the PBR Period. Therefore, the reduction of $28 thousand in corporate costs recommended by CEC is inappropriate and unnecessary.[114]

With respect to BCOAPO's recommendation that FEW should be limited to 2014 actual results for its 2014 Base O&M, FEI agrees, but only if adjustments of $44 thousand for one-time HST recoveries and $15 thousand for a one-time adjustment to the doubtful accounts allowance is included.[115]

Commission determination

The Panel has considered the evidence and the submissions of the parties and determines that an appropriate 2014 Base O&M for FEW is $696 thousand.

Given that FEW did not have an Approved O&M for 2014 and its 2014 Forecast was developed internally with no Commission oversight, the Panel is not persuaded that FEI's proposal is appropriate. FEI acknowledges that the only other option would be to use 2014 Preliminary Actuals as a starting point but, contrary to BCOAPO's position that this should be the 2014 Base O&M, submits this would only be appropriate if it were adjusted for one-time events. The Panel does not disagree but based on the evidence considers it appropriate to make a further adjustment to the Base O&M. FEI has stated that the $44 thousand HST and $15 thousand reduction to the doubtful accounts allowance are one-time events and should be added to 2014 Preliminary Actuals resulting

[111] Ibid., pp. 20–21; Exhibit B-7, CEC IR 1.29.3.
[112] CEC Final Submission, p. 21.
[113] BCOAPO Final Submission, p. 7.
[114] FEI Reply, pp. 10–11, 15–16.
[115] Ibid., p. 15.

in a Base O&M of $723 thousand. The Panel does not disagree. However, we note that no mention was made of the $27 thousand over-expenditure for corrosion repair costs which potentially lends some credence to CEC's submission that FEI is "cherry picking." By FEI's own admission, this level of cost was higher than expected. **Therefore, the Panel considers the variance to be extraordinary and directs that it be subtracted from the 2014 Preliminary Actuals, reducing the 2014 Base O&M to $696 thousand.**

The Panel notes that both CEC and BCOAPO have raised the issue of comparability of 2014 Preliminary Actuals with the previous two year's actuals. We have similar concerns. However, there is no evidence on the record to suggest that the actual expenses for 2012 and 2013 were or were not affected by anomalies or positive one-time events as was the case in 2014. Therefore, we do not consider a further downward adjustment to FEW 2014 O&M Base to be appropriate.

3.2 FEW Base Capital

FEW's 2014 Projected Capital incorporates 10 months of actual costs and is considered by FEI to be the best available information on FEI's requirements. FEI proposes that the Base Capital for FEW be equal to its 2014 Projected Capital of $400 thousand. Table 18 shows by category FEW's projected capital for 2014 as well as actual expenditures from 2010 to 2013.

Table 18 – FEW Historical Capex ($000s)[116]

	Actual				Projected
	2010	2011	2012	2013	2014
Sustainment	116	45	49	129	95
Other	20	22	1	17	64
CIAC	(5)	(17)	(20)	(46)	(17)
Subtotal	131	50	30	101	142
Growth	344	441	283	163	258
Total Capital	475	490	313	264	400

FEI submits that FEW's 2014 projected capital is reflective of a higher number of mains being installed in comparison to the previous year and the impact of inflationary pressures appropriately embedded in the 2014 base.

FEI states that during the PBR period FEW will undertake a three phase project to deal with low pressure in parts of the system with a pipeline looping project at an expected cost of $2.4 million required. This will be followed in 2018 with a further loop and finally a new station in 2020. While the last of these occurs outside of PBR, the proposed base addition of $400 thousand will not cover the cost of this capacity driven project. FEI states that it will be required to manage the additional costs for the first two phases of this project within its spending envelope.[117]

[116] Exhibit B-1, p. 7.
[117] Ibid., p. 8.

