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FortisBC Energy Inc.

Annual Review for 2023 Delivery Rates

Decision
and Order G-352-22

December 5, 2022

Before:
A. K. Fung, KC, Panel Chair
W. M. Everett, KC, Commissioner
B. A. Magnan, Commissioner

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Executive summary

On June 22, 2020, the British Columbia Utilities Commission (BCUC) approved a multi-year rate plan (MRP) for FortisBC Energy Inc. (FEI) covering a five-year period from 2020 to 2024 (MRP Decision). The MRP uses a performance or incentive-based regulatory rate-setting framework which links utility rates to performance, and makes the controllable portion of FEI's annual revenue requirement subject to a formula rather than to a cost recovery based on a traditional cost-of-service approach. In accordance with the MRP Decision, an annual review process (Annual Review) is required to set rates for each year of the MRP.

In this application, FEI applies to the BCUC for approval, among other things, of 2023 delivery rates (Application). For 2023, FEI seeks, as amended, a 7.69 percent increase in delivery rates from 2022 delivery rates as result of a forecasted $74.592 million revenue deficiency. FEI requests approval of 2023 delivery rates on an interim basis, pending the BCUC's final determinations on Stage 1 of the BCUC's generic cost of capital (GCOC) proceeding and FEI's Application for Acceptance of Demand Side Management (DSM) Expenditures for 2023 (DSM Application) proceeding. FEI also seeks approval of forecast sustainment and other capital to be incorporated in rates for the years 2023 and 2024 as previously directed by the BCUC, various deferral accounts and rate riders, the Core Market Administration Expense (CMAE) budget for 2023, as well as variances to two existing orders on a permanent basis. Finally, FEI requests, pursuant to section 44.2(3) of the UCA, acceptance of a capital expenditure schedule consisting of capital expenditures for the Gibsons Capacity Upgrade (GCU) Project.

The Panel finds the 2023 forecast revenue requirements to be reasonable and approves FEI to increase its delivery rates for 2023 by 7.69 percent on an interim, and refundable/recoverable basis, effective January 1, 2023, pending the outcomes of Stage 1 of the BCUC's GCOC proceeding and FEI's DSM Application proceeding. Although the Panel is concerned about the size of the delivery rate increase, having reviewed the totality of the evidence, it is satisfied that much of the increase is due to factors, including inflationary factors, that are beyond the control of FEI, as well as the impacts of rate base growth.

In the unique circumstances of this case, the Panel accepts that rates should be approved only on an interim basis, pending the resolution of the two concurrent proceedings which are on-going, and which may materially impact FEI's 2023 delivery rates. The Panel finds that all other requests and forecast revenue requirements in this proceeding can be approved on a permanent basis such that there should be no other changes to FEI's 2023 delivery rates, except for any impact arising from the decisions on those two proceedings. Although the potential rate impact of Stage 1 of the BCUC's GCOC proceeding associated with FEI's requested increase in equity thickness and return on equity is yet unknown, the Panel is also concerned about the extent of rate increase that may result from the implementation of that decision on the final 2023 delivery rates. Accordingly, the Panel encourages FEI to consider rate-smoothing mechanisms, including deferral accounts, to deal with any potential rate shock as part of its filing of a 2023 permanent rate application as warranted.

The Panel approves FEI's level of sustainment and other capital for the remaining two years of the MRP (2023 and 2024), including the forecast expenditures for the Penticton Supply project in sustainment capital and the Kelowna Space Project in other capital. The Panel finds that FEI's capital forecasts for the two-year period are reasonable given the evidentiary support provided by FEI in this Annual Review. With respect to the Penticton Supply project, the Panel agrees with FEI that a secondary system of supply for the Penticton area is needed and the alternative of providing secondary supply via the Okanagan Capacity Upgrade project is not viable at this time given that the proceeding to review the certificate of public convenience and necessity (CPCN) application for this project has been adjourned indefinitely. With respect to the Kelowna Space Project, the Panel accepts the evidence provided by FEI, indicating that postponing the project is likely to exacerbate the space issues faced by FEI and FortisBC Inc. (FBC).

The Panel also approves FEI's deferral account and rate rider requests, as well as the Core Market Administration Expense (CMAE) budget and variances to two existing orders, as applied-for, on a permanent basis.

With respect to the GCU Project, the Panel accepts the capital expenditure schedule for this project in the amount of $12.194 million as being in the public interest. The Panel finds that FEI, in its consideration of the current capacity shortfall in the Gibsons community, evaluated all feasible alternatives and that its proposed compressed natural gas (CNG) peak shaving station is the most innovative, cost-effective and prudent solution to address the issue.

Concerning FEI's Service Quality Indicators (SQI), although performance for the Meter Reading Accuracy SQI in 2021 and 2022 to date is below the threshold target, the Panel is of the view that this does not amount to a serious degradation of service and does not warrant taking any action at this time. With respect to FEI's below-benchmark results for the Telephone Service Factor (Non-Emergency) SQI for the June 2022 year-to-date performance, the Panel finds that FEI has provided sufficient explanation with respect to the measures it has put in place to work towards improving its performance by the end of 2022 such that no further action is warranted.

1.0 Introduction

On June 22, 2020, the British Columbia Utilities Commission (BCUC) approved a multi-year rate plan (MRP) for FortisBC Energy Inc. (FEI) covering a five-year period (2020 to 2024) (MRP Decision).[1] The MRP Decision directed an annual review process (Annual Review) to set FEI's delivery rates.

On July 29, 2022, FEI filed its Annual Review for 2023 Delivery Rates Application (Application). Subsequently, on October 24, 2022, FEI filed an evidentiary update (Evidentiary Update). Following the Evidentiary Update, FEI seeks, as amended, a 7.69 percent delivery rate increase for 2023, on an interim basis, effective January 1, 2023, pending the BCUC's final determinations on Stage 1 of the BCUC's generic cost of capital (GCOC) proceeding and FEI's Application for Acceptance of Demand Side Management (DSM) Expenditures for 2023 (DSM Application) proceeding.[2]

In this decision, the Panel reviews the relevant evidence, considers the positions of the parties, discusses the issues arising and outlines its determinations.

1.1 Background to FEI's Multi-Year Rate Plan

Pursuant to its MRP Decision, the BCUC approved an MRP for FEI that establishes the framework for setting rates in the period from 2020 through 2024. The MRP uses a performance or incentive-based regulatory rate-setting framework which links utility rates to performance, and makes the controllable portion of FEI's annual revenue requirement subject to a formula rather than to a cost recovery based on a traditional cost-of-service approach. The expected benefits of this performance-based approach are increased efficiency, better control over Operations and Maintenance (O&M) costs and capital expenditures, and reduced regulatory costs resulting in more reasonable utility rates. The MRP uses a rate setting mechanism designed to incent FEI to find efficiencies while ensuring that reasonable and measurable service levels are maintained. The MRP includes elements that attempt to strike a balance between the interests of ratepayers and the utility, and appropriately manages and allocates risks and rewards.[3]

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

FEI's MRP includes the following:[4]

- Use of a formula or index-based approach to controllable O&M and FEI Growth capital, incorporating:

[1] FortisBC Energy Inc. and FortisBC Inc. Application for Approval of a Multi-Year Rate Plan for the Years 2020 through 2024, Decision and Orders G-165-20 and G-166-20 dated June 22, 2020 (MRP Decision).
[2] Exhibit B-13, p. 1; FEI Final Argument, p. 1.
[3] MRP Decision, p. 168.
[4] MRP Decision, p. 169.

    - An inflation factor based on Statistics Canada Consumer Price Index (CPI) for British Columbia (BC) (CPI-BC) and the Average Weekly Earnings (AWE) for BC (AWE-BC) indexes;
    - A growth factor multiplier; and
    - A productivity (X) factor;
- Use of a forecast approach for FEI sustainment and other capital;
- A 50 percent sharing between customers and FEI's shareholders if FEI's achieved return on equity (ROE) is above or below that allowed, referred to as the Earnings Sharing Mechanism (ESM);
- Specific revenue requirement items approved for flow-through and deferral account treatment;
- 13 service quality indicators (SQIs), of which nine have benchmark and performance ranges set by a threshold level and four are informational;
- A plan off-ramp to be triggered if earnings in any one year vary from the allowed ROE by more than +/- 150 basis points (post sharing); and
- A Clean Growth Innovation Fund (CGIF) that is funded by a basic charge fixed rate rider of $0.40/month.

A key element of FEI's MRP is the Annual Review. In the MRP Decision, the BCUC set out the following items to be addressed at each Annual Review in addition to setting delivery rates:[5]

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

[5] MRP Decision, p. 167.

6. Reporting on the CGIF status; and
7. Assessment of and recommendations to the BCUC on potential issues or topics for future Annual Reviews.

In addition to these specific topics, the BCUC may include any other topic for review as it considers necessary.[6] The MRP Decision also directed FEI to submit as part of its 2023 Annual Review an updated forecast for the 2023 to 2024 sustainment and other capital to be incorporated into rates.[7]

1.2 Approvals Sought

As noted earlier, FEI filed its 2023 Annual Review materials on July 29, 2022 and filed an Evidentiary Update on October 24, 2022.

FEI seeks the following approvals, as amended, pursuant to sections 59 to 61 and 89 of the *Utilities Commission Act* (UCA) for:[8]

1. Recovery of the 2023 forecast revenue requirement and resultant delivery rate change on an interim basis, effective January 1, 2023, subject to any adjustments identified by FEI during the regulatory process and from any directives or determinations made by the BCUC in its decision on the Application and pending the outcomes of Stage 1 of the BCUC's GCOC proceeding and FEI's DSM Application proceeding;
2. The level of forecast sustainment and other capital to be incorporated in rates for the years 2023 and 2024, as set out in Appendix A to the Evidentiary Update; and
3. Various deferral accounts and rate riders, as well as approvals related to the Core Market Administration Expense (CMAE) budget and variances to Orders G-319-20 and G-83-14, as outlined in Section 2.3 below.

FEI also requests, pursuant to section 44.2(3) of the UCA, acceptance of a capital expenditure schedule consisting of capital expenditures for the Gibsons Capacity Upgrade (GCU) Project, as described in Section 7.2.3.2.2 and Appendix C3 of the Application.

Except for the delivery rates proposed for the BCUC's approval on an interim basis, FEI is seeking all other approvals (as outlined above) on a permanent basis. FEI views that the BCUC's decision in this proceeding will have otherwise considered and resolved all matters pertaining to the Annual Review, as these matters, except for the delivery rates, are not dependent in any way on the BCUC's final determinations in the two related proceedings which are discussed in Section 1.4 below, or any other decision before the BCUC.[9]

1.3 Application Review Process

In accordance with the regulatory timetables established by the BCUC, the Panel undertook the following public review process:[10]

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[6] MRP Decision, p. 167.

[7] MRP Decision, p. 131; Order G-165-20, Directive 1(c).

[8] Exhibit B-13, Appendix C.

[9] FEI Reply Argument, p. 7.

[10] Orders G-194-22 and G-240-22.

- One round of BCUC and intervener information requests (IRs);
- A workshop in hybrid format allowing for in-person and virtual attendance on October 14, 2022 (Workshop);
- Written final arguments from interveners filed by October 27, 2022; and
- FEI's written reply argument filed by November 3, 2022.

Prior to the filing of FEI's reply argument, the BCUC issued a letter to FEI on October 31, 2022 requesting specific matters be addressed in FEI's reply.[11]

The following five registered interveners participated in the proceeding:

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

1.4 Related BCUC Proceedings Affecting 2023 Delivery Rates

On July 5, 2022, pursuant to section 44.2 of the UCA, FEI filed its DSM Application. The DSM Application is currently being reviewed in a separate proceeding. Pursuant to section 44.2, the BCUC may not consent to an amendment to an expenditure schedule filed under section 61 to the extent that the amendment is for the purpose of, among other things, recovering expenditures on demand-side measures the public utility anticipates making during the period addressed by the schedule, unless the amendment is for the purpose of setting an interim rate.

Additionally, on January 18, 2021, the BCUC established the GCOC proceeding. FEI is currently participating in that proceeding and has filed evidence on its recommended capital structure and ROE as part of Stage 1 of the proceeding.[12] In that proceeding, FEI is requesting 45 percent and 10.1 percent for the equity component of its capital structure and ROE, respectively, as compared to FEI's current approved equity component of its capital structure and ROE of 38.5 percent and 8.75 percent, respectively).[13]

Accordingly, as noted in Section 1.2, FEI seeks approval of interim 2023 delivery rates pending decisions on Stage 1 of the BCUC's GCOC proceeding and FEI's DSM Application proceeding. After these decisions are rendered, FEI submits that it will update its rate calculations and apply for permanent 2023 delivery rates.[14]

1.5 Structure of the Decision

Beginning with Section 2.0, we examine the issues arising in the proceeding as follows:

[11] Exhibit A-7.

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

[13] Transcript Volume 1, p. 167; Exhibit B-2, p. 10.

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

- Section 2.1 reviews the reasonableness of FEI's proposed 2023 revenue requirement and its various elements, including the proposed changes arising from FEI's Evidentiary Update;
- Section 2.2 reviews FEI's proposed capital expenditures schedule for the GCU Project;
- Section 2.3 reviews the other approvals sought;
- Section 2.4 considers whether the delivery rates should be approved on an interim or permanent basis;
- Section 2.5 sets out our overall determinations on the 2023 delivery rates; and
- Section 3.0 considers the other issues arising from this proceeding.

2.0 Review of Approvals Sought

In the following subsections we review the reasonableness of the 2023 revenue requirement and its various elements, along with the other approvals sought; summarize the relevant evidence, along with the parties' submissions; and conclude with our overall determinations.

2.1 Components of 2023 Revenue Requirement

The proposed delivery rates for 2023 are based on FEI's 2023 forecast revenue requirement as set out in the Evidentiary Update to the Application. FEI forecasts, as amended, a revenue deficiency of $74.592 million which results in a 7.69 percent increase in delivery rates from 2022 delivery rates.[15]

Table 1 below summarizes the components that make up the $74.592 million revenue deficiency, inclusive of the following items in the Evidentiary Update:[16]

1. The inclusion of the Fort Nelson service area (FEFN) into FEI's 2023 Annual Review, pursuant to the BCUC's final decision on the FEI Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area (FEFN) (FEFN Common Rates Application) issued on October 6, 2022 (FEFN Common Rates Decision)[17], as discussed below;
2. Update to the Emissions Regulations deferral account;
3. Update to the inflation factor calculation for 2023, as discussed below in Section 2.1.2;
4. Correction to the asset class for leasehold improvements as identified by FEI during the regulatory process; and
5. The removal of the McRae Compressed Natural Gas (CNG) Station from the 2022 Projected and 2023 Forecast flow-through capital, pursuant to the BCUC's decision on October 7, 2022[18] which determined

[15] Exhibit B-13, p. 1

[16] Exhibit B-13, p. 1.

