British Columbia Utilities Commission

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

P: 604.660.4700
TF: 1.800.663.1385
F: 604.660.1102

FortisBC Inc.

Annual Review for 2023 Rates

Decision
and Order G-382-22

December 22, 2022

Before:
E. B. Lockhart, Panel Chair
C. M. Brewer, Commissioner
A. Pape-Salmon, 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 Inc. (FBC) 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 FBC'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, FBC applies to the BCUC for approval of 2023 rates, among other things (Application). For 2023, FBC seeks, as amended, a 3.98 percent interim rates increase from 2022 rates, resulting from a forecast revenue deficiency of $16.299 million. FBC proposes that rates remain interim pending the outcomes of Stage 1 of the BCUC's generic cost of capital (GCOC) proceeding and FBC's Application for Acceptance of Demand Side Management (DSM) Expenditures Plan for the Period Covering 2023 to 2027 (DSM Plan) proceeding. FBC also seeks approval of the level of forecast growth, sustainment and other capital to be incorporated into rates for 2023 and 2024 as previously directed by the BCUC, as well as approvals related to deferral accounts and variances to two orders. Subsequent to the filing of this Application, the DSM Plan Decision and Order G-371-22 was issued on December 16, 2022.

Subject to the adjustments relating to the Corra Linn Spillway Gate Replacement Project outlined in the Decision, the Panel approves FBC to increase rates for 2023 by 3.98 percent on a permanent basis, effective January 1, 2023. Due to the delays in the completion of the Corra Linn Spillway Gate Replacement Project, the Panel directs FBC to remove $27.959 million pertaining to the remaining cost of the project from its 2023 rate base and to make the necessary adjustments to depreciation, financing and return on equity.

As the DSM Plan Decision has been issued, the Panel finds 2023 rates should be set on a permanent basis, effective January 1, 2023.The Panel considered several issues raised by interveners and FBC when determining whether rate should be interim or permanent pending the outcome of the GCOC proceeding, which include: the importance of cost predictability for customers, the challenge that interim rates pose for municipal utilities, and the fact that the GCOC proceeding is still underway. The Panel finds that a deferral account approach balances these considerations and is consistent with past practice in the BCUC's decision on FBC's 2016 Annual Review. For these reasons, the Panel directs FBC to establish a rate base deferral account to capture the difference between FBC's 2023 permanent rates, and any future rate impact resulting from the BCUC's final determinations on Stage 1 of the BCUC's GCOC proceeding.

The Panel approves the level of forecast growth, sustainment and other capital to be incorporated in rates for the years 2023 and 2024 as set out in Section 7.2.1 of the Application and adjusted as described in Table 1 of this decision. The Panel finds that FBC's capital forecasts for the two-year period are reasonable given the evidentiary support provided by FBC in the Application and in information request responses. As anticipated by the MRP Decision, FBC has faced an evolving operating environment and reviewing the capital forecasts for 2023 and 2024 in this Application has provided an opportunity to re-forecast these costs for the remaining years of the MRP term. The Panel is persuaded by FBC that the increase in regular capital expenditures since the MRP proceeding is driven by inflation, the addition of new customers and projects that were not contemplated at that time.

The Panel also approves FBC's deferral account requests, as well as the variances to two orders, as filed.

1.0 Introduction

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

On August 5, 2022, FBC filed its Annual Review for 2023 Rates Application (Application) seeking a 3.99 percent rate increase from 2022 rates, on an interim basis, effective January 1, 2023, pending the BCUC's final determinations on FBC's 2023-2027 demand-side management (DSM) expenditures plan (DSM Plan) proceeding and Stage 1 of the BCUC's generic cost of capital (GCOC) proceeding.[2]

By letter dated November 29, 2022, FBC applied to the BCUC for approval of interim rates, as amended from 3.99 percent to 3.98 percent, pending the BCUC's final decision on the Application (Interim Rates Application). FBC's amended rate request was based on a re-calculation of the forecast 2023 revenue deficiency and resulting rates due to adjustments identified by FBC during the regulatory review process. On December 5, 2022, the BCUC approved the Interim Rates Application as requested.[3]

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

1.1 Background to FBC's Multi-Year Rate Plan

Pursuant to its MRP Decision, the BCUC approved an MRP for FBC 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 FBC'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 FBC 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.[4]

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 FBC'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 FBC's annual revenue requirement. Revenue and cost components outside FBC's control are handled through a deferral mechanism or are given flow-through or exogenous factor treatment.

FBC's MRP includes the following:[5]

- Use of a formula or index-based approach to controllable O&M, 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-2, pp. 1, 9.
[3] Order G-349-22 dated December 5, 2022.
[4] MRP Decision, p. 168.
[5] MRP Decision, p. 169.

    - An inflation factor (I-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 capital;
- A 50 percent sharing between customers and FBC's shareholders if FBC'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;
- Twelve service quality indicators (SQIs), eight of which have performance ranges including benchmarks and thresholds, and four are informational; and
- 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).

A key element of FBC'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 rates:[6]

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 FBC 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 FBC or stakeholders have identified that should be put forward to the BCUC for review;
4. Review of FBC's performance with respect to SQIs;
5. Assessment of recommendations with respect to any SQIs that should be reviewed in future Annual Reviews; and
6. 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.[7] The MRP Decision also directed FBC to submit an updated forecast for the 2023 to 2024 capital expenditures to be incorporated into rates in FBC's Annual Review for 2023 rates.[8]

[6] MRP Decision, p. 167.
[7] MRP Decision, p. 167.
[8] MRP Decision, p. 131; Order G-166-20, Directive 1(c).

1.2 Approvals Sought

FBC seeks the following approvals pursuant to sections 59 to 61 and 89 of the *Utilities Commission Act* (UCA):[9]

1. Approval to recover the 2023 forecast revenue requirement and resultant rate change on an interim basis, effective January 1, 2023, as filed in the Application and subject to any adjustments identified by FBC during the regulatory process and from any directives or determinations made by the BCUC in its decision on the Application pending the outcomes of FBC's DSM Plan proceeding and Stage 1 of the BCUC's GCOC proceeding;
2. The level of forecast growth, sustainment and other capital to be incorporated in rates for the years 2023 and 2024, as set out in Section 7.2.1 of the Application; and
3. Approvals related to two deferral accounts, as well as variances to Orders G-319-20 and G-83-14, as outlined in Sections 2.2 and 2.3, respectively, below.

Except for the proposed interim rates, FBC explains that all other approvals (as outlined above) are requested on a permanent basis. FBC considers that the decision of the BCUC in this proceeding will have otherwise considered and resolved all matters pertaining to the Annual Review, as these other matters are not dependent in any way on the BCUC's final determinations in the two related proceedings affecting 2023 rates which are discussed in Section 1.4 below, or any other decision before the BCUC.[10]

In Section 2.1 below, the Panel reviews FBC's proposed rates for 2023, including the updates identified during the course of the proceeding, followed by a review of the deferral account requests in Section 2.2, and other approvals sought in Section 2.3. Section 2.4 considers whether rates should be approved on an interim or permanent basis. Section 2.5 sets out our overall determination on the 2023 rates and Section 3.0 considers other issues arising from this proceeding.

1.3 Application Review Process

In accordance with the regulatory timetables established by the BCUC, the Panel undertook the following public review process:[11]

- One round of BCUC and intervener information requests (IRs);
- A workshop in virtual format on October 20, 2022 (Workshop);
- FBC responses to undertakings arising from the information requested at the Workshop (if any);
- Written final arguments from interveners filed by November 3, 2022; and
- FBC's written reply argument filed by November 10, 2022.

Prior to the filing of FBC's reply argument, the BCUC issued a letter to FBC on November 8, 2022 requesting specific matters be addressed in FBC's reply.[12]

The following registered interveners participated in the proceeding:

- Movement of United Professionals (MoveUP)
- BC Sustainable Energy Association (BCSEA);
- British Columbia Old Age Pensioners' Organization et al. (BCOAPO);
- British Columbia Municipal Electrical Utilities (BCMEU);

[9] Exhibit B-2, pp. 1–2.
[10] FEI Reply Argument, pp. 7–8.
[11] Order G-193-22 dated July 15, 2022.
[12] Exhibit A-4.

- Residential Consumer Intervener Association (RCIA);
- Industrial Customers Group (ICG); and
- Commercial Energy Consumers Association of British Columbia (the CEC).

1.4 Related Proceedings Affecting 2023 Rates

On June 6, 2022, pursuant to section 44.2 of the UCA, FBC filed its DSM Plan. The DSM Plan was being reviewed in a separate proceeding. Pursuant to section 44.2 of the UCA, the BCUC may not consent under section 61 of the UCA to an amendment to a 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 that 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. FBC is participating in the BCUC-initiated GCOC proceeding and has filed evidence on its recommended capital structure and ROE as part of Stage 1 of that proceeding.[13]

At the time of filing the Application, as noted in Section 1.2, FBC sought approval of interim 2023 rates pending the outcome of Stage 1 of the BCUC's GCOC proceeding, as well as a decision on FBC's DSM Plan. When a decision is reached on both these proceedings, FBC submits that it will update its rate calculations and apply for permanent 2023 rates.[14] DSM Plan Decision and Order G-371-22 was issued on December 16, 2022, with the BCUC approving the DSM expenditure schedule, as outlined in the DSM Plan Application and setting out expenditures for 2023 through 2027.[15]

2.0 Determinations on Approvals Sought

Having outlined FBC's approvals sought in Section 1.2 above, the Panel reviews the requests and the related submissions below.