Intervener submissions

CEC notes the variance in historical capital spending on a year-by-year basis pointing out that while FEW's 2014 Preliminary Actual Capital is 50 percent higher than 2013, the expenditures for 2010 and 2011 were higher and amounts for 2012 were slightly lower. CEC recommends that the Commission use as FEW's 2014 Base Capital, the average of the last five years of actual spending. This equates to $387.6 thousand.[118]

BCOAPO notes that the 2014 Preliminary Actual capital expenditures for FEW totaled $396 thousand (as opposed to $400 thousand projected) and take no issue with this lower amount being added to FEI's Base Capital.[119]

FEI reply

FEI notes that there is little difference between the amounts for FEW 2014 Base Capital it proposed and the amounts proposed by BCOAPO and CEC. FEI submits that the 2014 Preliminary Actuals will not vary from actuals in any material way and are representative of a minimum base capital amount.[120]

Commission determination

The Panel has determined that $400 thousand is reasonable and appropriate as a 2014 FEW Base Capital amount to be added to FEI's PBR Base Capital.

The Panel accepts FEI's argument that the variances to this amount proposed by CEC and BCOAPO are effectively immaterial. In addition, we note that the calculations made by CEC with respect to taking the average of the last five years of capital expenditures do not factor inflation into the equation. Including an adjustment for inflation would likely eliminate much or all of the gap between the $387.6 thousand Base that CEC proposes and the $400 thousand Base proposed by FEI for FEW. Thus, the amount proposed by FEI is reasonable and the Panel considers it to be appropriate.

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[118] CEC Final Submission, pp. 21–22.
[119] BCOAPO Final Submissions, p. 7.
[120] FEI Reply, p. 16.

DATED at the City of Vancouver, in the Province of British Columbia, this 23rd day of June 2015.

Original signed by:

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D. M. MORTON
PANEL CHAIR/COMMISSIONER

Original signed by:

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D. A. COTE
COMMISSIONER

Original signed by:

____

N. E. MACMURCHY
COMMISSIONER

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BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-106-15

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

and

FortisBC Energy Inc.
Proposal to Include FortisBC Energy (Vancouver Island) Inc. and
FortisBC Energy (Whistler) Inc. into the 2014-2019 Multi-Year Performance Based Ratemaking Plan

BEFORE: D. M. Morton, Panel Chair/Commissioner
D. A. Cote, Commissioner
N. E. MacMurchy, Commissioner

June 23, 2015

O R D E R

WHEREAS:

A. On September 15, 2014, the British Columbia Utilities Commission (Commission) issued Order G-138-14 and the accompanying Decision, setting out the approved Performance Based Ratemaking (PBR) plan for FortisBC Energy Inc. (FEI) for the period from 2014 through 2019 (PBR Decision);

B. The PBR Decision, on page 17, directed FEI to provide a detailed review of the historical expenditures of capital and operations and maintenance (O&M) for FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW), as well as a formal proposal for including FEVI and FEW within the PBR plan;

C. On November 14, 2014, FEI filed an application, requesting approval of the following:

- An increase to its 2014 Base O&M by $39.295 million, which includes an increase of $36.564 million to reflect the O&M required for FEVI and FEW, and a further increase of $2.731 million to reflect projected FEVI 2014 Company Use Gas;
- An increase to its 2014 Base Capital by $28.222 million to reflect the Capital Expenditures required for FEVI and FEW (Application);

D. Commission Order G-183-14 established a preliminary regulatory timetable which included a Procedural Conference. By Order G-190-14, the Commission established December 17, 2014, as the date of the Procedural Conference;

…/2

E. On December 19, 2014, by Order G-202-14, the Commission established a regulatory timetable providing for FEI's filing of an Evidentiary Update and one round of Commission and intervener information requests (IRs), followed by parties' submissions on further process;