[17] FortisBC Energy Inc. Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area Decision and Order G-278-22 dated October 6, 2022.

[18] FortisBC Energy Inc. Application for Approval of Rates and Agreement for Constructing and Operating a Compressed Natural Gas. Fueling Station under the Province's Greenhouse Gas Reduction (Clean Energy) Regulation for McRae's Environmental Services Ltd. in Richmond, BC, Order G-279-22 dated October 7, 2022.

that the McRae CNG Station does not qualify as a prescribed undertaking under the Greenhouse Gas Reduction (Clean Energy) Regulation.

Table 1: 2023 Forecast Revenue Deficiency After Evidentiary Update ($ millions)[19]

Line No.	Particulars (1)	2023 Forecast (2)	(3)
1	**VOLUME/REVENUE RELATED**		
2	Customer Growth and Volume	$ (0.491)	
3	Change in Other Revenue	(0.382)	(0.873)
4			
5	**O&M CHANGES**		
6	Gross O&M Change	19.462	
7	Capitalized Overhead Change	(3.416)	16.046
8			
9	**DEPRECIATION EXPENSE**		
10	Depreciation from Net Additions		12.583
11			
12	**AMORTIZATION EXPENSE**		
13	CIAC from Net Additions	(0.125)	
14	Deferrals	6.217	6.092
15			
16	**FINANCING AND RETURN ON EQUITY**		
17	Financing Rate Changes	5.844	
18	Financing Ratio Changes	(3.126)	
19	Rate Base Growth	32.743	35.461
20			
21	**TAX EXPENSE**		
22	Property and Other Taxes	5.747	
23	Other Income Taxes Changes	(0.464)	5.283
24			
25			
26	**REVENUE DEFICIENCY (SURPLUS)**		**$ 74.592**
27			
28	Non-Bypass Margin at 2022 Approved Rates		969.511
29	Rate Change		7.69%

As shown in Table 1 above, the increase in the 2023 forecast delivery revenue deficiency is primarily due to increased net O&M expenses, rate base growth and depreciation. We review the various changes along with the impact of the FEFN Common Rates Decision below.

FEFN Common Rates Decision

As noted earlier*,* the Application for FEI's 2023 Annual Review was submitted on July 29, 2022. At that time, the FEFN Common Rate Application was being reviewed by the BCUC in a separate proceeding which had not been completed. Although FEFN is not a standalone legal entity, it had its own revenue requirement, rate base and rates that were distinct from the revenue requirement, rate base and rates for the rest of FEI's MRP.[20] FEI submitted that if common rates for FEFN and FEI are approved, depending on the timing of the Common Rates Decision, FEI would file an evidentiary update in this Annual Review with the changes to FEI's financial schedules and the resulting change to the forecast 2023 delivery rates.[21]

On October 6, 2022, the BCUC issued the FEFN Common Rates Decision approving, among other things, common delivery rates for FEFN and FEI, effective January 1, 2023.[22] The FEFN Common Rates Decision included a direction that FEI forecast and address the following in the FEI 2023 Annual Review proceeding in order to implement the common delivery rates under FEI's MRP:

[19] Exhibit B-13, Appendix B, Schedule 1.

[20] FEFN Common Rates Decision, p. 1.

[21] Exhibit B-3, BCUC IR 1.4.

[22] FEI Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area, Decision and Order G-278-22 dated October 6, 2022 (FEFN Common Rates Decision); Exhibit B-13, Appendix A, p. 1.

- FEFN's O&M expenses in FEI's formula O&M, effective January 1, 2023, by adding FEFN's forecast 2023 customer count to FEI's forecast 2023 customer count;[23]
- Incorporation of FEFN's annual forecast capital expenditures into FEI's regular forecast capital expenditures commencing January 1, 2023[24];
- A reconciliation for the transfer of the December 31, 2022 balances of various FEFN's accounts to FEI's corresponding accounts in the same categories, as approved in Section 4.5 of the FEFN Common Rates Decision[25];
- The establishment of the Fort Nelson Residential Customer Common Rate Phase-in Rate Rider, effective January 1, 2023, based on an updated forecast of FEFN's residential customer demand and the remaining balance of the deferral account, as set out Section 4.1 of the FEFN Common Rates Decision;[26] and
- A proposed amortization period for the FEFN Common Rates and 2022 Revenue Requirement Application Costs deferral account.[27]

The BCUC also granted FEI approval to transfer various FEFN deferral accounts to FEI, as outlined in Section 4.3 of the FEFN Common Rates Decision.

Subsequent thereto, on October 24, 2022, FEI filed its Evidentiary Update. According to FEI, the Evidentiary Update incorporates FEFN into FEI's 2023 Annual Review with the impact reflected in the proposed 2023 delivery rates.[28]. The FEFN Common Rates Decision reduced FEI's 2023 revenue deficiency, as filed in the Application, by $0.174 million, as shown in Table 2 below, which is equivalent to 0.04 percent.[29]

Table 2: Breakdown of FEI's 2023 Revenue Requirement Incorporating the Adjustments for FEFN Common Rates and Evidentiary Update Items 2 to 5 ($ millions)[30]

[23] FEFN Common Rates Decision, p. 41.
[24] FEFN Common Rates Decision, p. 41.
[25] FEFN Common Rates Decision, pp. 41–42. The BCUC approved the transfer of the following FEFN's accounts: gross plant in service, accumulated depreciation, CIAC, accumulated amortization of CIAC, capital work in progress (no AFUDC), and unamortized deferred charges.
[26] FEFN Common Rates Decision, p. 32.
[27] FEFN Common Rates Decision, p. 35.
[28] Exhibit B-13, pp. 1–2.
[29] Exhibit B-13, p. 2.
[30] Exhibit B-13, p. 2.

2023 Forecast ($millions)	FEI (As-Filed)	Evidentiary Update (Items 2 to 5)	FEFN	FEI + FEFN (Evidentiary Update)
O&M, net	292.083	-	0.583	292.666
Depreciation	220.189	(0.011)	0.435	220.613
Amortization	103.728	2.140	0.371	106.239
Property Tax	78.985	-	0.159	79.144
Other Revenue	(41.993)	-	(0.025)	(42.018)
Income Tax	50.625	0.906	0.216	51.747
Earned Return	369.108	0.014	0.831	369.953
Total 2023 Forecast Delivery Margin ($millions)	**1,072.725**	**3.049**	**2.570**	**1,078.344**
Total Delivery Margin @ 2022 Approved Rates	1,001.008		2.744	1,003.752
Revenue Deficiency (Surplus)	**71.717**	**3.049**	**(0.174)**	**74.592**

O&M Expense

Under the MRP, O&M expense is primarily determined by formula (Formula O&M) with the addition of several specific items that are forecast outside the formula on an annual basis (Non-Formula O&M).[31] Formula O&M is subject to an inflation factor (I-Factor), a productivity factor (X-factor), and a forecast of average customers with a 75% multiplier.[32] Non-formula O&M consists of items such as pension, insurance, integrity, BCUC levies, and costs related to clean growth initiatives such as biomethane and renewable Gas.[33]

In the Application, FEI's Formula O&M for 2023 is $297.920 million, representing a 4.5 percent increase from the 2022 Formula O&M, primarily due to increases in the I-Factor and the forecast of average customers. Non-formula O&M expenses for 2023 are $55.292 million, representing a 15.0 percent increase from the amount approved for 2022 mainly due to increases in insurance, integrity, and biomethane expenses. Overall, the increase in gross O&M expense from 2022 Approved to 2023 Forecast is 6.2 percent.[34] Formula O&M and Non-Formula O&M contribute $11.290 million and $4.173 million to the 2023 forecast revenue deficiency, respectively.[35] Following the Evidentiary Update, the total Formula O&M, as amended, is $298.562 million and the Non-Formula O&M, as amended, is $55.345 million.[36]

Demand Forecast

The impact of the demand forecast contributes a revenue surplus of $0.491 million to the 2023 forecast revenue requirement.[37] Non-Bypass and Bypass demand forecast contributing a revenue surplus of $16.226 million is mostly offset by the loss of FEI' Island Generation (IG) contract with BC Hydro which contributes a revenue deficiency of $15.735 million.[38]

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[31] Exhibit B-2, p. 9.
[32] Exhibit B-2, p. 9.
[33] Exhibit B-2, p. 44.
[34] Exhibit B-2, pp. 41, 44.
[35] Exhibit B-2, p. 8.
[36] Exhibit B-13, Appendix B, Schedule 20.
[37] Exhibit B-13, Appendix B, Schedule 1.
[38] Exhibit B-11, p. 17.

Demand, by volume sold, is forecast to decrease by approximately 12.8PJ in 2023 compared to 2022 Approved on a net basis, primarily due to FEI's IG contract with BC Hydro expiration in April 2022.[39] FEI states that the 2023 delivery rate increase, if the BC Hydro IG Contract were in place, would be 6.07 percent (as compared to 7.69 percent).[40]

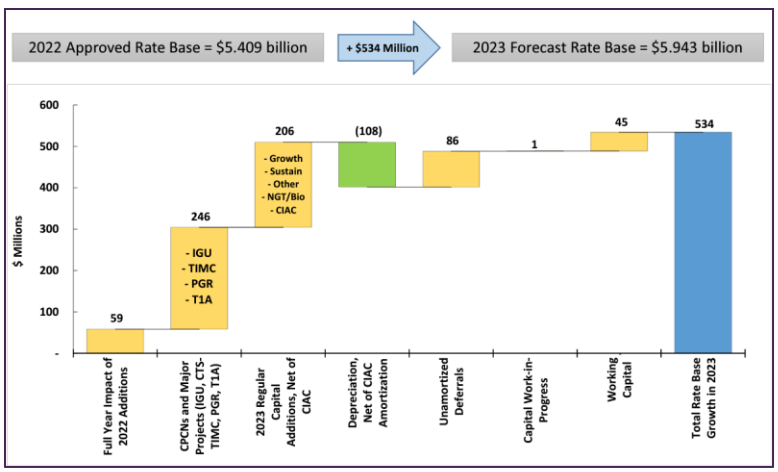
Excluding FEI's IG contract with BC Hydro, the demand forecast for 2023 is an increase of approximately 3.6 PJ, mostly due to residential customers (Rate Schedule 1) and general service customer (Rate Schedule 5).[41] Additionally, the inclusion of FEFN demand of 0.49 PJ results in an increase to FEI's total demand forecast for 2023 from 221.3 PJ in the Application to 221.8 PJ in the Evidentiary Update. Forecasting methods for both FEFN and FEI demand are the same.[42]

Rate Base Growth and Depreciation

Rate base growth and depreciation contribute $32.743 million and $12.583 million, respectively, to the forecast revenue deficiency.**[43]** The increase is driven by approved major capital project expenditures entering rate base, including the Inland Gas Upgrade project, Pattullo Gasline Replacement project, and the Coastal Transmission System Transmission Integrity Management Capabilities (CTS TIMC) project.[44]

The 2023 rate base is forecast to increase by approximately $534.227 million when compared to the 2022 Approved rate base.[45] Figure 1 below illustrates the items that contribute to FEI's 2023 rate base growth.

Figure 1: 2023 Rate Base Growth ($ millions)[46]



Deferral Amortization

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[39] Exhibit B-2, p. 8; Exhibit B-13, Appendix A, p, 2; Table A-2: 2023 Forecast (FEI + FEFN) 221.77 PJ – 2022 Approved (FEI + FEFN) 234.57 PJ = -12.8 PJ.

[40] Exhibit B-11, p. 18.

[41] Transcript Volume 1, pp. 34–35.

[42] Exhibit B-13, Appendix A, p. 2.

[43] Exhibit B-13, Appendix B, Schedule 1.

[44] ExhibitB-2, p. 1.

[45] Exhibit B-13, Appendix B, Schedule 2.

[46] Exhibit B-11, p. 19.

Amortization of deferral accounts contributes $6.217 million to the 2023 forecast revenue deficiency.[47] This is primarily due to the increased amortization of the DSM deferral account by approximately $9.7 million, the amortization of $2.5 million of the CTS TIMC deferral account starting in 2023, and the increased amortization of $8.1 million for the 2020-2024 Flow-through non-rate base deferral account.[48] These increases in amortization expense are mostly offset by a credit amortization of $25.6 million for the Emissions Regulations deferral account.[49]

The Emissions Regulations deferral account captures potential compliance costs and revenues collected from carbon credits. FEI has executed a contract with a buyer for the sale of the carbon credits accumulated since 2019 for approximately $34.5 million in revenue to be received, as amended in the Evidentiary Update from the $37.5 million originally forecast in the Application.[50] The reduction in expected revenue to be received from the sale of carbon credits increases the Emissions Regulation deferral account deficiency by $3.008 million resulting in a 0.31% delivery rate increase.[51]

Positions of the Parties

Interveners generally do not oppose BCUC approval of FEI's 2023 forecast revenue requirement and resultant delivery rate change of 7.69 percent. However, some interveners raise the following issues, which require further discussion:

- The forecast methodology for Late Payment Charges;
- O&M issues relating to wage inflation embedded in FEI's I-Factor and vacancy rate assumptions;
- FEI's updated forecast for 2023 and 2024 sustainment and other capital expenditures;
- The basis for the 2023 delivery rates on an interim versus permanent basis;
- The capital expenditure schedule for the GCU Project; and
- The amortization period proposed for the Gibsons Capacity Upgrade Preliminary Stage Development Costs deferral account.

We review the evidence and submissions on these issues below.

2.1.1 Forecast Late Payment Charges

The Forecast Late Payment Charges for 2023, as amended, are $3.385 million.[52] This is comprised of the average of the 2021 Actual Late Payment Charges and 2022 Projected Late Payment Charges, as well as FEFN Late Payment Charges of $25 thousand.[53] Late Payment Charges have historically been forecast based on the average

[47] Exhibit B-13, Appendix B, Schedule 1.

[48] Exhibit B-3, BCUC IR 2.1, Attachment 2.1; Exhibit B-13, Appendix B, Schedule 11, 11.1, 12; ($000s): DSM deferral account amortization change = 2023 deferral amortization $(41,608) less 2022 deferral amortization $(31,910) = $9,698; TIMC deferral account amortization change = 2023 deferral amortization $(2,521) less 2022 deferral amortization $(nil) = $2,521; Flow-through (non-rate base) deferral account amortization change = 2023 deferral amortization $(11,417) less 2022 deferral amortization $(19,512) = $8,095.