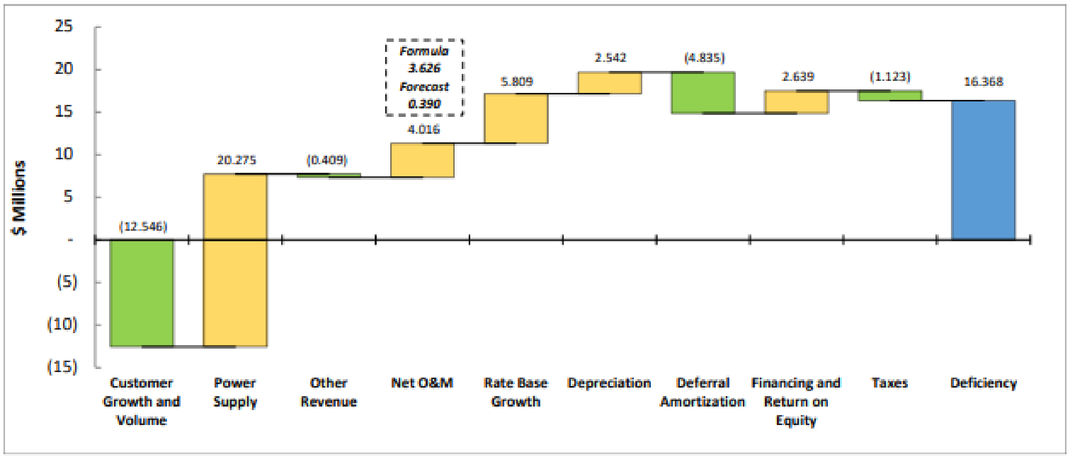
2.1 Components of the 2023 Revenue Deficiency

FBC forecasts a general rate increase, as amended, of 3.98 percent over 2022 rates for 2023. The forecast rates increase for 2023 is based on an amended forecast revenue deficiency of $16.299 million.[16]

Figure 1 below summarizes the items that contributed to FBC's original 2023 forecast revenue deficiency of $16.368 million (Original Revenue Deficiency), prior to the adjustments identified by FBC during the regulatory review process and as presented in the Workshop:

Figure 1: 2023 Forecast Revenue Deficiency Prior to Amendment ($millions)[17]

[13] Exhibit B-2, p. 9.
[14] Exhibit B-2, p. 9.
[15] DSM Plan Decision and Order G-371-22, p.12.
[16] Exhibit B-2, p. 7.
[17] Exhibit B-2, p. 7, Figure 1-1.



As shown in the Figure 1 above, the Original Revenue Deficiency is primarily due to an increase in the cost of power supply or power purchase expense (PPE) and rate base growth, which are partially offset by additional revenue from customer growth and demand.[18] We review these items, as well as FBC's forecast O&M expenses, below.

Table 1 below summarizes and provides a break down of changes to FBC's Original Revenue Deficiency and the impact on rates:

Table 1: Breakdown of Adjustments to Proposed 2023 Rate Increase[19]

	Deficiency ($millions)	% Rate Increase
As-Filed	**$ 16.368**	**3.99%**
Update AWE-BC to I-Factor Calculation	(0.118)	-0.03%
Reclass of EV DCFC Cost of Energy to O&M (BCUC IR1 12.1)	(0.109)	-0.02%
Leasehold Improvement Correction (BCUC IR1 15.3)	0.029	0.01%
2021 Residential UPC Correction (BCOAPO IR1 8.1)	0.099	0.02%
Reduction of the 2023 Growth Capital for DG Bell (BCOAPO IR1 29.8)	0.030	0.01%
Rate Increase after all Changes	**$ 16.299**	**3.98%**

<u>Power Supply</u>

In the Original Revenue Deficiency, FBC forecasts an increase in power supply of $20.275 million in 2023 compared to the 2022 Approved.[20] The increase is primarily due to the increase in load and PPE under the BC Hydro Power Purchase Agreement (PPA).[21] FBC states the power supply represents approximately 43 percent of the total revenue requirement.[22] FBC explains that it plans to reduce its market and contracted purchases as prices increase.[23] As a result, FBC will put a greater reliance on energy supplied by BC Hydro as it becomes more cost effective than the market.[24] FBC also notes that escalations to the Waneta Expansion and Brilliant contract rates contribute to the forecast increase in power supply costs.[25]

[18] Exhibit B-2, p. 1; Workshop Transcript Volume 1, p. 16.
[19] Exhibit B-13, p. 2, Table 1.
[20] Exhibit B-2, p. 7.
[21] Exhibit B-2, p. 7.
[22] Workshop Transcript Volume 1, p. 15.
[23] Exhibit B-2, p. 33.
[24] Exhibit B-2, p. 33.
[25] Exhibit B-2, p. 33.

Rate Base Growth

FBC forecasts 2023 rate base to increase by approximately $92.524 million when compared to the 2022 Approved rate base, resulting in an increase to the Original Revenue Deficiency of $5.809 million for 2023.[26] FBC explains that the increase in rate base is primarily the result of the mid-year impact of FBC's 2023 regular capital additions to plant, as well as the full-year impact of FBC's major capital project additions, including the Kelowna Bulk Transformer Additions project, the Corra Linn Dam Spillway Gates Replacement project, and the Playmor Substation Upgrade project.[27] Regular capital additions include FBC's forecast level of growth, sustainment and other capital update for 2023 and 2024, which is discussed in Section 2.1.3.

As shown in Table 1, during the proceeding, FBC identified two errors in rate base that result in updates to the Original Revenue Deficiency:

1. FBC incorrectly included project costs for the DG Bell Feeder 4 Addition project in the 2023 rate base. As shown in Table 1, the project has been deferred and removed from rate base resulting in a 0.01 percent rate increase for 2023 rates.[28]
2. FBC incorrectly added $0.855 million of leasehold improvements to the asset class 390.1 Structures - Masonry as opposed to asset class 390.9. Leasehold.[29] As shown in Table 1, the change to add this amount to the correct asset class has resulted in a rate impact of 0.01 percent increase for 2023 rates.

Prior to the identification of these errors, FBC stated that the increase in rate base results in an increase in 2023 depreciation expense by approximately $2.752 million compared to 2022 Approved, which is offset by approximately $0.210 million of Contribution in Aid of Construction (CIAC) from net additions, resulting in a net increase of $2.542 million in depreciation expense.[30]

Operations and Maintenance (O&M) Expense

O&M expense is primarily determined by a formula (Formula O&M), with the addition of several items that are forecast outside the formula on an annual basis (Forecast O&M). The 2023 increase in total O&M expense net of capitalized overhead contributes $4.016 million to the Original Revenue Deficiency.[31] This amount comprises the 2023 Formula O&M net of capitalized overhead, which has increased by $3.626 million when compared to the 2022 Formula O&M and Forecast O&M, which has increased by $0.390 million over the 2022 Approved.[32] FBC explains that the Formula O&M from the Original Revenue Deficiency is based on a net I-Factor of 4.017 percent, which includes a productivity improvement factor (X-Factor) of 0.5 percent, and uses a forecast of the change in average customers as approved in the MRP Decision.[33] FBC explains that Forecast O&M is increasing primarily due to an increase in pension and other post-retirement benefits expenses.[34]

Consistent with the approach approved in the MRP Decision, FBC uses inflation data from July through June from Statistics Canada to calculate the I-Factor used in the Application: the actual CPI-BC AWE-BC indices from the previous year and the labour weighting based on the most recent completed year of actuals.[35] In the Application, FBC used April 2022 as a placeholder for May and June 2022 as Statistics Canada had not yet

[26] Exhibit B-2, p. 7.
[27] Exhibit B-2, p. 8.
[28] Exhibit B-6, BCOAPO IR 29.8.
[29] Exhibit B-3, BCUC IR 15.3.
[30] Exhibit B-2, p.8.
[31] Exhibit B-2, p. 8.
[32] Exhibit B-2, p. 8.
[33] Exhibit B-2, p. 8.
[34] Exhibit B-2, p. 8.
[35] Exhibit B- 2, p. 10.

released the results for May and June AWE-BC.[36] FBC has since updated the placeholder in the I-Factor Calculation as in Table 1 above, resulting in a 0.03 percent decrease to 2023 rates.

FBC also updated its Original Revenue Deficiency after it had inadvertently included FBC's Electric Vehicle Direct Current Fast Charging Stations that are under third-party utilities' bills in FBC's cost of energy which should have been included as O&M instead.[37] The correction lowers the 2023 rate increase as shown in Table 1 by 0.02 percent.

Financing and Return on Equity

ROE increased the Original Revenue Deficiency for 2023 deficiency by $2.639 million through changes in financing rates, the ratio of long-term debt versus short-term debt, and changes in rate base.[38] FBC is forecasting a short-term debt rate of 4.24 percent in 2023, which is an increase from the 1.51 percent short-term debt rate embedded in the 2022 Approved revenue requirement.[39] Accordingly, the deficiency is increased by $3.688 million from financing rate changes, which is offset by $1.049 million from the ratio change between long-term and short-term debt.[40]

FBC's ROE for 2023 is based on its current approved capital structure and ROE, as will be discussed further in Section 2.4.

Customer Growth and Volume

In calculating its Original Revenue Deficiency, FBC forecasts a net load increase of 170 Gigawatt hours (GWh) in 2023 compared to 2022 Approved, resulting in a decrease in FBC's 2023 revenue deficiency of $12.546 million.[41] The increase in net load is primarily due to increased loads in the industrial classes from data centre loads, followed by smaller increases in the residential, commercial, wholesale, and irrigation classes.[42]

FBC updated its Original Revenue Deficiency after correcting a 2021 residential Use Per Customer (UPC) error which caused the 2021 UPC to decrease by 0.01 MWh and the 2023 forecast residential load to decrease by approximately 0.05 percent or 693 MWh.[43] The impact on the 2023 proposed rate increase is an increase of approximately 0.02 percent as shown in Table 1.