F. On January 16, 2015, FEI filed its Evidentiary Update in accordance with Order G-202-14;

G. On January 30, 2015, the Commission submitted IR No. 1 to FEI and on January 30, 2015, British Columbia Old Age Pensioners' Organization *et al.* (BCOAPO) and Commercial Energy Consumers Association of British Columbia (CEC) submitted IR No. 1 to FEI. FEI responded on March 2, 2015;

H. On February 11, 2015, Commission Order G-17-15 amended the Regulatory Timetable established by Order G-202-14. In accordance with Order G-17-15, FEI, BCOAPO and CEC filed submissions regarding further process. FEI filed its reply submission on March 10, 2015;

I. On March 16, 2015, Commission Order G-41-15 amended the Regulatory Timetable established by Order G-17-15 to include a second round of IRs to complete the evidentiary record;

J. On March 23, 2015, the Commission and CEC submitted IR No. 2 to FEI. FEI responded on April 8, 2015;

K. In accordance with Commission Order G-41-15, FEI filed its Final Submission on April 15, 2015;

L. BCOAPO and CEC filed their Final Submissions on April 22, 2015;

M. On April 29, 2015, FEI filed its Reply Submission; and

N. The Commission considered the Application, evidence and submissions of the parties as set forth and discussed in the Decision issued concurrently with this order.

NOW THEREFORE pursuant to sections 58 to 61 of the *Utilities Commission Act*, for the reasons set out in the Decision, the British Columbia Utilities Commission orders as follows:

1. FortisBC Energy Inc. (FEI) is approved to increase its 2014 Base Operations and Maintenance (O&M) by $38.498 million. The approved increase is comprised of the following:
   (i) An increase of $35.213 million to reflect the O&M required for FortisBC Energy (Vancouver Island) Inc. (FEVI);
   (ii) An increase of $696 thousand to reflect the O&M required for FortisBC Energy (Whistler) Inc. (FEW); and
   (iii) An increase of $2.589 million to reflect the re-classification of FEVI's Company Use Gas and gas control management fees from cost of gas to O&M.

2. FEI is approved to increase its 2014 Base Capital by $21.964 million, which includes an increase of $21.564 million to reflect the capital expenditures required for FEVI and an increase of $400 thousand to reflect the capital expenditures required for FEW.

DATED at the City of Vancouver, in the Province of British Columbia, this 23rd day of June 2015.

BY ORDER

Original signed by:

D. M. Morton
Panel Chair/Commissioner

LIST OF ACRONYMS

Annual Review	FEI Annual Review of 2015 Delivery Rates
Application	Proposal to Include FEVI and FEW within the PBR Plan
BCOAPO	British Columbia Old Age Pensioners' Organization, *et al*.
CEC	Commercial Energy Consumers Association of British Columbia
CIAC	Contribution in Aid of Construction
Commission	British Columbia Utilities Commission
CPI	Consumer Price Index
FEI	FortisBC Energy Inc.
FEU	FortisBC Energy Utilities
FEVI	FortisBC Energy (Vancouver Island) Inc.
FEW	FortisBC Energy (Whistler) Inc.
FS&ER	Energy Solutions and External Relation
GJ	Gigajoules
IR	Information Request(s)
LNG	Liquefied Natural Gas
MCRA	Midstream Cost Reconciliation Account
O&M	Operations and Maintenance
PBR	Performance Based Ratemaking
RRA	Revenue Requirements Application

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

and

FortisBC Energy Inc.
Multi-Year Performance Based Ratemaking Plan for 2014 through 2019
approved by BC Utilities Commission Decision and Order G-138-14
Proposal to Include FortisBC Energy
(Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc. within the PBR Plan Application