[49] Exhibit B-3, BCUC IR 2.1, Attachment 2.1; Exhibit B-13, Appendix B, Schedule 11, 11.1, 12; ($000s): Emissions Regulations deferral account amortization change = 2023 deferral amortization $1,072 less 2022 deferral amortization $26,708 = $(25,636).

[50] Exhibit B-2, p. 83; Exhibit B-13, p. 3.

[51] Exhibit B-11, p. 5.

[52] Exhibit B-13, Appendix B, Schedule 14.

[53] Exhibit B-2, pp. 35–36; Exhibit B-13, p. 2.

of the most recent three years of actual Late Payment Charges earned. However, due to several factors in the most recent years, including the COVID-19 pandemic and FEI's implementation of customer relief measures which included the suspension of Late Payment Charges until March 1, 2021, the actual amounts collected have fluctuated significantly from year to year. In addition to the impact of the COVID-19 pandemic, the Late Payment Charges being collected for 2022 have been affected by the impacts of the higher cost of gas and carbon tax on customers' bills. FEI notes 2022 Projected Late Payment Charges are $4.108 million, which is $1.404 million higher than 2022 Approved Late Payment Charges of $2.704 million. Therefore, FEI adjusted its forecast methodology for 2023 Late Payment Charges to reflect these changes in circumstances.

Positions of the Parties

The CEC notes that FEI does not state whether its forecast methodology change for Late Payment Charges in this Application is intended to be a temporary or permanent change. The CEC is concerned about the proposed change in forecast methodology for Late Payment Charges. The CEC acknowledges, however, that FEI's historical forecasting methodology using three years of actual Late Payment Charges would not provide a better basis for forecasting Late Payment Charges. The CEC notes that while FEI's revised methodology in this Annual Review of using the two years of 2021 and 2022 is an improvement, it is likely still not sufficient. The forecasting should more likely be based on the "anticipated customer bill changes", which for 2023 are likely to be significantly increased from past years. For 2023, the CEC submits that FEI should be directed to forecast Late Payment Charges based on "anticipated customer bill changes", instead of prior year results, because customer bills are likely to be significantly increased from the past years.[54]

In reply, FEI submits that its forecast methodology for Late Payment Charges has already been updated to reflect increases for 2023 and it does not believe the CEC's suggestion would result in a more reasonable forecast. FEI submits that the CEC has not justified its suggestion, nor has the CEC explained how such a forecast would be done.[55]

Panel Discussion

The CEC notes that FEI's updated forecast methodology for 2023 Late Payment Charges based on the average of 2021 Actual Late Payment Charges and 2022 Projected is an improvement over the historical methodology. Given the circumstances of the COVID-19 Pandemic that have led to this change in methodology, the Panel finds that the proposed change results in a more accurate forecast for Late Payment Charges to be reflected in FEI's 2023 delivery rates.

FEI notes that the CEC has not provided any evidence as to how a proposed forecast based on "anticipated customer bill changes" would work. The Panel, therefore, rejects the CEC's proposed forecast methodology due to a lack of information as to how such a forecast would work, or why it would result in more accurate information than FEI's historical or updated forecast methodology. Should the CEC or another party wish to pursue this matter further in a subsequent Annual Review, the Panel would recommend that they do so through the IR process in such proceeding.

[54] CEC Final Argument, p. 23.

[55] FEI Reply Argument, pp. 13–14.

2.1.2 I-Factor Calculation and Formula O&M Expense

Under the MRP, FEI calculates the I-Factor using the actual CPI-BC and AWE-BC indices for the previous year from Statistics Canada and the actual labour weighting based on the most recent completed year of actuals. At the time of the Application, AWE-BC data was available only up to April 2022. In the Application, FEI calculates the 2023 I-Factor to be the following:

(CPI of 4.940 percent x 49 percent) + (AWE of 4.235 percent x 51 percent) = 4.580 percent.[56]

In the Evidentiary Update, FEI updated this calculation to include AWE-BC data up to June 2022, resulting in an updated I-Factor calculated based on the following formula:

(CPI of 4.940 percent x 49 percent) + (AWE of 3.944 percent x 51 percent) = 4.432 percent.[57]

In FEI's MRP, the I-Factor is used to calculate two components of the annual forecast revenue requirement: formula Growth capital and Formula O&M.[58] FEI explains that current inflationary pressures have had an influence on these two components.[59] FEI has also experienced significant inflationary pressures in its sustainment and other capital portfolios as will be discussed below.

Since Growth capital is determined using a formula-based approach which uses the prior year's inflation data, FEI submits that higher costs and resulting variances compared to formula are expected for 2023. However, FEI notes that the impact of the higher actual Growth capital expenditures compared to formula will be offset by the incremental revenue resulting from attaching new customers in 2022. On the O&M side, FEI states that it is also seeing rising inflation rates impact costs in areas such as vehicle fuel and travel related expenditures. Nevertheless, FEI anticipates that the approved I-Factor will provide sufficient funding to meet its needs to operate, maintain its assets, provide service to customers; and would not pose a risk of triggering the MRP off-ramp.[60] The MRP off-ramp would only be triggered if earnings in any one year vary from the approved ROE by more than +/- 150 basis points (post sharing).[61] FEI submits that in order for inflationary pressures in formula O&M to trigger the MRP off-ramp, there would have to be effective inflation of $111.7 million or 43 percent annually, which FEI has no evidence to suggest would occur in either 2023 or 2024.[62]

The formula-driven portion of O&M starts from the prior year's Approved Base O&M per Customer (UCOM), escalated by the prior year's inflation less an X-factor of 0.5 percent, and then multiplied by 75 percent of the forecast growth in average customers, resulting in the current year inflation-indexed O&M before true-up. A true-up of formula O&M based on actual average customers from two years prior is then added to the current year's inflation-indexed O&M.[63]

[56] Exhibit B-2, p. 12.
[57] Exhibit B-13, pp. 3–4.
[58] Exhibit B-2, p. 12.
[59] Exhibit B-3, BCUC IR 3.1.
[60] Exhibit B-3, BCUC IR 3.1.
[61] MRP Decision, p. 101.
[62] Exhibit B-3, BCUC IR 3.1.
[63] Exhibit B-2, p. 41.

For 2021, FEI states that it achieved formula O&M savings, in addition to meeting the embedded X-factor in the O&M formula. Total formula O&M savings before earnings sharing were approximately $4.2 million. Approximately $2.2 million in formula O&M savings were realized due to the net incremental impact of the COVID-19 pandemic, which will be returned to customers via the Flow-through deferral account. FEI has requested a variance to Order G-319-20 in relation to these net incremental savings, which is addressed in Section 2.3 below. FEI further outlines that approximately $3.3 million of 2021 Formula O&M savings were due to the timing of expenditures, such as labour vacancies and consulting expenditures, and lower general and miscellaneous expenditures. While some of the savings are one-time in nature (e.g., delay in filling vacancies), FEI states that others are expected to continue into the future, recognizing that cost pressures in the future may offset the savings. FEI notes these savings were partially offset by higher costs of approximately $1.3 million incurred to perform repairs to the distribution system in response to flooding conditions experienced in BC late in 2021.[64]

Contributing to the $3.3 million of net O&M savings are estimated savings of approximately $2.1 million from labour vacancies in various departments, including Customer Service, Energy Solutions, Information Systems, and Environmental and Safety. The $2.1 million in labour vacancies savings and $0.9 million of the consulting expense savings are considered one-time in nature as the positions and related funding are expected to be required in future years. The remaining $0.3 million of the general and miscellaneous expenditures for the reduced postage and printing are considered permanent in nature and expected to carry into future years.[65] FEI notes that vacancy rates are influenced by labour market conditions (i.e., attrition and recruitment) and the total actual staffing requirements.[66] FEI provides additional information regarding the historical labour vacancy rates as follows:

Table 3: Historical Labour Vacancy Rates [67]

	2018	2019	2020	2021	2022 Aug YTD
Vacancy rate	4%	6%	7%	7%	8%

Positions of the Parties

Consistent with the CEC's final argument in the FEI Annual Review for 2022 Delivery Rates (2022 Annual Review), the CEC continues to be concerned about the MRP I-Factor calculation. While the CEC understands the macroeconomic drivers behind the 2023 upward trend in CPI and the 2021 to 2023 elevated-trend in AWE, it is concerned that the MRP I-Factor formula provides for "little respite" should these trends decelerate or reverse in subsequent years.[68] As such, in the CEC's view, longer-term averages are best used for the I-Factor calculation.[69] The CEC provides the following summary of CPI-BC and AWE-BC data used in FEI's I-factor calculations by year:[70]

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[64] Exhibit B-2, p. 4.
[65] Exhibit B-3, BCUC IR 10.1.
[66] Exhibit B-12, Workshop Undertaking No. 1, p. 1.
[67] Exhibit B-12, Workshop Undertaking No. 1, p. 1.
[68] CEC Final Argument, p. 10.
[69] CEC Final Argument, p. 11.
[70] CEC Final Argument, p. 11.

Table 4: CEC CPI-BC and AWE-BC Data[71]

Description	2017	2018	2019	2020	2021	2022	2023
CPI	1.627%	1.979%	2.345%	2.692%	1.596%	1.237%	4.940%
AWE	1.250%	1.473%	2.646%	2.881%	5.745%	6.309%	4.235%

The CEC recommends the I-Factor be calculated using a 7-year average of CPI and AWE data. Using the above table, the CEC calculated its proposed I-Factor as follows:

(CPI of 2.345 percent x 49 percent) + (AWE of 3.506 percent x 51 percent) = 2.937 percent.

The CEC submits that the BCUC has within its powers the ability to review the inflation rate calculations for reasonableness. Accordingly, the CEC recommends that the Panel establish an adjustment to the I-Factor as an exogenous Z-Factor to modify the "unjust and unreasonable" formula I-Factor. The resultant adjustment is 1.643 percent, calculated as FEI's Application I-Factor of 4.580 percent less the CEC's recommended I-Factor of 2.937 percent.[72] Applying this 1.643 percent decrease to formula O&M labour and materials, the CEC calculates an approximate $5 million adjustment,[73] which would be above the Z-factor threshold of $500,000.[74]

In reply, FEI cites the BCUC's decision on FEI's 2022 Annual Review (2022 Annual Review Decision) wherein the BCUC rejected the same request from the CEC as not sufficiently justified and not within the scope of an Annual Review. FEI argues that the BCUC's reasoning in the 2022 Annual Review Decision applies equally this year: namely, the CEC has provided no further evidence or justification for use of a 7-year average and the suggestion continues to be out of scope of an Annual Review. FEI therefore submits that the methodology for calculating the I-Factor under the MRP should remain as approved.[75]

While FEI has provided its actual labour vacancy rates for the past several years in response to an undertaking after the October 14, 2022 Workshop, RCIA submits that the labour vacancy rates embedded in formula O&M are not on the record in this proceeding. RCIA notes that if a company's revenue requirement is based on a forecast vacancy rate and it ends up with a higher vacancy rate, then its expenditures will be lower and its earnings higher. Therefore, RCIA recommends that FEI provide vacancy rate assumptions underpinning the formula O&M revenue requirement in the 2024 Annual Review.[76]

In reply, FEI disagrees with RCIA's recommendation and submits that under the approved MRP, FEI's formula O&M is not set on a cost of service basis, but rather on a formula basis with any difference between formula and actual being subject to earnings sharing. FEI further notes that if it has to justify every component of formula O&M costs as if it were under cost of service regulation, this would defeat the purpose of the MRP.[77]

Panel Discussion

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[71] CEC Final Argument, p. 10.
[72] CEC Final Argument, p. 11.
[73] CEC Final Argument, p. 11.
[74] MRP Decision, p. 65.
[75] FEI Final Argument, pp. 9–11.
[76] RCIA Final Argument, pp. 17–18.
[77] FEI Reply Argument, p. 13.

Consistent with the BCUC determination in FEI's 2022 Annual Review, the Panel is satisfied that the methodology for calculating the I-Factor should remain as approved in the MRP Decision and therefore rejects the CEC's recommendation to adjust the I-Factor to 2.937 percent. The Panel notes that the CEC has not provided additional or sufficient justification for its recommendation to use a 7-year average to calculate the I-Factor. The Panel also does not consider that an I-Factor of 2.937 percent would be an accurate representation of the current and future inflationary pressures that FEI will be facing. Nor would it provide sufficient room for FEI to plan its operations according to those pressures.

Furthermore, the MRP does not contemplate piecemeal adjustments to individual components of the MRP in isolation. In the Panel's view, absent extraordinary or unforeseen circumstances, once an MRP is approved, it should be given the opportunity to work as intended during its term and should not be adjusted due to annual fluctuations in certain individual components of the plan. As such, the Panel is not persuaded that the CEC has established a sufficient evidentiary basis for changing, in the middle of the term of the MRP, the methodology for the I-Factor calculation which was approved in the MRP Decision.

The Panel endorses the BCUC's finding in both FortisBC Inc.'s (FBC) Annual Review for 2020 and 2021 Rates and FEI's 2022 Annual Review that adjusting individual components of Formula O&M is outside the scope of an Annual Review.[78] The purpose of the Annual Review is not to unravel or revisit the MRP Decision. Rather, it is designed to provide the BCUC and interveners the opportunity to review the performance of FEI over the prior year and to assess the reasonableness of proposed delivery rates for the test period.

The Panel also accepts FEI's comment that "vacancy rates are influenced by labour market conditions" as they are subject to both factors inside and outside of FEI's control. Further, the Panel rejects RCIA's suggestion that FEI provide vacancy rate assumptions underpinning the formula O&M revenue requirement as part of the 2024 Annual Review. The Panel finds this suggestion is outside of the scope of an Annual Review and is better suited for assessment in the next MRP or revenue requirement application when items such as vacancy rates and their underlying assumptions may be reviewed with the benefit of a full evidentiary record.

2.1.3 Forecast Sustainment and Other Capital Expenditures

FEI received approval for its regular sustainment and other capital expenditures for years 2020 through 2022 as part of the MRP Decision.[79] While FEI's MRP is for a five-year term, the BCUC noted in that decision that FEI is facing an evolving operating environment and that there are inherent uncertainties in a five-year forecast. As such, the BCUC approved FEI's 2020 to 2022 sustainment and other capital forecast only and directed FEI to file an updated forecast for its sustainment and other capital expenditures for 2023 and 2024 in the 2023 Annual Review.[80]

In Table 5 below, FEI provides its 2020 through 2022 Approved forecasts and 2023 and 2024 sustainment and other capital forecasts as reviewed in the MRP proceeding (Original Forecasts):[81]

Table 5: 2020–2022 Approved and 2023-2024 Sustainment and Other Capital Original Forecasts

[78] Decision and Order G-319-20, pp. 10-11; Decision and Order G-366-21, p. 9.
[79] Exhibit B-2, p. 5.
[80] MRP Decision, p. 131.
[81] Exhibit B-2, p. 57.