Positions of the Parties

Interveners generally do not oppose BCUC approval of FBC's proposed 2023 forecast revenue requirement and rates for 2023.[44] However, some interveners raise the following issues, which require further discussion:

1. Whether rates should be approved subject to changes to the I-Factor calculation, as discussed in Section 2.1.1 of this decision;
2. Whether further analysis is required with respect to the gross load forecasts for 2023, as discussed in Section 2.1.2 of this decision;

[36] Exhibit B- 2, p. 10.
[37] Exhibit B-3, BCUC IR 12.1.
[38] Exhibit B-2, p. 9.
[39] Exhibit B- 2, p. 9.
[40] Exhibit B- 2, p. 9.
[41] Exhibit B-2, p. 7.
[42] Exhibit B-2, pp.7–23.
[43] Exhibit B-6, BCOAPO IR 8.1.
[44] RCIA Final Argument, p. 6; MoveUP Final Argument, p. 6; BCSEA Final Argument, p. 3; BCOAPO Final Argument, p. 55; ICG Final Argument, p. 4; BCMEU Final Argument, p. 1; The CEC Final Argument, pp. 1-3.

3. Whether the forecast level of growth, sustainment and other capital for 2023 as well as 2024 should be approved, as discussed in Section 2.1.3 of this decision; and
4. Whether 2023 rates should be approved on an interim or permanent basis, as discussed in Section 2.4 of this decision.

2.1.1 Inflation Factor Calculation

Under the MRP, FBC calculates the I-Factor using the actual CPI-BC and AWE-BC indices for the previous year from Statistic Canada and the actual labour weighting based on the most recently completed year of actuals. [45] FBC had used the latest available month of April 2022 as a place holder for May and June 2022 AWE-BC , as results had not been released by Statistics Canada at the time of the Application. [46] In the Application, FBC applied the actual 2021 labour weighting of 60 percent to calculate the 2023 I-Factor as (CPI of 4.940 percent x 40 percent) + (AWE of 4.235 percent x 60 percent) = 4.517 percent.[47] As noted in Table 1 above, FBC has since updated the AWE-BC placeholder in the I-Factor Calculation with the actual data for May and June which results in a 0.03 percent decrease to the proposed 2023 rates.[48]

FBC observes that while the current AWE-BC trend may not be reflective of its own wage increases at a point in time, FBC expects that over time the higher AWE-BC trend will reverse. [49] FBC notes the levelling-off of the AWE-BC data can be seen comparing the AWE-BC inflation data of 6.455 percent in the FBC Annual Review for 2022 Rates (2022 Annual Review) to 4.235 percent in the 2023 Annual Review.[50] FBC further notes that the CPI-BC used for the 2023 Formula O&M of 4.940 percent is lower than the current CPI of 7 percent as of August 2022, and is not necessarily reflective of the more recent inflationary pressures seen in the broad economy. [51]

Under the MRP, the 2023 I-Factor is used to calculate the formula O&M component of FBC's 2023 forecast revenue requirement.[52] FBC is seeing rising inflationary rates impact formula O&M costs in areas such as travel expenses. [53] Overall, FBC 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.[54] FBC explains 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).[55] FBC states that in order for inflationary pressures in formula O&M to trigger the MRP off-ramp, there would have to be effective inflation of $27.5 million or 52 percent annually, which FBC has no evidence to suggest would occur in either 2023 or 2024.[56]

Positions of the Parties

While the CEC understands that the macroeconomic drivers behind the 2023 upward trend in CPI-BC and the 2021 to 2023 elevated-trend in AWE-BC, the CEC is concerned that the MRP I-Factor formula provides for "little to no opportunity" for recovery from the embedded CPI and AWE effects should these trends decelerate or

[45] Exhibit B-2, p. 10.
[46] Exhibit B-2, p. 10.
[47] Exhibit B-2, pp. 10–11.
[48] Exhibit B-13, p.1.
[49] Exhibit B-9, CEC IR 1.2.
[50] Exhibit B-9, CEC IR 1.2.
[51] Exhibit B-9, CEC IR 1.2.
[52] Exhibit B-2, p. 10.
[53] Exhibit B-3, BCUC IR 2.3.
[54] Exhibit B-3, BCUC IR 2.3.
[55] MRP Decision, p. 101.
[56] Exhibit B-3, BCUC IR 2.3.

reverse in subsequent years.[57] As such, in the CEC's view, longer-term averages are best used for the I-Factor calculation.[58]

As such, the CEC recommends that the I-Factor should be calculated using a 7-year average of CPI-BC and AWE-BC data. [59] The proposed I-Factor is 3.210 percent based on the calculation in Table 2 below.

Table 2: CEC Calculated I-Factor based on 7-year Averages for CPI-BC and AWE-BC[60]

	7-Year Average (2017-2023)	Split for Application	Average Inflation
BC-CPI	2.345	40%	0.938
BC-AWE	3.786	60%	2.272
			3.210

In the CEC's view, the BCUC has the power to review the inflation rate calculations for reasonableness and [61] should make an adjustment to the I-Factor as an exogenous Z-Factor. [62] The CEC calculates that the adjustment between FBC's I-Factor of 4.517 percent less the CEC's recommended I-Factor of 3.210 percent equals 1.307 percent.[63] Applying this 1.307 percent to Formula O&M, the CEC calculates a downward adjustment of approximately $0.914 million to the Formula O&M,[64] which would exceed FBC's Z-factor threshold of $150,000.[65]

In reply, FBC states that the BCUC's reasoning in the 2022 Annual Review Decision remains applicable this year as the CEC has provided no further evidence or justification for the use of a 7-year average and the suggestion continues to be out of the scope of an Annual Review. FBC therefore submits that the methodology for calculating the I-Factor should remain as approved in the MRP Decision.[66]

Panel Determination

For the reasons set out below, the Panel is satisfied that the methodology for calculating the I-Factor should remain as approved in the MRP Decision and therefore we reject the CEC's recommendation to adjust the I-Factor to 3.21 percent and treat it as an exogenous Z-Factor.

The purpose of the Annual Review is not to unravel or revisit the MRP Decision but to provide the BCUC and interveners the opportunity to review the performance of FBC over the prior year [67]. The components of the MRP are meant to work in tandem with one another and therefore once approved, the MRP should be given the opportunity to work as intended. Adjusting individual components of the formula O&M is outside the scope of the Annual Review, especially when the off-ramp provision has not been triggered. The MRP includes an off-ramp provision to mitigate against any potential unintended consequences, such as the impact of rising inflation rates. However, there is no evidence that the off-ramp has been triggered for 2023.

[57] CEC Final Argument, p. 8.
[58] CEC Final Argument, p. 8.
[59] CEC Final Argument, p. 8.
[60] CEC Final Argument, p. 8.
[61] CEC Final Argument, p. 8.
[62] CEC Final Argument, p. 8.
[63] CEC Final Argument, p. 8.
[64] CEC Final Argument, p. 8.
[65] MRP Decision, p. 65.
[66] FBC Final Argument, pp. 10–11.
[67] MRP Decision, p. 165; FBC Annual Review for 2020 and 2021 Rates Decision and Order G-42-21 dated February 12, 2021, p. 14.

2.1.2 Load Forecast

In calculating its Original Revenue Deficiency, FBC's gross system load forecast for 2023 (2023F) is 3,775 GWh, considering weather-normalized residential, commercial, wholesale, industrial, lighting and irrigation loads, system losses, and company use.[68]

FBC considers three time periods to forecast load – Actual Years, Seed Year, and Forecast Year:

- Actual years are those full calendar years for which actual data exists. For this Annual Review, actual data exists up to 2021.
- The Seed Year is the year prior to the first forecast year. For this Annual Review, the Seed Year is 2022 (2022S).
- Forecast year is the year for which the forecast is being developed. For this Annual Review, the Forecast year is 2023 (2023F).[69]

FBC is forecasting the 2023F gross load to increase by 184 GWh from the 2022 Approved load, and 4 GWh from 2022S.[70] The increase in the 2023F load forecast is due to increased loads in the industrial, commercial, wholesale, residential and irrigation classes.[71] Based on the 2023F load forecast and 2022 Approved rates for each customer class, FBC's 2023 revenue forecast is $409.840 million.[72] As noted previously, FBC later updated these forecasts after correcting a 2021 residential UPC error which caused the 2021 UPC to decrease by 0.01 MWh and the 2023 forecast residential load to decrease by approximately 0.05 percent or 693 MWh.[73] The impact on the proposed 2023 rate increase is an increase of approximately 0.02 percent as shown in Table 1.

For all customer classes, FBC calculates the impact on revenue requirement and rates from variations in the 2023F load .[74] Based on the approved treatment of revenue and power supply variances under the MRP, FBC states that variances in load (and therefore variances in revenue and power supply) are captured in the Flow-through deferral account; therefore, the impact of 2023 load variances would be captured in 2024 rates.[75] FBC provided calculations of new revenue requirements and proposed rates under load growth and load attrition scenarios, noting an overall increase in 2023 rates regardless of an increase or decrease in the proposed 2023 load. FBC attributes the rate impact of increased load to increases in the power supply cost and notes the rate impact of reduced load due to loss of revenue.[76]

FBC states that it forecasts energy requirements by customer class based on weather normalized historical loads which are referred to as the "before-savings" loads.[77] FBC further notes that its gross system load forecast also incorporates the impact of forecast load savings, which include DSM savings. DSM savings that are incremental to those embedded in historical loads (up to and including 2021) are also forecast for each customer class and subtracted from the "before-savings loads" to arrive at the "after-savings" loads.[78]

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[68] Exhibit B-2, p. 14.
[69] Exhibit B-2, p. 15.
[70] Exhibit B-2, pp. 14–15.
[71] Exhibit B-2, p. 14.
[72] Exhibit B-2, p. 14.
[73] Exhibit B-6, BCOAPO IR 8.1.
[74] Exhibit B-3, BCUC IR 5.1.
[75] Exhibit B-3, BCUC IR 5.1.
[76] Exhibit B-3, BCUC IR 5.1.
[77] Exhibit B-2, Appendix A3, p. 3.
[78] Exhibit B-2, Appendix A3, p. 3.