EXHIBIT LIST

Exhibit No.	Description
COMMISSION DOCUMENTS	
A-1	Letter Dated November 24, 2014 – Commission Order G-183-14 establishing a Regulatory Timetable
A-2	Letter Dated November 26, 2014 – Appointment of Panel
A-3	Letter Dated December 3, 2014 – Commission Order G-190-14 establishing a date for the Procedural Conference
A-4	Letter Dated December 11, 2014 – Procedural Conference
A-5	Letter Dated December 19, 2014 –Order G-202-14 establishing a Regulatory Timetable
A-6	Letter Dated January 30, 2015 – Commission Information Request No. 1 to FEI
A-7	Letter Dated February 11, 2015 – Commission Order G-17-15 amending the Regulatory Timetable
A-8	Letter Dated March 16, 2015 – Commission Order G-41-15 amending the Regulatory Timetable
A-9	Letter Dated March 23, 2015 – Commission Information Request No. 2 to FEI
COMMISSION STAFF DOCUMENTS	
A2-1	Letter Dated December 11, 2014– Commission Staff filing Page 4 from the FortisBC Energy (Whistler) Inc. Deferral Account Treatment for 2014 and Changes to the RSAM Rider
A2-2	Letter Dated January 30, 2015 – Commission Staff filing Page 1 from the FortisBC Energy (Whistler) Inc. Deferral Account Treatment for 2014 and Changes to the RSAM Rider

Exhibit No.	Description
A2-3	Letter Dated March 23, 2015 –Commission Staff filing Tab 1 from FEI 2014 Fourth Quarter Gas Cost Report
A2-4	Letter Dated March 23, 2015 –Commission Staff filing Tab 1 from FEI 2015 First Quarter Gas Cost Report

APPLICANT DOCUMENTS

B-1	**FORTISBC ENERGY INC. (FEI)** Letter Dated November 14, 2014 - Multi-Year Performance Based Ratemaking Plan for 2014 through 2019 approved by BC Utilities Commission Decision and Order G-138-14 Proposal to Include FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc. within the PBR Plan Application
B-2	Submitted at Procedural Conference December 17, 2014 – FEI Proposed Regulatory Timetable
B-3	Letter Dated January 16, 2015 – FEI Submitting Evidentiary Update
B-4	Letter Dated February 4, 2015 – FEI Response to IR1 Request for Extension
B-5	Letter Dated March 2, 2015 - FEI Response to BCUC IR No. 1
B-6	Letter Dated March 2, 2015 - FEI Response to BCOAPO IR No. 1
B-7	Letter Dated March 2, 2015 - FEI Response to CEC IR No. 1
B-8	Letter Dated March 4, 2015 -FEI Submission on Process
B-9	Letter Dated March 10, 2015 – FEI Reply Submission on Process
B-10	Letter Dated April 8, 2015 - FEI Response to BCUC IR2
B-11	Letter Dated April 8, 2015 - FEI Response to CEC IR2

INTERVENER DOCUMENTS

C1-1	**BRITISH COLUMBIA OLD AGE PENSIONERS' ORGANIZATION, DISABILITY ALLIANCE BC, COUNCIL OF SENIOR CITIZENS' ORGANIZATIONS OF BC, AND THE TENANT RESOURCE AND ADVISORY CENTRE (BCOAPO)** Letter Dated December 1, 2014 – Request for Intervener Status by Tannis Braithwaite, James Wightman and Lobat Sadrehashemi
C1-2	Letter Dated January 20, 2015 – BCOAPO Submitting Change of Contact Information
C1-3	Letter Dated January 30, 2015 – BCOAPO Submitting Information Request No. 1

Exhibit No.	Description
C1-4	Letter Dated March 4, 2015 - BCOAPO Submission on Further Process
C2-1	**COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF BRITISH COLUMBIA (CEC)** Letter Dated December 1, 2014 – Request for Intervener Status by Christopher Weafer
C2-2	Submitted at Procedural Conference December 17, 2014 - CEC Proposed Schedule
C2-3	Letter Dated January 30, 2015 – CEC Submitting Information Request No. 1
C2-4	Letter Dated March 6, 2015 - CEC Submission on Further Process
C2-5	Letter Dated March 23, 2015 – CEC Information Request No. 2 to FEI