Line No.	Description	Approved 2020	Approved 2021	Approved 2022	Original Forecast 2023	Original Forecast 2024
1	Sustainment Capital (excl. CIAC)	111.530	112.944	117.106	119.663	124.533
2	Other Capital	49.770	49.916	46.474	46.403	45.351
3	Total	161.300	162.860	163.580	166.066	169.884

In Table 6 below, FEI provides its updated 2023 and 2024 sustainment and other capital forecasts, including FEFN:[82]

Table 6: Updated 2023 and 2024 Sustainment and Other Capital Forecasts

Line No.	Description	2023 Updated Forecast	2024 Updated Forecast
1	Customer Measurement	30.015	30.494
2	Transmission System Reliability	47.937	49.573
3	Distribution System Reliability	15.341	17.709
4	Distribution System Integrity	36.043	32.851
5	Subtotal (excl. CIAC)	129.336	130.628
6	Sustainment CIAC	(4.342)	(4.342)
7	Total Sustainment Capital	124.994	126.286
8			
9	Equipment	12.270	12.240
10	Facilities	14.686	11.349
11	Information Systems	27.558	27.663
12	Total Other Capital	54.514	51.252

2.1.3.1 Forecast Sustainment Capital Expenditures

Since the filing of the MRP, FEI has increased its forecasts for sustainment capital expenditures (excluding Contributions in Aid of Construction (CIAC)) by a net amount of $9.673 million in 2023 and $6.095 million in 2024, as amended in the Evidentiary Update.[83] FEI states that its forecast for FEFN sustainment capital is approximately $250 thousand for each of 2023 and 2024, which is similar to the level of FEFN's 2022 Approved capital expenditures.[84]

FEI states that the net increases in 2023 and 2024 in sustainment capital expenditures are driven by inflationary pressures, increased alteration activities due to third-party infrastructure projects and new reliability and

[82] Exhibit B-13, p. 3, Table 2 (Revised Table 7-8 of the Application).

[83] Exhibit B-13, p. 3, Table 2; Exhibit B-2, p. 57: 2023 Sustainment Capital increase (excluding CIAC) = 2023 Updated Forecast $129.336M – Original Forecast $119.663M = $9.673M; 2024 Sustainment Capital increase (excluding CIAC) = 2024 Updated Forecast $130.628M – Original Forecast $124.533M = $6.095M.

[84] Exhibit B-13, p. 5.

integrity projects, which increases are partially offset by cost savings from deferred or cancelled projects, or changes in project scope. [85]

FEI submits that it is unable to provide a breakdown of the increases in sustainment capital expenditures by driver, because these factors impact specific projects and programs differently, and due to the large number of individual projects which FEI undertakes annually.[86] However, FEI did provide Table 7 below, which shows a breakdown of the increases in FEI's 2023 and 2024 sustainment capital expenditures by increased alteration activities, and new reliability and integrity projects. FEI notes that the increases shown in Table 7 do not include the savings in costs due to deferred or cancelled projects, or changes in scope in other categories of work throughout the sustainment capital portfolio.

Table 7: 2023 and 2024 Forecast Increases to Sustainment Capital due to Alteration Activities and New Reliability and Integrity Projects.[87]

	2023 Forecast	2024 Forecast
1) Increase due to Alteration by Third-Party Infrastructure Activities[1, 2]	$9.690 million	$11.902 million
2) Increase due to New Projects (i.e., not part of the original forecast) that are over $2 million[3]	$9.920 million	$16.217 million

<u>Penticton Second Supply Project</u>

FEI states that the City of Penticton and surrounding area are currently supplied through a single station. The Penticton Second Supply project (which is included as part of the forecast sustainment capital) consists of installing a second source of supply for the Penticton area to ensure reliable service to customers. The estimated cost of this project is approximately $5.2 million in 2024.[88]

Positions of the Parties

BCOAPO recommends that the BCUC deny FEI's requested increases in 2023 and 2024 sustainment capital expenditures, stating that "they undermine the purpose and incentives of the MRP." In BCOAPO's view, FEI has not provided quantitative evidence of the causes for increased capital and is unable to quantify the impact of inflationary pressures described in the Application.[89] Further, BCOAPO notes that these increases, which are outside of the formulaic approach under the MRP should be implemented on a "very stringent basis."[90]

RCIA also recommends that the BCUC approve FEI's Original Forecasts for sustainment capital for 2023 and 2024, but for different reasons. RCIA recommends that the GCU Project (see Section 2.2 on the GCU Project

[85] Exhibit B-2, pp. 58–59.
[86] Exhibit B-3, BCUC IR 14.1.
[87] Exhibit B-3, BCUC IR 14.1.
[88] Exhibit B-2, Appendix C2, p. 6.
[89] BCOAPO Final Argument, p.7.
[90] BCOAPO Final Argument, p. 6.

below) and Penticton Second Supply project should not be approved for 2023 and 2024. In the absence of these projects, RCIA submits that there would remain only $2.173 million and $0.905 million in costs for 2023 and 2024, respectively, as compared to the Original Forecasts, which are savings that FEI "should be able to find."[91] With respect to the Penticton Second Supply project, RCIA recommends that this project should continue to be deferred until such time as the Okanagan Capacity Upgrade project (OCU Project) has more certainty with respect to the selected alternative.[92]

In reply, FEI submits that its Original Forecasts for sustainment capital in 2023 and 2024 was not approved by the BCUC in the MRP Decision. Therefore, contrary to BCOAPO's suggestion, FEI is not asking for an increase, but rather, for a level of sustainment capital for the remainder of the MRP term.[93] FEI states that inflation impacts specific projects differently and due to the large number of individual projects undertaken annually, it is not possible for FEI to isolate the impact of inflation in its projects.[94] Further, FEI asserts that BCOAPO did not provide any arguments as to why the identified sustainment projects are not reasonable or should not proceed as proposed.[95]

In reply to RCIA, FEI argues that deferring the Penticton Second Supply project would only prolong the risk of a large gas service disruption affecting approximately 11,350 customers. Further, FEI asserts that the OCU Project is distinct from the Penticton Second Supply project and has a separate driver, namely, the need to expand system capacity in that service territory.[96] FEI's reply comments on the GCU Project are summarized in section 2.2 below.

Panel Determination

The Panel approves the level of forecast sustainment capital to be incorporated in FEI's rates for the years 2023 and 2024, as set out in Appendix A to the Evidentiary Update. The Panel finds that FEI's capital forecasts for the two-year period are reasonable given the evidentiary support provided by FEI in this Annual Review. Although interveners argued that FEI should have kept the sustainment capital at the level submitted in the original MRP submission, the BCUC in approving the MRP specifically directed FEI to submit revised sustainment capital forecasts closer to the date of actualization (i.e., as part of the 2023 Annual Review). The argument FEI put forward at that time, and accepted by the BCUC, was that there would be an opportunity to provide a more accurate forecast closer to the proposed years of expenditure.

By approving the requested sustainment capital, the Panel is also approving the expenditures on the Penticton Supply project. The Panel agrees with the arguments put forward by FEI that a secondary system of supply for the Penticton area is needed. It should be noted that the alternative of providing secondary supply via the OCU Project is not viable at this time given that the proceeding to review the CPCN application for this project has been adjourned indefinitely.

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[91] RCIA Final Argument, p. 16.
[92] RCIA Final Argument, p. 4.
[93] FEI Reply Argument, p. 14.
[94] FEI Reply Argument, p. 16.
[95] FEI Reply Argument, p. 15.
[96] Exhibit B-2, p. 8.

2.1.3.2 Forecast Other Capital Expenditures

Since the filing of the Original Forecasts, FEI's other capital forecasts have increased by $8.111 million and $5.901 million in 2023 and 2024, respectively, as amended in the Evidentiary Update.[97] The majority of the increases relates to the cost of the Kelowna Space Project.[98] FEI states that the purpose of the Kelowna Space Project is for the relocation of FEI and FBC's Shared Services Departments to a new office lease facility to address space capacity challenges for both companies in the Kelowna region at a total cost of $13.966 million.[99] Of the total cost, $10.996 million will be allocated to FEI,[100] based on employee count for shared facility capital costs as well as capital costs incurred specifically for FEI, with $6.083 million and $3.913 million reflected in FEI's updated other capital forecasts for 2023 and 2024, respectively.[101]

FEI submits that it considered multiple options to address the space constraints faced by both FEI and FBC in the Kelowna region and the Kelowna Space Project was selected as the preferred solution.[102] Additionally, FEI submits that while it has introduced some flexibility into its working arrangements, it "continues to support an office-centric approach to work and places a high value and priority on in-person collaboration."[103]
In response to IRs, FEI explains that it became aware of office space issues in 2019, but at the time of the MRP proceeding, was only in the early stages of developing a strategy to address the issues.[104]

Positions of the Parties

Interveners commented on the Kelowna Space Project in particular in their submissions relating to FEI's forecast of other capital.

MoveUP supports the Kelowna Space Project submitting that it is "timely and necessary", and that FEI has "appropriately considered the available alternatives."[105]

In contrast, BCOAPO opposes the requested additional costs for the Kelowna Space Project, submitting that FEI should have commenced the project earlier and included it in the MRP, or should wait as "there is no evidence that these costs cannot be postponed until after 2024 when they can be examined and tested more thoroughly."[106]

In response to BCOAPO, FEI submits that the intervener's submissions are "misguided and do not propose any solution to address the underlying need for the project" and explains that the Kelowna Space Project was not included in the MRP Application as the office space issues "had only just been identified and there was no project yet to describe."[107]

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[97] Exhibit B-13, p. 3, Table 2; Exhibit B-2, p. 57: 2023 Other Capital increase = 2023 Updated Forecast $54.415M – Original Forecast $46.403M = $8.111M; 2024 Other Capital increase = 2024 Updated Forecast $51.252M – Original Forecast $45.351M = $5.901M.
[98] Exhibit B-2, p. 64.
[99] Exhibit B-2, p. 64.
[100] Exhibit B-2, p. 64.
[101] Exhibit B-4, RCIA IR 6.1.
[102] Exhibit B-3, BCUC IR 18.2.
[103] Exhibit B-3, BCUC IR 18.2.
[104] Exhibit B-7, BCOAPO IR 10.1.
[105] MoveUp Final Argument, p. 2.
[106] BCOAPO Final Argument, p. 11.
[107] FEI Reply Argument, p. 20.

Panel Determination

The Panel approves the forecast other capital expenditures for 2023 and 2024. As in the case regarding sustainment capital, the BCUC in approving the MRP specifically directed FEI to submit revised other capital forecasts closer to the date of actualization (i.e. as part of the 2023 Annual Review). Again, the argument put forward at that time was that there would be an opportunity to provide a more accurate forecast closer to the proposed years of expenditure. In this Annual Review, the Panel finds FEI's forecast of other capital expenditures for the two-year period is reasonable given the evidentiary support provided.

The other capital forecast approval includes approval of the Kelowna Space Project. As indicated by FEI, the space issue was identified at the time of submission of the MRP application and insufficient time was available to scope out the possible project alternatives. The 2023 Annual Review is the first opportunity for FEI to put forward the analysis and decisions made regarding the Kelowna Space Project. Although BCOAPO raised an objection to the project and asked that it be postponed, the Panel accepts the evidence provided by FEI indicating that postponing the project is likely to exacerbate the space issues faced by the two Fortis utilities and should be addressed beginning in 2023 as proposed by FEI.

2.2 Acceptance of Capital Expenditure Schedule for Gibsons Capacity Upgrade Project

FEI seeks approval of a capital expenditure schedule for the proposed GCU Project pursuant to section 44.2 of the UCA to construct a local peak shaving CNG unit to support the Intermediate Pressure (IP) pipeline supplying the distribution system in the Gibsons, B.C. area.

<u>Applicable Provisions of Section 44.2 of the UCA</u>

Section 44.2(3) of the UCA requires that, after reviewing an expenditure schedule, the BCUC, subject to subsections (5), (5.1) and (6), must accept the schedule, if it considers that making the expenditures referred to in the schedule would be in the public interest, or reject the schedule. Section 44.2(4) further provides the BCUC may accept or reject part of an expenditure schedule.

Under section 44.2(5) of the UCA, in considering whether to accept an expenditure schedule filed by a public utility other than the authority, the BCUC must consider:

a) the applicable of British Columbia's energy objectives,

b) the most recent long-term resource plan filed by the public utility under section 44.1, if any,

c) the extent to which the schedule is consistent with the applicable requirements under sections 6 and 19 of the Clean Energy Act (CEA),

d) if the schedule includes expenditures on demand-side measures, whether the demand side measures are cost-effective within the meaning prescribed by regulation, if any, and

e) the interests of persons in British Columbia who receive or may receive service from the public utility.

FEI states that sections 6 and 19 of the CEA, as referred to in subparagraph (c) above, do not apply to FEI, and that subparagraph (d) above is not relevant to the GCU Project.[108]

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[108] Exhibit B-2, Appendix C3, p. 22.

With regards to subparagraph (a) above, FEI states that British Columbia's energy objectives do not have any particular bearing on the GCU Project given the relatively small scale and scope of the project.[109]

Regarding subparagraphs (b) and (d) above, FEI states the GCU Project is identified in Section 7.5.3.4 of FEI's 2022 Long Term Gas Resource Plan, and further submits that the material in its business case supports the conclusion that the GCU Project is in the interest of persons in British Columbia.[110]

None of the interveners specifically addressed the foregoing legislative requirements in their submissions.

Consideration of Whether the Expenditure Schedule for the GCU Project is in the Public Interest

In the MRP Application,[111] FEI identified the GCU Project as a Major Project (the GCU Project was referred to as the FEI Sunshine Coast Capacity Upgrade project in the MRP Application) and had anticipated that the GCU Project would exceed FEI's $15 million materiality threshold for CPCN applications and would therefore require a CPCN application be filed at some point during the MRP term. However, through further refinement of the preliminary project scope and associated cost estimate, FEI was able to arrive at a lower cost solution with a forecast project cost estimate of $12.194 million which is lower than originally contemplated in the MRP Application.[112] Table 8 below, shows the forecast of expenditures for the GCU Project.