FBC explains that incremental DSM savings of 55.9 GWH are made up of projected DSM savings for 2022S of 28.7 GWh and 2023F DSM savings of 27.2 GWh.[79] FBC's rates calculations incorporate the 2023 impact of FBC's 2023-2027 DSM Plan, that is under review in a separate proceeding.

As previously noted, FBC forecasts energy requirements by customer class and provides the following forecast methodologies for its 2023 load:

Residential Load

The 2023F residential after-savings load was originally expected to be 1,301 GWh and is forecast to decrease by 3 GWh in 2023F from 2022S and increase by 18 GWh in 2023F from 2022 Approved levels.[80]

FBC uses historical actuals to forecast future UPC referred to as the "before-savings UPC." The before-savings UPC is based on a 10-year historical trend of annual UPC values from 2012 to 2021.[81] Since cumulative DSM savings per customer are embedded in the historical actuals and used to forecast future UPC, FBC considers that the before-savings forecast UPC includes the impact of the cumulative DSM from prior years.[82] FBC then multiplies the before-savings UPC by the forecast number of customers to derive the residential load forecast. [83] Residential customer counts are forecast using a regression on service territory population as forecast by BC Statistics.[84] FBC then explains that new DSM programs are accounted for with incremental DSM, which is subtracted from the "before-savings UPC" to arrive at the "after-savings" forecast.[85] FBC states that it uses the same approach for forecasting the residential UPC in the Application, as it has used previously in the 2022 Annual Review and in the Annual Review for 2020 and 2021 Rates.[86]

Commercial Load

The total commercial after-savings 2023F load is forecast to be 973 GWh, which is an increase of 11 GWh from 2022S and an increase of 27 GWh from 2022 Approved. The commercial class is forecast based on a regression of load on the provincial GDP forecast obtained from the Conference Board of Canada.[87] The load for Electric Vehicle Direct Current Fast Chargers (EV DCFC) serviced by FBC is then added to 2022S and 2023F and accounts for less than a 1 GWh increase in both 2022S and 2023F.[88]

Industrial and Wholesale Load

The total industrial after-savings 2023F load is 575 GWh and forecast to decrease by 4 GWh when compared to 2022S and increase by 105 GWh from the 2022 Approved forecast. The increased forecast in 2023F compared to 2022 Approved is entirely due to projected increases in data centre loads.[89] The 2023F after-savings wholesale load is forecast to be 578 GWh, which is a decrease by 1 GWh from 2022S and an increase of 18 GWh from 2022 Approved forecast.[90] FBC explains that Industrial and Wholesale forecast loads start with customer responses to surveys and, in the case of industrial customers who did not respond, escalation of the customer's load in the

[79] Exhibit B-9, CEC IR 3.2.
[80] Exhibit B-2, pp. 19–20; Exhibit B-6, BCOAPO IR 8.1.
[81] Exhibit B-2, Appendix A3, pp.3–4.
[82] Exhibit B-6, BCOAPO IR 9.2.
[83] Exhibit B-2, Appendix A3, p. 4.
[84] Exhibit B-2, p. 18.
[85] Exhibit B-2, Appendix A-3, pp. 3–4.
[86] Exhibit B-6, BCOAPO IR 8.2.
[87] Exhibit B-2, p. 20.
[88] Exhibit B-2, pp. 20–21.
[89] Exhibit B-2, p. 23.
[90] Exhibit B-2, p. 22.

preceding year by the Conference Board of Canada forecast GDP growth rates for the industrial sector the customer is in.[91]

Lighting and Irrigation Loads

The 2023F after-savings lighting load is forecast to be 9.4 GWh, which is a decrease by 0.1 GWh from 2022S and decrease by 0.9 GWh when compared to 2022 Approved.[92] The 2023F after-savings irrigation load is forecast to be 39.4 GWh, which is a decrease of 0.1 GWh from 2022S and an increase of 2.3 GWh when compared to 2022 Approved.[93] Lighting and irrigation load forecasts use the prior years' actual loads and represent approximately 1.3 and 0.3 percent of net annual load in 2021 respectively.[94] The before-savings irrigation load forecast uses a five-year average whereas the before-savings lighting load uses the 2021 actual load.[95]

Losses and Company Use

FBC states that the gross system load forecast assumes a loss rate of 7.6 percent to account for losses in the transmission and distribution system, as well as losses due to wheeling through the BC Hydro system and the unaccounted for load. [96] FBC explains that losses are driven by the amount of power that flows over the utility's system.[97] In general, FBC states that, as it upgrades its system, losses on that part of the system will tend to decrease as a result of the upgrades, although FBC does not undertake infrastructure projects solely for the purpose of reducing losses.[98] FBC notes that in order to reduce losses it would need to undertake significant long-term system improvements, the costs of which would offset any decreases in rates.[99]

Positions of the Parties

Other than the exceptions noted below, all interveners either supported or provided no comment on FBC's proposed 2023 load forecast.

As in the FBC Annual Review for 2020 and 2021 Rates and the 2022 Annual Review, BCOAPO submits that DSM savings are being double-counted by using a prior years' load forecast inclusive of DSM savings in predicting future load, and then adding in future DSM savings.[100] BCOAPO continues to suggest an alternative approach to forecast UPC values with no DSM savings – including both historical embedded savings (i.e., up to 2021) and incremental DSM savings for 2022 and 2023.[101] However, given the small variance and the fact that any variance between the actual and forecast use rates will be captured in the Flow-through deferral account to be recovered from/returned to customers in subsequent years, BCOAPO sees no need to pursue the matter further at this time.[102]

In response to BCOAPO, FBC states that it is not double-counting the impacts of DSM.[103] FBC notes that BCOAPO's preferred approach fails to maintain the distinction between the continuing DSM savings from past programs and the incremental DSM savings from new programs. Savings from past DSM programs are reflected

[91] Exhibit B-2, Appendix A-3, p. 5; Exhibit B-2, Section 3.2, p. 14.
[92] Exhibit B-2, p. 23.
[93] Exhibit B-2, pp. 24–25.
[94] Exhibit B-2, Appendix A-3, p. 6.
[95] Exhibit B-2, Appendix A-3, p. 6.
[96] Exhibit B-2, pp.25–26.
[97] Exhibit B-9, CEC IR 8.2.
[98] Exhibit B-9, CEC IR 8.2.
[99] Exhibit B-9, CEC IR 8.3.
[100] BCOAPO Final Argument, p. 13; FBC Annual Review for 2022 Rates Decision and Order G-374-21 dated December 15, 2021, p. 33.
[101] BCOAPO Final Argument, p. 13.
[102] BCOAPO Final Argument, p. 13.
[103] FBC Reply Argument, p. 13.

in historical actual values, however, the incremental savings from new programs are not.[104] FBC submits that its forecasting approach has been accurate and that it does not see any benefit to adjusting its UPC forecast.[105]

The CEC recommends that the BCUC accept FBC's commercial load forecast for 2023 but recommends that the BCUC direct FBC to continue to report on the UPC for small and large commercial customers in its Annual Review for Rates applications.[106] In addition, the CEC recommends that the BCUC direct FBC to provide further commentary on contributing factors to load losses, including potential interactions with load losses and options available to reduce these system losses in the future.[107]

In reply to the CEC, FBC clarified that while it provided commercial UPC values to the CEC in the 2022 Annual Review proceeding in response to a CEC IR, it did not provide this information in that Annual Review application or in the current Application.[108] FBC states that it does not use commercial UPC values to forecast its 2023 commercial load and as a result, it does not consider this information to be relevant to the review of the Application.[109] In addition, FBC submits that utility load losses are highly variable and any long-term system improvements to further reduce losses due to power flows in the system would result in costs that would outweigh the benefit of reduction in PPE.[110] Therefore, FBC submits that the CEC's recommendation would add minimal or no value and should not be accepted.[111]

ICG observes that there is a negative margin with any change in load irrespective of whether there is a load growth or load attrition scenario as compared to the 2023 load forecast.[112] For example, FBC demonstrates that if the 2023 forecast load were to vary by plus or minus five or 10 percent, the 2023 requested rate would increase in all four of those scenarios. FBC explains the impact of the increased load on FBC's power supply cost would outweigh the increase in revenue in the plus five or 10 percent scenarios. In the minus five or 10 percent scenarios, the loss of revenue due to the reduced load outweighs the reduced PPE.[113] ICG submits that FBC should be directed to provide further analysis of this anomaly in the next Annual Review, although it acknowledges that variances in load (and therefore variances in revenue and power supply) are captured in FBC's Flow-through deferral account.[114]

In response to ICG, FBC submits that its rate impact analysis in the event of a load increase or decrease from the proposed 2023F forecast is clear and that no further explanation from what it has already provided is needed.[115]

Panel Discussion

The Panel finds that FBC's load forecast for 2023, as amended, is reasonable for determining rates and calculating the revenue forecast. FBC uses an established and transparent forecast methodology which is consistent with that followed in previous years. Further, variances in revenue and power supply are flow-through items and will be captured in the flow-through deferral account and amortized into rates in future test periods. Finally, this deferral account provides for a true-up in the following year, which means that ratepayers are not at risk for variances between actuals and forecast amounts.

[104] FBC Reply Argument, p. 14.
[105] FBC Reply Argument, p. 14.
[106] CEC Final Argument, p. 16.
[107] CEC Final Argument, p. 24.
[108] FBC Reply Argument, p. 12.
[109] FBC Reply Argument, p. 12.
[110] FBC Reply Argument, p. 15.
[111] FBC Reply Argument, p. 15.
[112] ICG Final Argument, p. 2.; Exhibit B-3, BCUC IR 5.1 shows the referenced load growth and attrition scenarios.
[113] Exhibit B-3 BCUC IR 5.1.
[114] ICG Final Argument, p. 2.
[115] FBC Reply Argument, pp. 15–16.

As in the FBC Annual Review for 2020 and 2021 Rates and the 2022 Annual Review, the Panel agrees with FBC that savings from past DSM programs are reflected in historical actual loads. The Panel is thus not persuaded by BCOAPO's argument that FBC has double-counted DSM savings in its residential UPC forecast. As there has been no change to FBC's UPC forecast methodology and BCOAPO acknowledges a minimal variance in the residential UPC forecast from its preferred approach,[116] the Panel finds that there is no need for FBC to revise the UPC forecast in the 2024 Annual Review.

Given that the commercial UPC has not been required in this or previous Annual Reviews, the Panel is not persuaded by the CEC that FBC should provide further information on its commercial UPC forecast and agrees with FBC that additional information on the commercial UPC would not add value to load forecast calculations for the commercial class.

With regards to the CEC's recommendation that FBC should be directed to provide further commentary on the factors contributing to load losses, the Panel disagrees. FBC has noted that its system load losses are highly variable and has explained the key drivers for load losses in its system. Given that FBC is limited in its options to mitigate power system losses because the costs to reduce losses would offset any decreases in rates, the Panel finds that there would be no benefit to further reporting by FBC on system load loss factors and improvements, and therefore it is not necessary for the next Annual Review of 2024 Rates.

With respect to ICG's recommendations regarding the negative margin with any change in load, the Panel is satisfied with FBC's explanation that rate impacts due to variances in the 2023 load[117] are the result of increased load causing increases in the power supply cost that are in excess of incremental revenues, and reduced load causing a loss of revenue, despite offsetting power supply costs. We are not persuaded that further analysis is required in the 2024 Annual Review.

2.1.3 Capital Expenditures

In calculating its Original Revenue Deficiency, FBC forecasts its rate base to be $1.675 billion for 2023.[118] The 2023 rate base includes the full-year impact of the 2022 closing projected plant balances as well as the impact of the following amounts:

i) The mid-year impact of regular capital additions, net of CIAC additions, of $94.209 million,[119] which are forecast in rate base in the year the assets are expected to be placed into service;[120]

ii) The mid-year impact of plant depreciation, net of CIAC amortization, of $64.407 million; and

ii) The capital additions of CPCNs[121] and other major projects (Major Projects) of $45.439 million,[122]which are included in rate base for the full year in the year following completion of either the entire project with all assets placed into service or individual assets of the project completed in phases being placed into service.[123] For FBC's 2023 rate base, the Major Projects include: [124]

[116] FBC Reply Argument, p. 13.
[117] Exhibit B-3, BCUC IR 5.1 shows the referenced load growth and attrition scenarios.
[118] Exhibit B-2, p. 51.
[119] Exhibit B-2, p. 51.
[120] Exhibit B-6, BCOAPO IR 28.1.
[121] Certificate of public convenience and necessity.
[122] Exhibit B-2, p. 51. Major Projects are capital expenditures that do not form part of regular capital spending as they are approved through a separate CPCN or other application (Reference: Exhibit B-2, p. 65).
[123] Exhibit B-6, BCOAPO IR 28.1.
[124] Exhibit B-2, p. 51.

- Full-year impact of $21.250 million for the capital expenditures and related Allowance for Funds Used During Construction (AFUDC) for the Kelowna Bulk Transformer Additions Project, which is expected to complete in late 2022 or early 2023;
- Full-year impact of $8.036 million for the final capital expenditures and related AFUDC for the Playmor Substation Upgrade Project, which is expected to complete in 2022;
- Full-year impact of $0.002 million of remaining close-out costs in 2022 for the Upper Bonnington (UBO) Old Units Refurbishment Project; and
- Full-year impact of $16.151 million for the final capital expenditures and related AFUDC for the Corra Linn Dam Spillway Gates Replacement Project, which was expected to complete in 2022.[125] In the Application, FBC was not forecasting any capital expenditures related to this project in 2023.[126] Since 2020, a total of $51.768 million has been added to FBC's rate base with the remaining $16.151 million forecast to be added to rate base in 2023 along with $11.808 million of cost of removal.[127] During the proceeding, FBC updated the completion date of this project to Q1 2023.[128] FBC considers the impact to the total project cost to be minimal given the fixed price nature of the construction contract.[129]

The Panel reviews the details of growth, sustainment and other capital (Regular Capital) in the sections below, including the two adjustments to growth and other capital that updated FBC's forecast revenue deficiency as shown in Table 1.

As noted in Section 1.1, in the MRP Decision the BCUC directed FBC to file an updated forecast of the 2023 and 2024 regular capital expenditures in the 2023 Annual Review.[130] Accordingly, in this Application, FBC requests approval for the level of forecast growth, sustainment and other capital to be incorporated in the rates for the years 2023 and 2024 (Updated Forecasts).[131]

Regular Capital Forecasts for 2020 through 2022 were approved in the MRP Decision and original forecasts for 2023 and 2024 (Original Forecasts) were reviewed during the MRP proceeding, but not approved.[132] FBC forecasts increases for 2023 and 2024 compared to the Original Forecasts in all three components of Regular Capital Expenditures: growth capital, sustainment capital and other capital. [133]

Growth Capital

FBC's Updated Forecasts for growth capital have increased by $4.690 million in 2023 and $1.398 million in 2024 compared to the Original Forecasts.[134] FBC forecasts increases in all three growth capital portfolios in 2023.[135] For 2024, the increase is primarily in the new connects portfolio, with FBC reducing the expenditures for the distribution growth portfolio to offset some of the required increases.[136]

Regular transmission growth capital consists of discrete projects as dictated by transmission system capacity requirements based on forecast load for adequate supply during periods of peak demand and adverse weather

125 Exhibit B-2, p. 66.
126 Exhibit B-2, p. 66.
127 Exhibit B-2, p. 66.
128 Exhibit B-6, BCOAPO IR 33.1.
129 Exhibit B-6, BCOAPO IR 33.1.
130 Exhibit B-2, p. 52.
131 Exhibit B-2, p. 1.
132 Exhibit B-2, pp. 51–52.
133 Exhibit B-2, p. 53.
134 Exhibit B-2, p. 54.
135 Exhibit B-2, p. 54.
136 Exhibit B-2, p. 54.

conditions.[137] FBC's updated spend profile on transmission growth projects with capital expenditures greater than $1 million include the DG Bell 2nd Transformer addition, the Beaver Park substation upgrade, and Duck Lake Second Transformer Addition project.[138]

FBC states that the Duck Lake Second Transformer Addition project and Beaver Park Substation upgrade project are driven by significant development occurring in the areas supplied by the substations, and the DG Bell Second Transformer Addition project is required to maintain the current level of reliability and support distribution contingency planning criteria.[139]

With respect to the Beaver Park Substation project, FBC outlines that it plans to rebuild the Beaver Park substation on an expanded station footprint, whereby it will replace the existing transformer and install a second transformer.[140] FBC explains that the upgrade will also improve contingency options for a single transformer outage and provide a reliability benefit to customers because the Beaver Park load cannot be entirely transferred to neighbouring substations and a mobile transformer would be required to support all load during an outage.[141]

In responding to BCOAPO IRs, FBC noted that project costs for the DG Bell Feeder 4 Addition project had been incorrectly included in the 2023 rate base. This project was deferred due to the timing of the City of Kelowna road construction from 2020 to 2022.[142] Therefore, as shown in Table 1 in Section 2.1 of this decision, the 2023 Updated Forecast for the distribution growth portfolio remains consistent with the 2023 Original Forecast of $1.899 million, which results in a 0.01 percent rate increase for 2023.[143]

Sustainment Capital

FBC's Updated Forecasts for sustainment capital have increased by $1.420 million in 2023 and $5.203 million in 2024, compared to the Original Forecasts.[144] FBC states that the expenditures in sustainment capital include system improvements to the transmission and distribution system in order to maintain existing equipment to meet forecast load and for the safety, reliability and quality of the system.[145]

Within FBC's five sustainment capital portfolios, Generation, Transmission Sustainment, Stations Sustainment, Distribution Sustainment and Telecommunications, FBC forecasts increases in capital spending for 2023 and 2024 in three of the five portfolios: Transmission Sustainment, Telecommunications, and Stations Sustainment.[146]

Drivers of Updated Growth and Sustainment Capital Forecasts

FBC cites three drivers of the increases in growth capital and sustainment capital in 2023 and 2024:[147]

- Inflation in the cost of materials, labour and fuel, associated with the COVID-19 pandemic and the war in Ukraine. FBC's Original Forecasts were developed using an assumption of two percent for annual inflation. The market report filed by FBC as part of the Application identified an average escalation of

[137] Exhibit B-2, Appendix A3, p. 1.
[138] Exhibit B-2, Appendix A3, p. 2.
[139] Exhibit B-2, Appendix C2, p. 3.
[140] Exhibit B-2, Appendix C2, p. 3.
[141] Workshop Transcript Volume 1, p. 56.
[142] Exhibit B-6, BCOAPO IR 29.8; Exhibit B-2, Appendix C2, p.4.
[143] Exhibit B-6, BCOAPO IR 29.8.
[144] Exhibit B-2, p. 55.
[145] Exhibit B-2, p. 54.
[146] Exhibit B-2, p. 54.
[147] Exhibit B-2, p. 55.

17.5 percent in capital costs for electric utilities between the first quarter of 2020 and the first quarter of 2022.[148] FBC expects these pressures will continue into 2023 and 2024;[149]

- Increases in growth capital as a result of more customer applications; and
- Additional reliability, refurbishment or end of life projects being required that were not anticipated at the time of the MRP proceeding.

To mitigate these cost pressures, FBC states that it has implemented several strategies, some of which include re-scheduling projects that can be safely re-scheduled to 2023 to accommodate other project cost increases that could not be deferred, tendering large contracts for materials and services to ensure competitive pricing, and entering into long-term supply contracts for commonly used materials and service providers.[150]

Other Capital

FBC states other capital expenditures include equipment, facilities, and information system expenditures.