Table 8: Forecast of Expenditures for the GCU Project ($ millions)[113]

Line No.	Description	Prior Years Actual	2022 Projected	2023 Forecast	2024 Forecast	Total
1	Preliminary Development (Deferred Costs)	0.978	-	-	-	0.978
2	Project Capital Costs	0.794	2.380	6.950	0.190	10.314
3	Subtotal	1.772	2.380	6.950	0.190	11.292
4	AFUDC	0.018	0.129	0.457	0.298	0.902
5	Total Project Costs	1.790	2.509	7.407	0.488	12.194

FEI has, therefore, filed for approval of a capital expenditure schedule rather than a CPCN as part of this Annual Review because the estimated GCU Project is below FEI's CPCN materiality threshold of $15 million.[114]

FEI states the community of Gibsons is supplied with natural gas by a 19-kilometre intermediate pressure (IP) pipeline from the Sechelt Gate Station which in turn is served by the Vancouver Island Transmission System. The capacity of the IP pipeline is insufficient to meet current peak demand such that FEI is unable to supply sufficient capacity to the community during design conditions without the support of a temporary contracted CNG trailer on site during winter months.[115] FEI has been managing this shortfall to date through the availability of higher than contracted heating values present in the natural gas network and by contracting a CNG trailer to be available on short notice during winter months to supplement low inlet pressures at the Gibsons District

[109] Exhibit B-2, Appendix C3, p. 22.
[110] Exhibit B-2, Appendix C3, p. 22.
[111] Multi-Year Rate Plan Application for 2020 to 2024, Exhibit B-1, p. C-77.
[112] Exhibit B-2, pp. 73–74.
[113] Exhibit B-2, p. 74.
[114] Exhibit B-2, pp. 73–74, Appendix C.
[115] Exhibit B-2, p. 74.

Station.[116] FEI asserts that the continued use of CNG trailers in Gibsons is not a permanent solution on account of significant logistical challenges for arranging marine transportation of the CNG trailers. FEI explains:

> There are currently no CNG stations on the Sunshine Coast; therefore, any supply of CNG would have to be delivered from the Mainland, thus requiring some form of marine transport (barges), or requiring FEI to construct a permanent CNG fueling station on the Sunshine Coast. As such, due to the logistical complexity of arranging marine transport (barges) to deliver the filled CNG trailers (and any resupply required through the winter) or the additional costs to build a permanent compressor and refilling station solely for the purpose of refilling the temporary CNG trailers, FEI discounted the supply of portable CNG as a permanent solution.[117]

The GCU Project consists of a slow filling peak shaving facility and associated tie-ins to the existing distribution main. The facility will draw gas from the existing distribution system during periods of low system demand, compress it, and store it in two high-pressure storage vessels. During periods of high gas demand, the stored gas will be depressurized, heated, and injected back into the distribution system to supplement the supply. The facility will be located on the north end of Keith Road in Gibsons. This property was selected for its immediate proximity to the existing distribution main to minimize the length of distribution main extension work that needs to be done to tie the station into the distribution system.[118]

The proposed site layout can accommodate the installation of two additional storage vessels if demand in Gibsons increases. FEI states that based on the latest demand forecast, FEI "is not projecting the need for additional CNG storage in the 20-year forecast; however, this could change if future demand forecasts change."[119] The design does not include commercial CNG supply or truck filling capability, as it was determined there is limited to no demand for this on the Sunshine Coast at this time. [120]

FEI considered three alternatives for this project and determined that a local CNG peak shaving facility is the preferred alternative due to its substantially lower cost compared to the two alternatives that involve the installation of new pipelines.[121]

FEI further states "The GCU project would become FEI's first operational non-pipe solution installed within a distribution system and will provide valuable information on using non-pipe solutions as alternatives to address system capacity issues within the distribution system."[122]

The proposed schedule for this project contemplates the detailed design and engineering to be completed in 2022, the facility construction completed in 2023 and an in-service date of October 1, 2023.[123]

Positions of the Parties

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[116] Exhibit B-2, Appendix C3, p. 2.
[117] Exhibit B-3, BCUC IR 33.4.
[118] Exhibit B-2, Appendix C3, p. 17.
[119] Exhibit B-12, Undertaking No. 2, p. 2.
[120] Exhibit B-2, Appendix C3, p. 11.
[121] Exhibit B-2, Appendix C3, p. 12.
[122] Exhibit B-2, p. 74.
[123] Exhibit B-2, Appendix C3, p. 1.

MoveUP, the CEC and BCSEA support acceptance of the capital expenditure schedule for the GCU Project.[124]

RCIA recognizes that the GCU Project is an "innovative, non-pipe solution" to the capacity shortfall in the community of Gibsons and, of the three alternatives analyzed by FEI, supports the installation of the proposed CNG peak shaving station due to its "substantially lower cost" compared to the other alternatives considered.[125]

However, RCIA recommends that FEI should continue serving the community of Gibsons by contracting for a CNG trailer or purchasing a CNG trailer which would be dedicated to Gibsons during the peak demand periods "as this appears to be manageable based on the updated load forecast and because of the cost savings compared with constructing a CNG peak shaving plant."[126]

In reply, FEI submits that RCIA's proposal "imposes avoidable and unnecessary reliability risk on the residents of Gibsons during peak periods."[127] Further, FEI submits that the principal difficulty with continued use of a CNG trailer is that there are currently no CNG stations on the Sunshine Coast and, as such, FEI must arrange marine transport (via barge) to deliver filled CNG trailers. Whether FEI contracts for or purchases a CNG trailer, it must still plan around and deliver the filled trailer to the Sunshine Coast, a relatively remote community, which creates a number of challenges (including barging during the winter when extreme weather is most likely to disrupt marine transport to Gibsons) that would be solved by the GCU Project.[128] Finally, FEI submits that RCIA's assertion that all these challenges "appear manageable" is not substantiated by any evidence in this proceeding.[129]

Alternatively, RCIA submits, if the Gibsons peak shaving station is approved, such approval should be limited to the installation of only one CNG storage tank, based on FEI's calculation that one 1,945 m3 CNG tank would be sufficient to supplement the peak demand requirements throughout the 20-year forecast period.[130] In reply, FEI submits it has committed to validating the estimated CNG storage vessel sizing during the detailed design phase and, in any event, it does not expect that any changes to CNG storage vessel sizing will exceed the P10 and P90 bounds of the Association for the Advancement of Cost Engineering (AACE) Class 3 estimate. Further, FEI submits that RCIA's proposal that FEI rely on a CNG trailer on an emergency basis, should a single tank not provide sufficient additional capacity, undermines the objective of the GCU Project and should be rejected.[131]

Panel Determination

The parties do not dispute that the evidence establishes that the current IP pipeline servicing the community of Gibsons is insufficient to meet current peak demand without the support of a temporary contracted CNG trailer on short notice during winter months to supplement low inlet pressures at the Gibsons District Station. Nor do the parties dispute that the forecast cost estimate of $12.194 million for the GCU Project is below the materiality threshold for a CPCN application and is properly brought in this proceeding as an application for acceptance of an expenditure schedule pursuant to section 44.2 of the UCA.

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[124] MoveUP Final Argument, p. 2; CEC Final Argument p. 37; BCSEA Final Argument, p. 5.
[125] RCIA Final Argument, p. 4.
[126] RCIA Final Argument, p. 4, 9, 10.
[127] FEI Reply Argument, p. 23.
[128] FEI Reply Argument, pp. 21–23.
[129] FEI Reply Argument, p. 21.
[130] RCIA Final Argument, p. 12.
[131] FEI Reply Argument, p. 23.

The Panel finds RCIA's assertion that continuing to use CNG trailers (whether contracted or purchased) would be a manageable way to address the capacity issue in Gibsons, is made without any supporting evidence that this would solve the inherent logistical challenge of marine transportation for the CNG trailers; namely, arranging and relying on barge transport to deliver filled CNG trailers during the winter months when extreme weather is most likely to disrupt such transportation. In the Panel's view, RCIA's proposal is short-sighted and would impose avoidable and unnecessary reliability risk on the residents of Gibsons during peak periods or an extreme cold weather event when the CNG is needed most.

The Panel, therefore, rejects RCIA's recommendation to defer the GCU Project in favour of FEI continuing to serve the community of Gibsons during peak demand periods through the use of CNG trailers as being an unreasonable solution.

The Panel further finds that FEI, in its consideration of the current capacity shortfall in the Gibsons community, evaluated all feasible alternatives and that its proposed CNG peak shaving station is the most innovative, cost effective and prudent solution to address the issue.
The Panel also notes the GCU Project would become FEI's first operational non-pipe solution installed within a distribution system and will provide valuable information on using non-pipe solutions as alternatives to address system capacity issues within the distribution system and finds that such information would be of interest to persons in British Columbia.

With respect to RCIA' submission that the GCU Project, if approved, should be limited to one CNG storage vessel, the Panel notes FEI's commitment to validate the estimated CNG storage vessel sizing during the detailed design phase and its expectation that any changes to CNG storage vessel sizing will not materially impact project costs. The Panel notes that relying on a CNG trailer on an emergency basis, in the event a single tank is unable to provide sufficient capacity, undermines the objective of the GCU Project to provide safe and reliable service. The Panel therefore rejects RCIA's proposal to limit the GCU Project to one CNG storage vessel. **For the foregoing reasons, the Panel accepts the expenditure schedule for the GCU Project in the amount of $12.194 million as being in the public interest pursuant to section 44.2 of the UCA.**

2.3 Other Approvals Sought

In addition to the approvals sought regarding acceptance of the capital expenditure schedule for the GCU Project and the 2023 delivery rates on an interim and refundable/recoverable basis discussed in Section 2.2 and Section 2.4, respectively, FEI seeks approvals related to several other deferral accounts and rate riders, as well as approvals related to the CMAE budget for 2023. These requests are set out below:

1. Creation of a rate base deferral account titled, the Gibsons Capacity Upgrade Preliminary Stage Development Costs deferral account (GCU Preliminary Stage Development Costs deferral account), with the balance in the account to be amortized over three years, commencing January 1, 2023;
2. Amortization of the existing COVID-19 Customer Recovery Fund Deferral Account over three years, commencing January 1, 2023;

3. Approval to cease reporting on the COVID-19 Customer Recovery Fund Deferral Account, whereby the final quarterly report for Q4 2022 would be submitted in Q1 2023;[132]
4. Approval to vary Directive 10 of Order G-319-20 as follows: "FEI is approved to record COVID-19 incremental costs and related savings from 2020 and 2021, as discussed in Section 12.2.1 of the Application, into the Flow-through deferral account";
5. Approval to change the amortization period of the existing Emissions Regulations deferral account from five years to one year, commencing January 1, 2023;
6. Amortization of the existing FEFN Common Rates and 2022 Revenue Requirement Application Costs deferral account over one year, commencing January 1, 2023;
7. A Fort Nelson Residential Customer Common Rate Phase-in Rate Rider for 2023 in the credit amount of $1.117 per gigajoule (GJ), as set out in Appendix A to the Evidentiary Update;
8. A Biomethane Variance Account Rate Rider for 2023 in the amount of $0.132 per GJ as calculated in Section 10.3.1 of the Application;
9. Revenue Stabilization Adjustment Mechanism riders for 2023 in the credit amount of $0.209 per GJ as set out in Table 10-5 in Section 10.3.2 of the Application;
10. The 2023 CMAE budget of $5.795 million, as set out in Schedule 1 of Appendix B of the Application, and the allocation of the CMAE costs between FEI's Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) based on allocation percentages of 30 percent and 70 percent, respectively; and
11. Approval to vary Directive 2 of Order G-83-14 as follows: "Approval is granted until such time as FEI no longer has an exemption to prepare and file its financial statements in accordance with US GAAP[133] or is no longer reporting under US GAAP for financial reporting purposes".

Positions of the Parties

None of the interveners oppose the approval of the above items sought by FEI, with the exception of FEI's proposal to amortize the GCU Preliminary Stage Development Costs deferral account over three years, commencing January 1, 2023.

While the CEC supports the approval of the proposed GCU Preliminary Stage Development Costs deferral account, it recommends that the BCUC delay the approval of the proposed amortization period to a future Annual Review proceeding when "the expected service life of the GCU project can be assessed and an amortization period can be reviewed based on the project's success."[134]

In reply, FEI submits that a delay in approving the amortization period is unnecessary and that the "success" of the GCU Project is "not in doubt, and is not a relevant factor when considering the appropriate amortization period."[135] Rather, FEI submits that a three-year amortization period is appropriate as it is consistent with the

[132] Exhibit B-2, p. 83.
[133] United States Generally Accepted Accounting Principles.
[134] CEC Final Argument, p. 3.
[135] FEI Reply Argument, p. 24.

recovery period of other similar preliminary stage development cost deferrals, serves to mitigate the rate impact to customers, and aligns with the construction period of the project. In addition, FEI submits that its response to IRs demonstrates that amortization periods longer than three years do not result in any material rate mitigation.[136]

Panel Determination

The Panel finds request #1 in respect of the GCU Preliminary Stage Development Costs deferral account to be reasonable. The proposed three-year amortization period is appropriate as it is consistent with the recovery period of other similar preliminary stage development cost deferrals, serves to mitigate the rate impact to customers, and aligns with the construction period of the project. The Panel rejects the CEC's recommendation to delay the approval of the proposed three-year amortization period for the deferral account to a future Annual Review proceeding, as it finds that it constitutes retroactive ratemaking and counters the purpose of setting up a deferral account. **Therefore, the Panel approves both the establishment of a rate base GCU Preliminary Stage Development Costs deferral account for FEI and a three-year amortization of this account commencing January 1, 2023 as proposed by FEI in the Application.**

The Panel finds requests #2 and #3 relating to the COVID-19 Customer Recovery Fund Deferral Account to be reasonable. As FEI does not anticipate any further additions to the deferral account after 2022,[137] the Panel finds FEI's request to cease reporting and amortize the existing COVID-19 Customer Recovery Fund Deferral Account over three years commencing January 1, 2023 to be reasonable. The Panel also notes that FEI is not requesting closure of the COVID-19 Customer Recovery Fund Deferral Account and that, if in the future this deferral account is once again required, FEI would seek approval from the BCUC to recover any amounts recorded in the account.[138] **Therefore, the Panel approves the amortization of the existing COVID-19 Customer Recovery Fund Deferral Account over three years, commencing January 1, 2023 and to cease reporting on the COVID-19 Customer Recovery Fund Deferral Account following the submission of a final quarterly report for Q4 2022.**

With respect to request #4, **the Panel approves FEI's request to vary Directive 10 of Order G-319-20. Directive 10 of Order G-319-20 is rescinded and replaced with the following: "FEI is approved to record COVID-19 incremental costs and related savings from 2020 and 2021, as discussed in Section 12.2.1 of the Application, into the Flow-through deferral account."**

The Panel notes that notwithstanding its approval with this request, it disagrees with FEI's reasoning that it is "consistent with the treatment of other exogenous items."[139] FEI is not seeking exogenous factor treatment for these COVID-19 incremental costs and related savings as part of this Annual Review. FEI itself acknowledges that it has already received BCUC approval to include these amounts related to incremental COVID-19 costs and cost reductions in the previously approved COVID-19 Customer Recovery Fund Deferral Account and not through the Flow-through deferral account as part of the MRP. [140] Additionally, the Panel has concerns regarding the amortization of the net incremental O&M and Late Payment Charges over one-year, as opposed to the three-year period proposed for the COVID-19 Customer Recovery Fund Deferral Account. However, the Panel agrees

[136] FEI Reply Argument, pp. 23–24.
[137] Exhibit B-2, p. 83.
[138] Exhibit B-3, BCUC IR 21.5.
[139] Exhibit B-2, p. 150.
[140] Exhibit B-2, p. 150.

with FEI that "in light of the requested delivery rate increase for 2023, the additional rate mitigation that results from the exogenous factor savings being returned to customers in 2023 is an important consideration."[141] The Panel finds that this proposed change is appropriate in the circumstances as a rate mitigation measure in light of the magnitude of the delivery rate increase and that the requested variance to the previous BCUC order is warranted notwithstanding our reservations noted above.