FBC's 2023 and 2024 capital forecasts for equipment have increased by $0.418 million and $0.329 million, respectively, compared to the Original Forecasts. FBC explains this is due to the average unit cost per vehicle rising as the supply of vehicles has been reduced in relation to demand in the marketplace.[151]

FBC's 2023 and 2024 facilities capital forecasts have increased by $1.959 million and $1.750 million in 2023 and 2024, respectively, compared to the Original Forecasts.[152] FBC states that the majority of the increase is for the Kelowna Space Project.[153] The Kelowna Space Project is a combined project for FortisBC Energy Inc. (FEI) and FBC, and the cost of the project has therefore been allocated between the two utilities. The total cost of the Kelowna Space Project is $13.930 million. Of this total, approximately $2.934 million is allocated to FBC based on employee count, with $1.209 million and $1.000 million reflected in FBC's Updated Forecasts for 2023 and 2024.[154]

As noted in Table 1, FBC identified an error that incorrectly reported $0.855 million of leasehold improvements as additions to the asset class 390.1 Structures - Masonry as opposed to asset class 390.9. Leasehold. FBC submits that this change results in a rate impact of 0.01 percent to the 2023 rates.[155]

Positions of the Parties

Interveners either support or do not comment on the FBC's updates to growth, sustainment and other capital and the level of forecast capital expenditures requested, with the exceptions noted below.[156]

ICG submits that the BCUC should approve FBC's Original Forecasts for 2023 and 2024, rather than the Updated Forecasts, because the opportunity to review new capital plans for 2023 and 2024 has been limited.[157]

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[148] Exhibit B-2, p. 55.
[149] Exhibit B-2, p. 56.
[150] Exhibit B-2, p. 58.
[151] Exhibit B-2, p. 59.
[152] Exhibit B-2, pp. 59–60.
[153] Exhibit B-2, p. 60.
[154] Exhibit B-2, p. 60.
[155] Exhibit B-3, BCUC IR 15.3.
[156] MoveUp Final Argument, p. 6; BCSEA Final Argument, pp. 6–7; CEC Final Argument, p. 34.
[157] ICG Final Argument, p. 3.

In reply to ICG, FBC states that the Original Forecasts were not approved in the MRP Decision and that the BCUC directed FBC to apply for its regular capital for 2023 and 2024 in this proceeding.[158] FBC also submits that ICG had opportunities to raise any concerns on FBC's capital spending throughout the proceeding.[159] FBC submits that its proposed level of 2023 and 2024 capital is reasonable and well-supported.[160]

BCOAPO submits that a significant amount of the load on the Beaver Creek Substation could be transferred to neighbouring stations, and therefore it questions whether the second transformer is required to meet expected load growth or is it planned only to avoid the need for a mobile transformer in the event of an outage.[161]

With respect to Major Capital, BCOAPO submits that some or all of the Corra Linn Spillway Gate Replacement Project capital costs should be included in the year after the project is completed, with the associated costs removed from the 2023 rate base, considering that the substantial completion date has been revised to Q1 2023.[162] BCOAPO notes that the delay in the project until Q1 2023 would also reduce FBC's 2023 depreciation expense.[163]

In reply to BCOAPO, FBC reiterates the key drivers underlying the need for the Beaver Park Substation Upgrade Project include the need to provide resiliency in the event of a single transformer failure. In FBC's view, the installation of a second transformer will replace deteriorated equipment, provide reliability benefits to customers, and ensure sufficient capacity to meet expected load. [164]

FBC did not reply to BCOAPO's submissions on the Corra Linn Spillway Gate Replacement Project.

Panel Determination

The Panel approves the level of forecast growth, sustainment and other capital to be incorporated in rates for the years 2023 and 2024, as set out in Section 7.2.1 of the Application and adjusted as described in Table 1 of this decision. The Panel finds that FBC's capital forecasts for the two-year period are reasonable given the evidentiary support in the Application and in IR responses. The Original Forecasts for 2023 and 2024 were reviewed in the MRP proceeding, however, they were not approved as a part of MRP Decision. The BCUC determined that there are inherent uncertainties in the five-year forecast and directed FBC to file an updated forecast of the 2023 to 2024 capital expenditures in the 2023 Annual Review.[165] As anticipated by the MRP decision, FBC has faced an evolving operating environment and reviewing the capital forecasts for 2023 and 2024 in this Application has provided an opportunity to re-forecast these costs for the remaining years of the MRP term. The Panel is persuaded by FBC that the increase in regular capital expenditures since the MRP proceeding is driven by inflation and the addition of new customers and projects that were not contemplated at that time.

Concerning the Beaver Creek Substation, the Panel accepts that a second transformer is required to improve reliability.

Regarding ICG's request that we approve FBC's Original Forecasts for 2023 and 2024 instead of the Updated Forecasts, the Panel finds that ICG has not provided a reasonable explanation or further evidence to support its request. The Panel disagrees that ICG has been provided limited opportunities to raise concerns on FBC's capital spending. The Panel is satisfied that the parties, including ICG, had ample opportunity to raise any concerns on this matter throughout this proceeding.

With respect to FBC's 2023 forecast capital additions for Major Projects, the Panel notes that FBC did not reply to BCOAPO's submission that a portion of the Corra Linn Spillway Gate Replacement Project capital costs should

[158] FBC Reply Argument, p. 19.
[159] FBC Reply Argument, pp.18–19.
[160] FBC Reply Argument, p. 18.
[161] BCOAPO Final Argument, p. 27.
[162] BCOAPO Final Argument, p. 36.
[163] BCOAPO Final Argument, p. 37.
[164] FBC Reply Argument, pp. 20–21.
[165] MRP Decision, p. 131

enter rate base in 2024 instead of 2023 because the completion date is now Q1 2023 instead of Q4 2022. According to FBC, $51.768 million from the project has already been added to FBC's rate base and the remaining $27.959[166] million that was originally forecasted to be added to rate base by January 1, 2023 is now delayed. FBC's practice is to include costs associated with CPCNs and other capital projects in rate base in the year following completion of either: i) the entire project if all assets are put into service together, or ii) individual assets if the project and assets put into service are completed in phases. As such, consistent with FBC's practice, the Panel finds that the remaining portion of the Corra Linn Spillway Gate Replacement Project capital should remain outside of rate base for 2023 due to the delay in the completion of the project.

Therefore, the Panel directs FBC to remove $27.959 million relating to the Corra Linn Spillway Gate Replacement Project from its 2023 rate base and to place this amount into rate base in the year following completion of the project. The Panel also directs FBC to adjust depreciation, financing and return on equity for 2023 to reflect the removal of the $27.959 million from the 2023 rate base.

2.2 Deferral Account Requests

In addition to the approval sought regarding 2023 rates, FBC seeks approvals related to one new and one existing deferral account. These requests and the related submissions are reviewed below.

2.2.1 Joint Pole Use Audit Deferral Account

FBC seeks approval to establish a rate base deferral account carrying FBC's Weighted Average Cost of Capital (WACC) to capture costs incurred for the 2023 Joint Pole Use Audit, which are estimated at $0.435 million ($0.318 million after tax) to be incurred in 2023.[167] FBC also requests approval to amortize these costs over a five-year period which represents the time period between the required joint pole use audits, beginning January 1, 2023.[168]

FBC explains that under the provisions of FBC's various joint use pole agreements, the parties are required to perform an audit of the joint use pole contacts once every five years, the last of which occurred in 2018.[169] The costs to be included in the proposed deferral account consist of incremental labour, vehicle, and staff expense, in addition to FBC's share of common costs such as data input costs.[170]

FBC states that the forecast costs of the 2023 audit will be financed, for rate-making purposes, at the same rate as they are financed by the utility.[171] Thus, FBC submits that a rate base deferral account is the most appropriate treatment for these deferred costs, rather than a non-rate base deferral account such as the one approved in the FBC Annual Review for 2018 Rates (2018 Annual Review)[172] for the 2018 joint use pole audit.[173] FBC also states that rate base treatment is consistent with the approved treatment of FBC's deferral accounts established in recent years, including for all new deferral accounts requested in the 2020-2021 Annual Review and the 2022 Annual Review.[174] FBC explained in the 2020-2021 Annual Review that it plans to request rate base treatment for new deferral accounts in most circumstances.[175]

Finally, FBC notes that the difference between rate base treatment and non-rate base deferral account treatment (which is financed at FBC's weight average cost of debt (WACD)) for the forecast costs of the 2023

[166] Remaining $16.151 million forecast plus $11.808 million of cost of removal equals $27.959 million.
[167] Exhibit B-2, p. 69.
[168] Exhibit B-2, p. 69.
[169] Exhibit B-2, p. 69.
[170] Exhibit B-2, p. 71.
[171] Exhibit B-3, BCUC IR 19.1.
[172] Order G-38-18 dated February 13, 2018.
[173] Exhibit B-3, BCUC IR 19.1.
[174] Exhibit B-3, BCUC IR 19.1.
[175] Exhibit B-3, BCUC IR 19.1

Joint Pole Use Audit is small and would result in no change to the proposed 2023 rates increase of 3.98 percent when rounded to two decimal places.[176]

Positions of the Parties

ICG is the only intervener to take issue with FBC's request. ICG submits that there is no reason to now consider a deferral account for FBC's joint pole use audit costs to be a rate base deferral account when in the past such a deferral account was considered a non-rate base deferral account.[177] ICG notes that the BCUC has included the financing of deferred costs within the scope of the GCOC.[178] Until the issue has been addressed in the GCOC proceeding, the ICG submits that the Panel should follow the BCUC's decision in the 2018 Annual Review and approve a non-rate base deferral account with carrying charges of WACD, as it did for the 2018 Joint Use Pole Audit.[179]

In reply, FBC submits that rate base treatment is the most appropriate treatment and is consistent with the approved treatment of FBC's established deferral accounts in recent years, including for all new deferral accounts requested in the 2020-2021 and 2022 Annual Review proceedings.[180] FBC states that denying a rate base return on its deferral accounts would be an error of law as it would deny a recovery of FBC's prudently incurred costs and would prevent the utility from earning a fair return on its investment. FBC submits that the BCUC's determination in 2018 is inconsistent with its later decisions and there was no reasoning provided by ICG for why the BCUC should revert to a practice that it has explicitly rejected in more recent decisions.[181] FBC states that, while the BCUC is considering the financing of deferred costs in the GCOC proceeding, it has not made any determination to date and a decision is not expected until at least 2024, after completion of stage 1 and stage 2 of the GCOC proceeding, therefore FBC submits that the BCUC should maintain the status quo.[182]

Panel Determination

FBC is required to perform joint pole use audits every five years under the provisions of its joint pole use agreements, which results in incremental costs to be incurred in 2023. The Panel finds the request to capture these costs in a deferral account to be amortized into rates over the same time period to be reasonable. Therefore, **the Panel approves the establishment of a rate base deferral account for the 2023 Joint Pole Use Audit, with the balance in the deferral account to be amortized over five years commencing January 1, 2023**.