The Panel finds that request # 5 to reduce the amortization period of the existing Emissions Regulations deferral account from five years to one year, commencing January 1, 2023 to be reasonable. The Emissions Regulations deferral account captures potential compliance costs and revenues collected from credits and FEI has executed a contract with a buyer for the sale of the carbon credits accumulated since 2019 for approximately $34.5 million in revenue to be received (amended from $37.5 million forecast in the Application).[142] The Panel agrees with FEI's reasoning submitted in the Application that accelerating the return of these credits to customers given the time period that has already elapsed between when the credits were earned and validated would serve to mitigate other rate pressures in the short-term to the benefit of ratepayers.[143] **Therefore, the Panel approves the change in the amortization period of the existing Emissions Regulations deferral account from five years to one year, commencing January 1, 2023.**

The Panel finds that requests # 6 and #7 relating to the FEFN Common Rates and 2022 Revenue Requirement Application Costs deferral account and Fort Nelson Residential Customer Common Rate Phase-in Rate Rider to be reasonable. Specifically, the Panel finds FEI's requests to amortize the existing FEFN Common Rates and 2022 Revenue Requirement Application Costs deferral account over one year, commencing January 1, 2023 to be reasonable as this will result in the deferral account being fully amortized in the shortest period of time. **The Panel approves the amortization of the existing FEFN Common Rates and 2022 Revenue Requirement Application Costs deferral account over one year, commencing January 1, 2023 and for FEI to set the Fort Nelson Residential Customer Common Rate Phase-in Rate Rider for 2023 in the credit amount of $1.117 per GJ, as set out in Appendix A to the Evidentiary Update.**

The Panel finds requests # 8 and #9 relating to the Biomethane Variance Account and Revenue Stabilization Adjustment Mechanism riders to be reasonable and consistent with previous BCUC approvals granted to FEI with respect to similar requests and there are no circumstances currently that would compel a different treatment. **Therefore, the Panel approves a Biomethane Variance Account Rate Rider for 2023 in the amount of $0.132 per GJ as set out in Section 10.3.1 of the Application and Revenue Stabilization Adjustment Mechanism riders for 2023 in the credit amount of $0.209 per GJ as set out in Table 10-5 in Section 10.3.2 of the Application.**

The Panel finds request #10 relating to the 2023 CMAE budget and allocation to be reasonable and consistent with previous BCUC approval granted to FEI with respect to similar requests and there are no circumstances currently that would compel a different treatment. **Therefore, the Panel approves the 2023 CMAE budget and allocation.** The Panel reminds FEI, as it has identified, that pursuant to the BCUC's direction in the FEI Annual Review for 2020 and 2021 Delivery Rates Decision,[144] **FEI will include, in its next revenue requirements or MRP**

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[141] Exhibit B-3, BCUC IR 29.3.
[142] Exhibit B-2, p. 83; Exhibit B-13, p. 3.
[143] Exhibit B-2, p. 84.
[144] FEI Annual Review for 2020 and 2021 Delivery Rates Decision and Order G-319-20 dated December 8, 2020.

application following the MRP term, a comprehensive review of the CMAE costs including consideration of whether these costs are conducive to a formulaic approach or whether they should continue to be forecast with flow-through treatment, and whether the current allocation percentages to the CCRA [Commodity Cost Reconciliation Account] and MCRA [Midstream Cost Reconciliation Account] remain appropriate.[145]

The Panel finds request #11 relating to Directive 2 of Order G-83-14 to be reasonable to ensure that FEI has approval to use US GAAP for regulatory accounting purposes. **Directive 2 of Order G-83-14 is rescinded and replaced with the following: "Approval is granted until such time as FEI no longer has an exemption to prepare and file its financial statements in accordance with US GAAP or is no longer reporting under US GAAP for financial reporting purposes".**

In summary, FEI's requests #1 to #11 as set out above are approved as applied for on a permanent basis.

2.4 Interim versus Permanent 2023 Delivery Rates

As previously outlined in Section 1.4 above, FEI seeks approval to recover its 2023 revenue requirement and resultant delivery rates increase on an interim basis, effective January 1, 2023, pending the outcomes of Stage 1 of the BCUC's GCOC proceeding and FEI's DSM Application proceeding.[146]

If FEI's 2023 delivery rates were to be approved on a permanent basis, FEI submits that any change resulting from Stage 1 of the BCUC's GCOC proceeding or DSM Plan application could not be implemented back to January 1, 2023 and a retroactive billing adjustment would be the only option for a change in the cost of capital.[147] In the GCOC Proceeding, FEI requests 45 percent and 10.1 percent for the equity component of its capital structure and ROE, respectively, as compared to FEI's current approved equity component of its capital structure and ROE of 38.5 percent and 8.75 percent, respectively).[148] FEI states:

> In terms of when we [FEI] would file permanent rates after the GCOC decision, that would partly be dependent on what the GCOC panel directed for timing of filing the compliance filing.[149]

FEI states that typically it would envision somewhere between two to three weeks for implementation,[150] wherein FEI will update its rate calculations and apply for permanent 2023 delivery rates[151] considering the quantum of any changes to FEI cost of capital resulting from Stage 1 of the BCUC's GCOC decision, and the effective date of those changes.[152]

FEI acknowledges that the rule against retroactive ratemaking is fundamental to utility regulation. FEI identifies that the two common exceptions to retroactive ratemaking are the use of deferral accounts and interim rates.[153]

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145 Exhibit B-2, Appendix D, p. 3.
146 Exhibit B-2, p. 2.
147 FEI Reply Argument, p. 6.
148 Transcript Volume 1, p. 167, Exhibit B-2, p. 10.
149 Transcript Volume 1, p. 21.
150 Transcript Volume 1, p. 21.
151 Exhibit B-2, p. 86.
152 Exhibit B-2, p. 86; Exhibit B-11, p. 13.
153 FEI Reply Argument, p. 5.

With respect to using a deferral account to capture the impacts of Stage 1 of the BCUC's GCOC decision, FEI explains that there would be "negative impacts in that the balance in the deferral account would not be able to be recovered until 2024 at the earliest,"[154] and the potential for two years' worth of ROE impacts in 2024.[155] With respect to the usage of interim rates, FEI explains that maintaining 2023 delivery rates on an interim basis provides the most optionality for implementing permanent 2023 rates pending the completion of the two concurrent proceedings.[156] Interim rates do not impact the substance of the decisions to be made by the BCUC on Stage 1 of the BCUC's GCOC proceeding or FEI's DSM Application proceeding, but preserve the ability for the decisions in those proceedings to be implemented back to January 1, 2023 without contravening the rule against retroactive ratemaking.[157]

Positions of the Parties

The CEC was the only intervener to recommend that the BCUC approve FEI's 2023 delivery rates on a permanent basis, until a decision for Stage 1 of the BCUC's GCOC proceeding is issued.[158] The CEC submits it is concerned about the potential for retroactive increases to the proposed 2023 delivery rates should they be approved on an interim basis.[159]

While MoveUp does not oppose FEI's request for interim rates, it submits in its final argument that the "potential compounded annual delivery rate increase, absent the Emissions Regulations Deferral Account amortization, should FortisBC achieve its maximum proposal in the GCOC proceeding, would be in the order of 20%; an anomalously high hypothetical annual revenue deficiency" based on the discussion at the Workshop.[160]

In reply to the CEC, FEI argues that the CEC's concerns about rate impacts from the GCOC proceeding are "improper and would lead the BCUC into legal error." [161] FEI explains that as "required by the Utilities Commission Act and as confirmed by the Supreme Court of Canada, a public utility's fair return cannot be judged based on the rate impacts associated with it."[162] FEI further argues that "the CEC's proposal appears, in effect, to be an effort to tie the hands of the GCOC panel" and that FEI's 2023 delivery rates need to be set on an interim basis as "[p]ursuant to section 44.2(2) of the UCA, FEI's proposed 2023 DSM expenditure schedule needs to be accepted before rates can be approved on a permanent basis."[163]

Panel Discussion

In the unique circumstances of this case, the Panel accepts FEI's proposal that rates should be approved only on an interim, and refundable/recoverable basis, pending the resolution of the two concurrent proceedings which are on-going, and which may materially impact FEI's 2023 delivery rates.

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[154] FEI Reply Argument, p. 6.
[155] Transcript Volume 1, p. 30.
[156] Exhibit B-11, p. 13.
[157] FEI Reply Argument, p.7.
[158] CEC Final Argument, p. 3.
[159] CEC Final Argument, p. 39.
[160] MoveUp Final Argument, p. 3.
[161] FEI Reply Argument, p. 8.
[162] FEI Reply Argument, p. 8.
[163] FEI Reply Argument, p. 9.

The Panel acknowledges that under section 44.2(2) of the UCA, the BCUC may not consent to an amendment of an expenditure schedule filed under section 61 to the extent that it is for the purpose of, among other things, recovering expenditures on demand side measures the public utility anticipates making during the period addressed by the schedule, unless the amendment is for the purpose of setting an interim rate.

The Panel agrees with FEI's submission that "the decision of the Panel in this proceeding will have considered and resolved all matters except FEI's cost of capital and DSM expenditures for 2023."[164] The Panel finds that all other requests and forecast revenue requirements in this Annual Review, as outlined in Sections 2.1 to 2.3 above, can be approved on a permanent basis such that there should be no other changes to FEI's 2023 delivery rates, except for any impact arising from the decisions on those two proceedings.

The Panel acknowledges that in most cases, interim rates are set in anticipation that permanent rates will generally not differ substantially from approved interim rates as the time interval between the two is insignificant. In this case, however, the Stage 1 of the BCUC's GCOC proceeding may have a material impact on FEI's 2023 permanent rates depending on its outcome. In light of that, the Panel finds that it would be unfair to FEI to establish permanent rates as of January 1, 2023 at this time, and, thereby, effectively requiring FEI to forego the implementation of 2023 permanent rates to reflect the outcome of that proceeding in 2023 or to defer that implementation to 2024 through a deferral account.

Although the Panel is concerned about the size of the delivery rate increase, having reviewed the totality of the evidence, it is satisfied that much of the increase is due to factors, including inflationary factors, that are beyond the control of FEI, as well as the impacts of rate base growth. Although the potential rate impact of Stage 1 of the BCUC's GCOC proceeding associated with FEI's requested increase in equity thickness and ROE is yet unknown, the Panel is also concerned about the extent of the rate increase that may result from the implementation of that decision on the final 2023 delivery rates. Accordingly, the Panel encourages FEI to consider rate-smoothing mechanisms, including deferral accounts, to deal with any potential rate shock as part of its filing of a 2023 permanent rate application as warranted.

2.5 Overall Determination on 2023 Delivery Rates

Based on the determinations on the components of the forecast Revenue Requirement set out above, the Panel finds the forecast Revenue Requirements set out in Table 1 in Section 2.1 to be reasonable and **approves FEI to increase its delivery rates for 2023 by 7.69 percent on an interim, and refundable/recoverable basis, effective January 1, 2023, pending the outcomes of Stage 1 of the BCUC's GCOC proceeding and FEI's DSM Application proceeding. FEI is directed to file as a compliance filing the tariff continuity and billing impact schedules for 2023 no later than 10 days from the date of the issuance of this order.**

The Panel finds the 2023 forecast revenue requirement reasonably reflects the inclusion of the FEFN and the impacts of the FEFN Common Rates Decision into FEI's 2023 Annual Review. While FEI has also included FEFN's 2023 forecast Other Revenue and Property Tax, which were not explicitly addressed in the FEFN Common Rates Decision (in the amount of $25 thousand and $159 thousand, respectively),[165] the Panel accepts them as incidental amounts which are appropriately incorporated into FEI's 2023 delivery rates in order to properly reflect the implementation of common rates for FEFN and FEI effective January 1, 2023.

[164] FEI Reply Argument, p. 7.
[165] Exhibit B-13, Appendix A, p. 2.

3.0 Other Issues Arising

3.1 Service Quality Indicators

In the MRP Decision, the BCUC approved a balanced set of Service Quality Indicators (SQIs) for FEI, covering safety, responsiveness to customer needs, and reliability.[166] Nine of the SQIs have benchmarks and performance ranges set by a threshold level. Four of the SQIs do not have benchmarks or performance ranges as they are for information only. In this Annual Review, FEI reports on its 2021 and June 2022 year-to-date SQI results as measured against the SQI benchmarks and thresholds.

The 2021 results show that eight out of nine SQIs are performing at or better than benchmark. The exception is the Meter Reading Accuracy SQI, which is 7 percentage points below the benchmark. In contrast, FEI's June 2022 year-to-date results show that seven out of nine SQIs are at or better than benchmark. The two exceptions in 2022 are the Meter Reading Accuracy SQI and the Telephone Service Factor (TSF) (Non-Emergency) SQI, which are both 9 percentage points below their respective benchmark.[167] The Meter Reading Accuracy, Telephone Service Factor (Non-Emergency), Average Speed of Answer, as well as Public Contacts with Gas Lines SQIs are further discussed below.

3.1.1 Meter Reading Accuracy

Meter Reading Accuracy is a measure of the ratio of the number of meters that are read to those scheduled to be read. The benchmark is set at >=95 percent and threshold at 92 percent. FEI's 2021 results are 88 percent, which is 4 percent points lower than the threshold. The June 2022 year-to-date results are 86 percent, which is 6 percent points lower than the threshold.[168]

FEI states that the below threshold Meter Reading Accuracy results of 2021 are attributable to the COVID-19 pandemic and extreme weather conditions in 2021, rather than any action or inaction of FEI.[169] FEI states the below-threshold June 2022 year-to-date results are attributable to staffing challenges due to the impacts of the Omicron variant experienced in the early part of the year, as well as overall labour shortages.[170] FEI expects, barring any unforeseen events, "to meet the threshold and achieve the benchmark on a monthly basis for the remainder of the year."[171]

FEI states it has taken steps to mitigate the impact to customers of lower than threshold performance in meter reading accuracy since bill estimates are generated for the meters which have not been read.[172] FEI explains:

> These measures include: working closely with FEI's meter reading service provider, Olameter, to achieve as many actual meter reads as safely possible; using the best available historical billing information to estimate reads for billing purposes; working with customers to acquire additional

[166] Decision to Order G-165-20.
[167] Exhibit B-2, p. 165.
[168] Exhibit B-2, p. 165.
[169] Exhibit B-2, p. 172.
[170] Exhibit B-2, p. 172.
[171] Exhibit B-2, p. 173.
[172] Workshop Transcript Volume 1, p. 144.

information to support minimizing the variance between estimated and actual reads; and continuing to mitigate bill payment challenges that may result from estimations through flexible and supportive payment arrangements.[173]

For example, FEI states that it reached out to customers who had multiple bill estimates in a row to understand if thy wild be willing to provide a self-read, which may help improve the accuracy of the estimate.[174]

In addition, FEI outlines that it introduced additional leadership touchpoints with Olameter in 2021 that were in addition to the regulatory scheduled meetings to discuss monthly performance level results, Olameter's obligations under the terms of its contract, and where reasonable, the operational challenges faced by Olameter. From these meetings, FEI identified two new actions to provide additional support to Olameter that each related to improving meter reading efficiency.[175]

FEI acknowledges that it levied penalties against Olameter for its meter reading performance which was below the standards set in the contract. Olameter paid penalties of $175,000 and $265,000 to FEI for not meeting performance standards in 2020 and 2021, respectively.[176]

Positions of the Parties

RCIA submits that further process needs to be undertaken to evaluate the continued below-threshold performance of this SQI. RCIA also submits that since FEI's customers are the ones that experienced the degraded service quality, the full amount of penalties paid by Olameter for not meeting the performance standards in 2020 and 2021, respectively, should be credited to FEI's customers as FEI received an economic gain from the receipt of the penalties. In RCIA's view, three of the four factors set out in the BCUC's Consensus Recommendation for evaluating FEI's SQI performance for possible penalties for failure to achieve targets have been met so as to warrant financial penalties.[177] RCIA views that i) FEI received economic gain through the penalties paid by Olameter, ii) the number of estimated bills increased as customer meters were not consistently read monthly which is a degradation of service, and iii) the below-threshold performance has been sustained for over two years and continues to be below threshold.

FEI disagrees with RCIA, stating that RCIA has not followed the guidance of the BCUC for interpreting SQI performance, and that FEI's meter reading performance does not warrant a financial penalty.[178] FEI submits that its Meter Reading Accuracy performance of 88 percent in 2021, which is lower than the threshold target of 92 percent, does not amount to a serious degradation of service as it did not impact the delivery of safe, reliability and adequate service and is only transitory in nature.[179]

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[173] Exhibit B-2, p. 172.

[174] Workshop Transcript Volume 1, p. 145.

[175] Workshop Transcript Volume 1, pp. 145–146.

[176] Exhibit B-4, RCIA IR 9.2.

[177] RCIA Final Argument, pp. 20 – 23. RCIA refers to the factors as "criteria" in its Final Argument. Pursuant to the BCUC's Consensus Recommendations, the BCUC will take into account the following factors: 1) Any economic gain made by FEI in allowing service levels to deteriorate, 2) The impact on the delivery of safe, reliable and adequate service, 3) Whether the impact is seen to be transitory or a sustained nature and 4) Whether FEI has taken measures to ameliorate the deterioration in service (Reference: FortisBC Energy Inc. and FBC Application for Approval of Service Quality Indictor Performance Ranges, Order G-14-15 dated February 14, 2015, Directive 1).

[178] FEI Reply Argument, pp. 26–27.

[179] FEI Reply Argument, p. 30.

In FEI's view, it has experienced "a rare coalescence of transitory factors brought on by global events, including a pandemic and increasingly extreme climate change-driven weather events, which are beyond the utility's control."[180] Further, FEI states, "[it] has not seen any indications that its meter reading challenges have had a measurable impact on overall customer satisfaction and service quality."[181]

Panel Discussion

Although the SQI for meter reading in 2021 is below the threshold SQI by four percent and the year to date results for 2022 are below threshold by six percent, the Panel is of the view that this does not amount to a serious degradation of service and does not warrant taking any action at this time. In addition, the Panel notes that coming out of two pandemic years, there are other factors at play including the COVID-19 pandemic and "extreme climate change-driven weather events" that have adversely impacted this particular SQI. Furthermore, FEI anticipates that its year-end results will improve, leading to meeting its threshold target for the year, with benchmark performance on a monthly basis for the remainder of 2022. In any event, the Panel accepts FEI's evidence that its performance on meter reading over the past two years has not had a measurable impact on overall customer satisfaction and service quality.

With respect to RCIA's proposal that the financial penalties levied by FEI against Olameter should be credited solely to ratepayers, the Panel rejects that proposal as fundamentally inconsistent with the incentive elements of the MRP, in which gains and losses are shared equally between ratepayers and the shareholder pursuant to the earnings sharing mechanism for the term of the MRP. The Panel is not persuaded that the penalties paid by Olameter should be an exception. Furthermore, the Panel notes that RCIA's assertion that FEI's Meter Reading SQI warrants the imposition of penalties against FEI is not supported by the fourth criterion under the BCUC's Consensus Recommendation for penalizing poor performance, namely, that the utility has not taken measures to ameliorate the deterioration in service. Indeed, FEI's evidence is directly to the contrary.[182]

3.1.2 Telephone Service Factor (Non-Emergency) and Average Speed of Answer

The Telephone Service Factor (TSF) (Non-Emergency) SQI is a measure of the percent of non-emergency calls answered within 30 seconds or less. The benchmark is set at >=70 percent and threshold at 68 percent. FEI's 2021 result was 70 percent, which matches the benchmark. The June 2022 year-to-date performance is 61 percent, which is nine percentage points lower than the benchmark.[183]

The Average Speed of Answer (ASA) is an informational indicator that measures the amount of time it takes for a customer service representative to answer a customer's call. The 2021 result was 65 seconds. The June 2022 year-to-date performance is 104 seconds.[184]

FEI attributes its June 2022 year-to-date lower performance in TSF (non-emergency) and ASA to higher-than-normal attrition levels being experienced in the contact centre combined with approximately 160 percent increase in high bill inquires in the first quarter. FEI submits that, among other mitigation measures, it accelerated the timing of planned new hire classes as well as the size of new hire classes in both 2021 and 2022

[180] FEI Reply Argument, p. 34.
[181] FEI Reply Argument, p. 31.
[182] Exhibit B-2, p. 172; Workshop Transcript Volume 1, pp. 144–146.
[183] Exhibit B-2, p. 173.
[184] Exhibit B-2, p. 176.

to mitigate the impact of higher-than-normal attrition levels. As a result, FEI expects the TSF (non-emergency) SQI to recover to threshold levels on a year-to-date basis within the fourth quarter[185] and ASA to improve on a year-to-date basis throughout the remainder of the year.[186]

Positions of the Parties

MoveUP considers that FEI's TSF (non-emergency) SQI and the ASA informational indicator are inadequate.[187] MoveUp asserts that high turnover rates in the contact centre are not a new problem. Further, MoveUP states that FEI has not documented a specific explanation for its "serious staffing problems" in the contact centre" and suggests that the BCUC pay close attention to this issue in the next FEI Annual Review.[188]

FEI disagrees with MoveUp's assertion that the TSF (non-emergency) and ASA are inadequate. FEI submits that this proceeding assesses FEI's 2021 SQI results and in 2021 FEI met the TSF (non-emergency) benchmark of 70 percent. Further, FEI argues that ASA is an informational indicator only and, as such, does not have a benchmark or threshold.[189] Finally, FEI asserts that it is too early to assess FEI's 2022 performance and that it has taken a number of measures to improve performance, which FEI expects to improve by year-end.[190]

Panel Discussion

Although FEI is achieving below benchmark results for the June 2022 year-to-date performance of the TSF (non-emergency) SQI, the Panel finds that FEI has provided sufficient explanation with respect to the measures it has put in place to work toward rectifying the below benchmark performance by the end of 2022 such that no further action is warranted at this time.

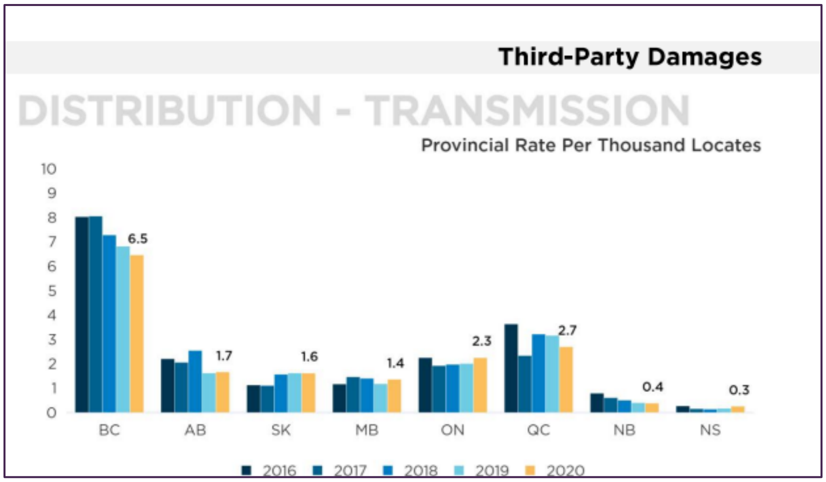
3.1.3 Public Contacts with Gas Lines

The Public Contacts with Gas Lines indicator is defined as the current year average of number of line damages per 1,000 BC One calls received. The benchmark is set at <=8 and threshold at <=12. FEI's 2021 and the June 2022 year-to-date results are 6 and 5 respectively, which are below both the benchmark and the threshold.[191]

FEI provided Figure 2 below from the Canadian Gas Association (CGA) showing the number of line damages per 1,000 line locate requests by province for the years 2017 to 2020.[192]

Figure 2: Distribution - Transmission Third-Party Damages [193]

[185] Exhibit B-2, p. 174.
[186] Exhibit B-2, p. 176.
[187] MoveUp Final Argument, p. 5 .
[188] MoveUp Final Argument, p. 6.
[189] FEI Reply Argument, p. 36.
[190] FEI Reply Argument, pp. 37–38.
[191] Exhibit B-2, pp. 168 – 169.
[192] Exhibit B-4, RCIA IR 8.1.
[193] Exhibit B-4, RCIA IR 8.1.



FEI states that it does not have specific information to explain the difference in the results between provinces. FEI submits that there could be several factors and practices that can influence line damage results which make it difficult for a meaningful comparison of the results between provinces.[194]

Positions of the Parties

While RCIA acknowledges that the Annual Review is not the proceeding to make changes to the SQI thresholds or benchmarks, RCIA recommends that the BCUC direct FEI to provide an explanation for why FEI experiences substantially more gas line damages per 1,000 locates as compared to other provinces, on the basis that FEI should strive to achieve performance in line with the CGA average for damages per 1,000 locates. RCIA submits that this information will help to inform any potential changes to the existing SQI in the future and any changes to FEI's O&M costs that may be necessary to achieve improved performance that is in line with the CGA average.[195]

FEI submits that its performance regarding Public Contacts with Gas Lines in 2021 and 2022 year to date remains better than the benchmark approved by the BCUC for this SQI. FEI states that it has investigated this topic and there is no simple explanation of the difference in FEI's line hits compared to other provinces. FEI submits that RCIA's recommendations are better raised when SQIs are considered again in the context of any subsequent MRP.[196]

Panel Discussion

Although this SQI is performing better than the benchmark, the Panel agrees with RCIA's comment on the need for FEI to provide a better explanation as to why it nonetheless experiences higher numbers of gas line hits than its counterparts in other provinces. The Panel also agrees with both RCIA and FEI that further discussion regarding this SQI and any possible changes is best addressed during the next MRP application.

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[194] Exhibit B-4, RCIA IR 8.1.

[195] RCIA Final Argument, pp. 25–26.

[196] FEI Reply Argument, p. 39.

3.2 Clean Growth Innovation Fund Rate Rider

Pursuant to the MRP Decision, FEI's collection of the $0.40 per month for the CGIF rate rider commenced on August 1, 2020 and is approved for the term of the MRP.[197] Since 2022, FEI outlines that approved spending from the CGIF has been on the following types of projects: renewable gases, transportation, combined heat and power, carbon capture, and general low-carbon research.[198]

For 2023, FEI forecasts it will collect $5.2 million through CGIF rate rider recoveries and invest $2.5 million from the fund into projects which FEI submits are critical to the future of the utility.[199] FEI provides Table 9 below showing the amounts collected and the amounts expended for clean growth projects since the inception of the CGIF to the end of 2023:[200]

Table 9: CGIF Deferral Account ($millions)

	Actual 2020	Actual 2021	Actual Jan-June 2022	Projected July-Dec 2022	Forecast 2023
Opening Balance	**$ -**	**$ (0.791)**	**$ (3.816)**	**$ (5.545)**	**$ (6.739)**
Gross Additions	1.022	1.127	0.372	1.128	2.500
Rider recoveries	(2.099)	(5.093)	(2.567)	(2.552)	(5.158)
Tax	0.291	1.071	0.593	0.384	0.718
AFUDC	(0.005)	(0.130)	(0.127)	(0.154)	(0.422)
Closing Balance	**$ (0.791)**	**$ (3.816)**	**$ (5.545)**	**$ (6.739)**	**$ (9.101)**

While FEI acknowledges that the rider recoveries currently exceed the costs in the CGIF Deferral Account,[201] it explains that all unspent money will be returned with interest to customers at the end of the MRP term.[202] Finally, in response to the BCUC's request during the Workshop for FEI to summarize its customer experience, interest or concerns with respect to the collection of the CGIF rate rider, FEI explains that it has received no comments, positive or negative, on the rate rider.[203]

Positions of the Parties

BCOAPO submits that it is not persuaded that the CGIF and CGIF rate rider were approved as part of the MRP Decision to remain in place until the conclusion of the MRP term.[204]

BCOAPO submits that the collection of the CGIF rate rider should be suspended at the end of 2022 in consideration of a pattern of underspending and to mitigate the delivery rate increase faced by FEI's customers in 2023.[205] Further, BCOAPO submits that FEI should cap its actual spending on clean growth innovations to the