While there is no opposition to capturing these costs in the above-noted deferral account, there are contrasting views about the financing costs that this deferral account should attract. The 2018 Annual Review Decision is not binding on subsequent panels; section 75 of the UCA is clear that we are not bound to follow prior BCUC decisions. On the other hand, we recognize that the BCUC seeks to make decisions that are consistent with prior, relevant decisions. The Panel returns to section 75 of the UCA which requires us to make our decision on the merits and justice of the case.

As such, the Panel rejects ICG's recommendation that we approve a non-rate base account with carrying charges of WACD for the 2023 Joint Use Pole Audit deferral account. Rate base treatment is comparable to other circumstances where FBC's recovery of costs is deferred, such as capital expenditures and working capital. Rate base deferral accounts, as a consequence, apply financing costs based on WACC. The Panel accepts FBC's justification that the costs it incurs for the 2023 joint pole use audit will be financed, for rate-making purposes, at FBC's cost of capital. The Panel also notes this reasoning is consistent with recent BCUC decisions for FBC's 2020-2021 Annual Review and 2022 Annual Review.

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[176] Exhibit B-3, BCUC IR 19.1.
[177] ICG Final Argument, p. 2.
[178] ICG Final Argument, p. 2.
[179] ICG Final Argument, pp. 2–4.
[180] FBC Reply Argument, p. 22.
[181] FBC Reply Argument, p. 24.
[182] FBC Reply Argument, p. 24.

While the Panel is aware that the financing costs of deferral accounts are being reviewed in the on-going GCOC proceeding[183], this does not prohibit the Panel from making a decision on this rate base referral account. We see no real justification for delaying this decision pending the outcome of the GCOC proceeding.

2.2.2 COVID-19 Customer Recovery Fund Deferral Account

FBC seeks two approvals related to the existing COVID-19 Customer Recovery Fund Deferral Account: [184]

1. Approval of a three-year amortization period, commencing January 1, 2023.
2. Approval to cease reporting on the COVID-19 Customer Recovery Fund Deferral Account.

Amortization period

FBC notes that since the 2022 Annual Review, conditions have improved such that most COVID-19 pandemic restrictions in BC have been lifted.[185] FBC states that this, along with improved economic conditions, suggests that ongoing pandemic support is not needed anymore. [186] As a result, based on the positive current outlook for the COVID-19 pandemic and the lessened impact, FBC does not anticipate any further additions to the deferral account after 2022 and proposes to commence amortization of the balance in the COVID-19 Customer Recovery Fund Deferral account on January 1, 2023 using a three-year amortization period. [187]

FBC's COVID-19 Deferral Account comprises of three components with the following balances as at April 2022:

- bill payment deferrals to customers due to the COVID-19 pandemic ($nil balance);
- bill credits provided to customers due to the COVID-19 pandemic ($0.132 million); and,
- unrecoverable revenue resulting from customers being unable to pay their bills due to the COVID-19 pandemic ($0.375 million).[188]

FBC's bill payment deferral program was offered to residential and small commercial customers affected by the COVID-19 pandemic. [189] FBC states that it experienced high collection rates for this program, recovering approximately 85 percent of the outstanding balances. The remaining customer balances were ultimately deemed unrecoverable revenue and were transferred to the COVID-19 Customer Recovery Fund Deferral Account under unrecoverable revenue (which is discussed below). FBC ceased accepting new applications for this program in June 2021 and is therefore not forecasting further additions related to this relief measure. As such, the balance in bill payment deferrals in the current Application was $nil.[190]

FBC's bill credit program offered to small commercial customers has been calculated using the existing balance of $0.132 million as of April 2022. [191] Given the duration and period that these credits were available for, as well as the June 2021 closure of the program for new applications, FBC states that it does not expect additional credits to be offered to customers throughout the remainder of 2022 or in 2023. [192]

FBC states that the unrecoverable revenue portion of the COVID-19 Customer Recovery Fund Deferral Account represents the amount of customer balances owing (i.e., account receivables) that are recognized as unrecoverable due to the COVID-19 pandemic. As such, these amounts are outside of the normal forecast bad

[183] Order G-205-21 dated July 7, 2021, Appendix A (Reasons for Decision), p. 3.
[184] Exhibit B-2, pp. 1–2.
[185] Exhibit B-2, p. 74.
[186] Exhibit B-2, p. 74.
[187] Exhibit B-2, p. 74.
[188] Exhibit B-2, pp. 72–73.
[189] Exhibit B-2, p. 72.
[190] Exhibit B-2, p. 72.
[191] Exhibit B-2, p. 72.
[192] Exhibit B-2, p. 72.

debt expense as recognized in Formula O&M.[193] FBC explains that unrecovered revenue includes industrial and large commercial customers and those residential and small commercial customers that did not participate in the bill payment deferral or bill credit relief offerings.[194]

The sum of bill credits ($0.132 million) and unrecoverable revenue ($0.375 million) equals $0.507 million, which represents the total balance in the COVID-19 Customer Recovery Fund Deferral Account that FBC proposes to amortize over a three-year period.

FBC submits that it considered amortization periods ranging from one to five years, but ultimately determined that three years was most appropriate because it achieves a balance between minimizing rates pressure and requesting an overly long amortization period, as well as matching the number of years during which the COVID-19 Customer Recovery Fund Deferral Account was active (i.e., 2020 through 2022).[195] In addition, FBC noted that all of the amortization periods it reviewed have a similar impact on rates, with the exception of the one-year amortization, which has a greater impact on rates as shown in Table 3 below.[196]

Table 3: Rate Impact and Changes to Proposed 2023 Rates of One to Five Year Amortization Periods for the COVID-19 Customer Recovery Fund Deferral Account[197]

	Amortization Period				
	1 Year	2 Years	3 Years	4 Years	5 Years
Annual Rate Impact to 2022 Approved (%)	0.174%	0.092%	0.065%	0.051%	0.043%
Changes to Proposed 2023 Rate Increase (%)	0.110%	0.027%	0.000%	-0.014%	-0.022%
Proposed 2023 Rate Increase (%)	4.10%	4.02%	3.99%	3.98%	3.97%

Request to discontinue reporting

In 2020, the BCUC directed FBC to file quarterly reports on the COVID-19 Customer Recovery Fund Deferral Account and customer relief measures including the number of customers that have been approved for each program, the number of customers that have applied but have been rejected from participating in the program, and the current balance in the deferral account.[198]

In the Application, FBC seeks approval to discontinue the quarterly reporting requirements for the COVID-19 Customer Recovery Fund Deferral Account as outlined above. If approved, FBC states that the final quarterly report will be for Q4 2022 and would be submitted in Q1 2023.[199]

FBC states it does not see value in continuing to provide separate detailed reporting for this deferral account as there is now more than two full years of reporting, the deferral and credit programs are each closed to new applicants as of June 1, 2021, and additions to the deferral account are planned to be discontinued as of December 31, 2022.[200]

Positions of the Parties

Except as noted below, interveners either did not comment or generally agreed with the proposed approvals relating to the COVID-19 Customer Recovery Fund Deferral Account.[201]

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193 Exhibit B-2, p. 73.
194 Exhibit B-2, p. 73
195 Exhibit B-2, p. 74; Exhibit B-3, BCUC IR 18.3.
196 Exhibit B-3, BCUC IR 18.3.
197 Exhibit B-3, BCUC IR 18.3.
198 Monthly reporting was approved as part of Order G-133-20 and subsequently amended to quarterly reporting by Order G-374-21.
199 Exhibit B-2, p. 75.
200 Exhibit B-2, p. 75.
201 BCSEA Final Argument, pp. 7–8; CEC Final Argument, p. 35; BCOAPO Final Argument, p. 45.

ICG submits that the disposition of the balances in the COVID-19 Customer Recovery Deferral Account should be recovered in accordance with the balances in the deferral account as tracked by customer class.[202]

FBC disagrees with ICG and submits that its proposal to distribute the balance to all customers is just and reasonable. FBC states that the COVID-19 Customer Recovery Fund benefited all customers by minimizing the level of unrecovered revenue due to the pandemic. FBC notes that ICG's proposal would be inconsistent with the historical treatment of bad debts which are recovered from all customers. FBC also notes that recovering the balance by customer class would require the use of rate riders, which is not warranted given the total amount is $507 thousand. This amount amortized over three years results in an annual impact of $169 thousand plus tax.[203]

Panel Determination

The Panel approves a three-year amortization period for the existing COVID-19 Customer Recovery Fund Deferral Account, commencing January 1, 2023. The Panel acknowledges that conditions have improved such that most restrictions in BC regarding the pandemic have been lifted, which suggests that ongoing pandemic support is not needed. Given FBC has ceased accepting new applications as of June 2021 and additions to the account are to be discontinued as of December 2022, the Panel agrees that it is appropriate to begin amortizing the balance in the COVID-19 Customer Recovery Fund Deferral Account into rates at this time. The Panel finds that a three-year amortization period is reasonable because it reflects the same three-year period that the account was in use and minimizes rate impacts while not unduly burdening future ratepayers.