[197] Exhibit B-2, p. 101; Transcript Volume 1, p. 103.
[198] Exhibit B-2, pp. 103–104.
[199] Exhibit B-2, p. 101; Transcript Volume 1, pp. 98–103.
[200] Exhibit B-2, p. 101.
[201] Exhibit B-7, BCOAPO IR 11.1.
[202] MRP Decision, p. 146.
[203] Transcript Volume 1, p. 100.
[204] BCOAPO Final Argument, pp. 8, 11, 12.
[205] BCOAPO Final Argument, pp. 8, 11, 12.

amounts currently available in the CGIF to manage cost to customers "in times when customers are facing a significant delivery rate increase and other inflationary pressures."[206]

In reply, FEI opposes the BCOAPO's recommendations. FEI submits that the need for the CGIF is even greater than it was at the time of the MRP Decision stating, "the impacts of climate change have become more apparent, and provincial policy is moving towards a compliance approach to GHG reductions for natural gas utilities."[207] As such, FEI submits that the need for the utility to step up its innovation efforts is only increasing and the basis for the CGIF, as approved in the MRP Decision, remains sound and in the public interest.[208] FEI argues that cutting off spending now would undermine the efforts of the CGIF to date and hold back projects at the time when funding is needed most (i.e. when projects are closest to resulting in commercially feasible products that can benefit customers and the future of the utility).[209]

Finally, FEI submits that revisiting the terms of the MRP is not within the scope of the Annual Reviews. In its view, FEI should be permitted to proceed as approved, so that it may achieve the objectives that were determined to be in the public interest in the MRP Decision.[210]

Panel Discussion

The Panel rejects BCOAPO's recommendation that CGIF rate rider should be suspended. The Panel agrees with FEI that there is a need for continued investment in innovation efforts. In its MRP Decision, the BCUC determined that "FEI needs to step up its innovation efforts in order to meet the ambitious targets pertaining to renewable gas outlined in the CleanBC Plan" and that "funding for FEI to pursue such initiatives is warranted and required."[211] The Panel agrees with those findings. Furthermore, the Panel disagrees with BCOAPO's submission that in approving the CGIF and CGIF rate rider as part of the MRP, the BCUC did not intend the same to remain in place until the conclusion of the MRP term. The Panel notes that as part of the Annual Review process under the MRP, the BCUC specifically directed FEI to report on the CGIF in each Annual Review.

Additionally, the BCUC noted that "any monies that remain unspent in the Innovation Fund at the end of the Proposed MRP term will be returned to ratepayers. In short, the costs of the Innovation Fund will be limited to the amount of actual expenditures." [212] Nothing has changed since the MRP Decision that would necessitate the BCUC revisiting those determinations. If anything, the Panel is of the view that the current emphasis on electrification and decarbonization within British Columbia makes it more important than ever for FEI to continue to invest in these innovation initiatives in order to reduce the risk of stranded assets for all of its ratepayers. It would be short-sighted and foolhardy to curb that funding now.

DATED at the City of Vancouver, in the Province of British Columbia, this 5th day of December 2022.

[206] BCOAPO Final Argument, p. 9.
[207] FEI Reply Argument, p. 24.
[208] FEI Reply Argument, p. 24.
[209] FEI Reply Argument, p. 25.
[210] FEI Reply Argument, pp. 25–26.
[211] MRP Decision, p. 155.
[212] MRP Decision, p. 155.

Original signed by:

A. K. Fung, KC
Panel Chair / Commissioner

Original signed by:

W. M. Everett, KC
Commissioner

Original signed by:

B. A. Magnan
Commissioner

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ORDER NUMBER
G-352-22

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

and

FortisBC Energy Inc.
Annual Review for 2023 Delivery Rates

BEFORE:
A. K. Fung, KC, Panel Chair
W. M. Everett, KC, Commissioner
B. A. Magnan, Commissioner

on December 5, 2022

ORDER

WHEREAS:

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

B. By letter dated June 28, 2022, FEI proposed a regulatory timetable for the Annual Review of its 2023 delivery rates;

C. By Orders G-194-22 and G-240-22, the BCUC established and later amended the regulatory timetable for the Annual Review of FEI's 2023 delivery rates, which included FEI filing its Annual Review materials, intervener registration, one round of information requests, a workshop, FEI's response to undertakings at the workshop, and written final and reply arguments;

D. On July 29, 2022, FEI submitted its materials for the Annual Review for 2023 Delivery Rates Application (Application). In the Application, FEI requests, among other things, a 7.42 percent delivery rates increase over the 2022 delivery rates, on an interim basis, effective January 1, 2023;

E. On October 24, 2022, FEI filed an evidentiary update (Evidentiary Update) to the Application which adjusted FEI's requested 2023 delivery rates increase from 7.42 percent to 7.69 percent; and

F. The BCUC has reviewed the Application, evidence and arguments filed in the proceeding and makes the following determinations.

NOW THEREFORE pursuant to sections 44.2(3), 59 to 61, 89 and 99 of the *Utilities Commission Act*, for the reasons stated in the decision issued concurrently with this order, the BCUC orders as follows:

1. FEI is approved to recover the 2023 revenue requirement and increase delivery rates for 2023 by 7.69 percent on an interim and refundable/recoverable basis, effective January 1, 2023, pending the outcomes of Stage 1 of the BCUC's current generic cost of capital proceeding and FEI's Application for Acceptance of Demand Side Management Expenditures for 2023 proceeding.
2. The level of forecast sustainment and other capital to be incorporated in rates for the years 2023 and 2024, as set out in Appendix A to the Evidentiary Update, is approved.
3. FEI is approved to:
    a. Establish a rate base deferral account titled, the Gibsons Capacity Upgrade Preliminary Stage Development Costs deferral account, and amortize the deferral account over three years, commencing January 1, 2023;
    b. Amortize the existing COVID-19 Customer Recovery Fund Deferral Account over three years, commencing January 1, 2023;
    c. Change the amortization period of the existing Emissions Regulations deferral account from five years to one year, commencing January 1, 2023; and
    d. Amortize the existing [Fort Nelson service area] FEFN Common Rates and 2022 Revenue Requirement Application Costs deferral account over one year, commencing January 1, 2023.
4. FEI is approved to cease reporting on the COVID-19 Customer Recovery Fund Deferral Account following the submission of a final quarterly report for Q4 2022.
5. FEI is approved to set the Biomethane Variance Account Rate Rider for 2023 in the amount of $0.132 per gigajoule (GJ) as set out in Section 10.3.1 of the Application.
6. FEI is approved to set the Revenue Stabilization Adjustment Mechanism riders for 2023 in the credit amount of $0.209 per GJ as set out in Table 10-5 in Section 10.3.2 of the Application.
7. FEI is approved to set the Fort Nelson Residential Customer Common Rate Phase-in Rate Rider for 2023 in the credit amount of $1.117 per GJ as calculated in Appendix A to the Evidentiary Update.
8. FEI is approved the 2023 Core Market Administration Expense (CMAE) budget of $5.795 million, as set out in Schedule 1 of Appendix B of the Application, and to continue to allocate the CMAE costs between FEI's Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account at 30 percent and 70 percent, respectively.
9. The capital expenditure schedule for the Gibsons Capacity Upgrade Project in the amount of $12.194 million is accepted as set out in Section 2.2 of the Decision.
10. Directive 10 of Order G-319-20 is rescinded and replaced with the following: "FEI is approved to record COVID-19 incremental costs and related savings from 2020 and 2021, as discussed in Section 12.2.1 of the Application, into the Flow-through deferral account."

11. Directive 2 of Order G-83-14 is rescinded and replaced with the following: "Approval is granted until such time as FEI no longer has an exemption to prepare and file its financial statements in accordance with US GAAP or is no longer reporting under US GAAP for financial reporting purposes".

12. FEI is directed to file as a compliance filing, the tariff continuity and billing impact schedules for 2023 no later than 10 days from the date of the issuance of this order.

DATED at the City of Vancouver, in the Province of British Columbia, this 5th day of December 2022.

BY ORDER

Original signed by:

A. K. Fung, KC
Commissioner

FortisBC Energy Inc.
Annual Review for 2023 Delivery Rates

Glossary and List of Acronyms

Acronym	Description
2022 Annual Review	FEI Annual Review for 2022 Delivery Rates
2022 Annual Review Decision	BCUC Decision and Order G-366-21 on the FEI Annual Review for 2022 Delivery Rates dated December 10, 2021
AACE	Association for the Advancement of Cost Engineering
Annual Review	Annual review process
Application	FEI Annual Review for 2023 Delivery Rates Application
AWE	Average Weekly Earnings
AWE-BC	Statistics Canada Average Weekly Earnings for British Columbia
BCUC	British Columbia Utilities Commission
CCRA	Commodity Cost Reconciliation Account
CEA	Clean Energy Act
CGA	Canadian Gas Association
CGIF	Clean Growth Innovation Fund
CMAE	Core Market Administration Expense
CNG	Compressed Natural Gas
CPI	Consumer Price Index
CPI-BC	Statistics Canada Consumer Price Index for British Columbia
CTS TIMC	Coastal Transmission System Transmission Integrity Management Capabilities
DSM	Demand Side Management
DSM Application	FEI Application for Acceptance of Demand Side Management Expenditures for 2023
ESM	Earnings Sharing Mechanism
Evidentiary Update	FEI evidentiary update filed on October 24, 2022
FBC	FortisBC Inc. (FBC)

FEFN	Fort Nelson Service Area
FEFN Common Rates Application	FEI Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area
FEFN Common Rates Decision	BCUC Decision and Order G-278-22 on the FEI Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area dated October 6, 2022
FEI	FortisBC Energy Inc.
GCOC	Generic cost of capital
GCU Project	Gibsons Capacity Upgrade Project
I-Factor	Inflation factor
IG	Island Generation
IP	Intermediate Pressure
IR	Information request
MCRA	Midstream Cost Reconciliation Account
MRP	Multi-year rate plan
MRP Decision	BCUC Decision and Orders G-165-20 and G-166-20 on the FEI and FBC Application for Approval of a Multi-Year Rate Plan for the Years 2020 through 2024 dated June 22, 2020
O&M	Operations and Maintenance
OCU Project	Okanagan Capacity Upgrade Project
Original Forecasts	FEI's 2020 through 2022 Approved forecasts and 2023 and 2024 sustainment and other capital forecasts as reviewed in the MRP proceeding
PJ	Petajoule
ROE	Return on equity
SQI	Service quality indicator
UCA	*Utilities Commission Act*
UCOM	Approved Base O&M per Customer
Workshop	A workshop held on October 14, 2022, facilitated in hybrid format held on October 14, 2022, allowing for in-person and virtual attendance by FEI personnel, the BCUC Panel and staff, and intervenors
X-factor	Productivity factor or productivity improvement factor

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

and

FortisBC Energy Inc.
2023 Annual Review of Delivery Rates

EXHIBIT LIST

Exhibit No.	**Description**
COMMISSION DOCUMENTS	
A-1	Letter dated June 30,2022 – Appointing the Panel for the review of FortisBC Energy Inc.'s Annual Review 2023 Rates Application
A-2	Letter dated July 15, 2022 - BCUC Order G-194-22 establishing a regulatory timetable
A-3	Letter dated August 18, 2022 – BCUC response to RCIA request to intervene
A-4	Letter dated August 19, 2022 – BCUC Order G-240-22 amending the regulatory timetable
A-5	Letter dated August 31, 2022 – BCUC Information Request No. 1 to FEI
A-6	Letter dated October 7, 2022 – BCUC request to FEI for information during workshop
A-7	Letter dated October 31, 2022 – BCUC providing scope for FEI's Reply Argument

APPLICANT DOCUMENTS

B-1	**FORTISBC ENERGY INC. (FEI)** - 2023 Annual Review of Rates – Proposed Process dated June 28, 2022
B-2	Letter dated July 29, 2022 – FEI submitting the Annual Review for 2023 Delivery Rates materials
B-3	Letter dated September 21, 2022 – FEI response to BCUC Information Request No. 1
B-3-1	**CONFIDENTIAL** - Letter dated September 21, 2022 – FEI confidential response to BCUC Information Request No. 1 Question 12.1 and attachment 12.2
B-4	Letter dated September 21, 2022 – FEI response to RCIA Information Request No. 1
B-5	Letter dated September 21, 2022 – FEI response to CEC Information Request No. 1
B-6	Letter dated September 21, 2022 – FEI response to MoveUP Information Request No. 1
B-7	Letter dated September 21, 2022 – FEI response to BCOAPO Information Request No. 1
B-8	Letter dated September 21, 2022 – FEI response to BCSEA Information Request No. 1
B-9	Letter dated October 6, 2022 – FEI submitting agenda for the workshop being held on October 14, 2022
B-10	Letter dated October 14, 2022 – FEI submitting reference to 2022 Generic Cost of Capital dated April 6, 2022
B-11	Letter dated October 14, 2022 – FEI submitting presentation from Rates Workshop
B-12	Letter dated October 19, 2022 – FEI submitting response to Workshop Undertakings
B-13	Letter dated October 24, 2022 – FEI submitting Evidentiary Update to the Application

INTERVENER DOCUMENTS

C1-1	**MOVEUP (MOVEUP)** – Letter dated July 27, 2022 request to intervene by Jim Quail
C1-2	Letter dated August 30, 2022 – MoveUP Information Request No. 1 to FEI
C2-1	**BC SUSTAINABLE ENERGY ASSOCIATION (BCSEA)** – Letter dated July 29, 2022 request to intervene by Thomas Hackney
C2-2	Letter dated August 30, 2022 – BCSEA Information Request No. 1 to FEI
C3-1	**COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF BRITISH COLUMBIA (CEC)** - Letter dated August 12, 2022 Request for Intervener Status by David Craig
C3-2	Letter dated August 31, 2022 – CEC Information Request No. 1 to FEI
C4-1	**BC OLD AGE PENSIONERS' ORGANIZATION, COUNCIL OF SENIOR CITIZENS' ORGANIZATIONS OF BC, DISABILITY ALLIANCE BC, TENANT RESOURCE AND ADVISORY CENTRE, AND TOGETHER AGAINST POVERTY SOCIETY (BCOPAO OR BCOAPO ET AL)** - Letter dated August 12, 2022 - Request for Intervener Status by Irina Mis
C4-2	Letter dated August 31, 2022 – BCOAPO Information Request No. 1 to FEI
C5-1	**RESIDENTIAL CONSUMER INTERVENER ASSOCIATION (RCIA)** – Letter dated August 11, 2022 submitting request to intervene by Samuel Mason
C5-2	Letter dated August 31, 2022 – RCIA Information Request No. 1 to FEI