Further, the Panel finds that ICG has not provided a compelling reason to rationalize recovering the balance in the COVID-19 Customer Recovery Fund Deferral Account by customer class. The deferral account should be recovered from all customers because the impacts of COVID-19 were felt across the economy and in principle, should not be constrained to individual rate classes. This is consistent with the way FBC allocates the costs of bad debts. Given the total of annual recovery amount of $169 thousand is small relative to FBC's overall revenue requirement, we do not consider a rate rider is justified.

The Panel approves FBC to cease reporting on the COVID-19 Customer Recovery Fund Deferral Account following the submission of the final quarterly report for Q4 2022. Given that the account will be amortized commencing January 1, 2023, the Panel finds that it is reasonable for FBC to cease reporting and to submit the final quarterly report for Q4 2022 in Q1 2023.

2.3 Other Approvals Sought

As a part of this application, FBC seeks approval, pursuant to section 99 of the UCA, to vary the following orders:

- Directive 6 of Order G-42-21 in order to facilitate the return of the net incremental COVID-19 related cost reductions to customers through inclusion of the cost reductions in the Flow-through deferral account, as described in Section 12.2.1 of the Application;
- Directive 2 of Order G-83-14 to ensure that FBC continues to have approval from the BCUC to use US GAAP[204] for regulatory accounting purposes, as described in Section 12.3.1 of the Application.

These requests and the related submissions are reviewed below.

<u>Variance to Order G-42-21</u>

[202] ICG Final Argument, p. 3.
[203] FBC Reply Argument, p. 24.
[204] US Generally Accepted Accounting Principles.

As a part of the FBC Annual Review of 2020 and 2021 Rates Decision and Order G-42-21, the BCUC directed FBC to record the COVID-19 incremental costs and related savings from 2020 and 2021 in the previously approved COVID-19 Customer Recovery Fund Deferral Account.[205] In this Application, FBC proposes to vary Order G-42-21 in order to return the net incremental cost reductions from 2020 and 2021 to customers in 2023 using the Flow-through deferral account.[206]

FBC explains that, while the COVID-19 pandemic increased many areas of O&M costs in 2020 and 2021, these costs were more than offset by lower employee related expenses. In 2020 and 2021, FBC incurred approximately $1.31 million in O&M costs related to the COVID-19 pandemic.[207] These costs were offset by approximately $2.34 million in employee expense related reductions, which consist primarily of employee expenses that were not incurred such as course fees, travel, meals and accommodation, company function expenses, and employee hiring expenses.[208] These costs and offsets resulted in net incremental cost reductions in the amount of $1.03 million.[209]

FBC summarizes its net incremental cost reductions from the COVID-19 pandemic in the following table:

Table 4: Net Incremental Cost Reductions ($million)[210]

	2020	2021	2020/2021
Direct Costs			
Field Operations	$ 0.46	$ 0.18	$ 0.63
Public Affairs and Communications	$ 0.16	$ 0.01	$ 0.17
Facilities	$ 0.04	$ 0.01	$ 0.05
Management	$ 0.10	$ 0.10	$ 0.20
Other	$ 0.18	$ 0.07	$ 0.25
Total Direct Costs	$ 0.94	$ 0.36	$ 1.31
Cost Reductions	$ (1.05)	$ (1.29)	$ (2.34)
Net difference	$ (0.10)	$ (0.93)	$ (1.03)

FBC proposes to vary Directive 6 of Order G-42-21 which states:

> The COVID-19 incremental costs and related savings from 2020 and 2021 be recorded in the previously approved COVID-19 Customer Recovery Fund Deferral Account as discussed in Section 12.2.1 of the Application.[211]

to now state:

> FBC 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. [212]

FBC provides three reasons to record the net incremental COVID-19 related cost reductions from 2020 and 2021 in the Flow-through deferral account:

(i) It is consistent with the treatment of other exogenous items;

(ii) It will allow the O&M costs reported in the Annual Reports to be more reflective of the actual amounts incurred; and

[205] Order G-42-21, Directive 6.
[206] Exhibit B-2, pp. 1-2.
[207] Exhibit B-2, p. 119
[208] Exhibit B-2, pp. 119-120.
[209] Exhibit B-2, p. 119.
[210] Exhibit B-2, p. 119.
[211] Order G-42-21, p. 2.
[212] Exhibit B-3, BCUC IR 26.6.

(iii) The COVID-19 incremental savings will be returned to customers immediately in 2023, as opposed to over three years, which is the amortization period being proposed for the COVID-19 Customer Recovery Fund Deferral Account (discussed in Section 2.2.2).[213]

In support of its analysis, FBC also provided an analysis of different amortization periods for the $1.03 million net incremental cost reductions as follows:

Table 5: Change to 2023 Rates Increase if Net incremental O&M Costs is Amortized over One, Two or Three Years[214]

	Amortization Period		
	1 Year	2 Years	3 Years
Changes to Proposed 2023 Rate Increase (%)	0.00%	0.18%	0.23%
Proposed 2023 Rate Increase (%)	**3.99%**	**4.17%**	**4.22%**

<u>Variance to Order G-83-14</u>

FBC seeks approval to vary Directive 2 of Order G-83-14 to ensure that FBC continues to have approval from the BCUC to use US GAAP for regulatory accounting purposes.[215]

As part of Order G-83-14, Directive 2 states: "Approval is granted until such time as the FortisBC Utilities no longer has an Ontario Securities Commission exemption to use US GAAP or is no longer reporting under US GAAP for financial reporting purposes."[216]

FBC proposes to vary Directive 2 as follows: "Approval is granted until such time as FBC 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."[217]

FBC follows US GAAP for both financial and regulatory accounting purposes.[218] Since 2011, FBC has made use of an exemption from the Ontario Securities Commission (OSC) permitting FBC to prepare and file its financial statements in accordance with US GAAP.[219] FBC also has the option to obtain an exemption permitting the use of US GAAP by qualifying as a US Securities and Exchange Commission Issuer (SEC 1 Issuer) pursuant to Canadian securities law.[220] During 2022, FBC sought and received approval from its primary securities regulator, the BC Securities Commission (BCSC), for the same exemptive relief as the 2011 OSC exemption.[221] FBC's original exemption from 2011 was filed jointly with FBC's parent company Fortis Inc., whose primary securities regulator is the OSC; however, Fortis Inc. is now an SEC Issuer and no longer makes use of the OSC exemption.[222] As a result, FBC obtained an exemption on a stand-alone basis from the BCSC.[223]

FBC states that it considers the intention of Directive 2 was to ensure that FBC has an exemption from its securities regulator to use US GAAP, and not that an exemption specifically from the OSC was required.[224] FBC

[213] Exhibit B-2, pp. 121-122.
[214] Exhibit B-3, BCUC IR 26.3.
[215] Exhibit B-2, p. 2.
[216] Order G-83-14, p. 2.
[217] Exhibit B-2, p. 123.
[218] Exhibit B-2, p. 122.
[219] Exhibit B-2, p. 122.
[220] Exhibit B-2, pp. 122-123.
[221] Exhibit B-2, p. 123.
[222] Exhibit B-2, p. 123.
[223] Exhibit B-2, p. 123.
[224] Exhibit B-2, p. 123.

notes that it was not contemplated at the time of Order G-83-14 that FBC would make use of a BCSC exemption rather than an OSC exemption.[225]

FBC states there have been no other changes in circumstances beyond the change in the regulatory body granting exemptive relief.[226] However, similar to the original 2011 OSC exemptive relief, the 2022 BCSC exemptive relief is not permanent and expires on January 1, 2027 unless extended.[227] In the event that FBC no longer reports under US GAAP (e.g., converts from US GAAP to IFRS[228]), FBC states that it would file an application for approval from the BCUC at that time.[229]

Positions of the Parties

No interveners oppose the approval of FBC's request to vary orders G-42-21 or G-83-14.[230]

Panel Determination

The Panel orders that Directive 6 of Order G-42-21 is rescinded and replaced with the following: "FBC 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 is persuaded that using the Flow-through deferral account for the costs and related savings discussed in Section 12.2.1 of FBC's 2020 and 2021 Annual Review better reflects actual activity over the years, thereby replacing Directive 6 of Order G-42-21. Given the flow-through treatment also mitigates 2023 rate impacts, the Panel finds the request reasonable.

The Panel orders that Directive 2 of Order G-83-14 is rescinded and replaced with the following: "Approval is granted until such time as FBC 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." The Panel agrees that the intention of Directive 2 was not that an exemption specifically from the OSC was required but that it was to ensure that FBC has an exemption from its securities regulator, to use US GAAP. Given that FBC notes that there have been no other changes in circumstances beyond the change in the regulatory body granting exemptive relief, the Panel considers FBC's request is reasonable.

2.4 Interim versus Permanent 2023 Rates

As outlined in Sections 1.2 and 1.4, FBC is seeking an effective rate increase of 3.98 percent for 2023 compared to 2022 on an interim basis pending the outcomes of FBC's DSM Plan proceeding and Stage 1 of the BCUC's GCOC proceeding.[231]

As noted, on December 16, 2022, the BCUC issued DSM Plan Decision and Order G-371-22 which approved the DSM plan as filed in that application.[232]

Although the DSM Plan proceeding is no longer an issue, FBC states that its permanent rates for 2023 hinge on the outcome of Stage 1 of the BCUC's GCOC proceeding.[233] FBC states, in calculating its amended 2023 revenue

[225] Exhibit B-2, p. 123.
[226] Exhibit B-2, p. 123.
[227] Exhibit B-2, p. 123.
[228] International Financial Reporting Standards.
[229] Exhibit B-2, p. 123.
[230] BCSEA Final Argument, p. 8; BCOAPO Final Argument, p.45; CEC Final Argument, pp. 3, 39-40.
[231] Exhibit B-2, pp. 1, 7.
[232] DSM Plan Decision and Order G-371-22, p.12.
[233] Workshop Transcript Vol. 1, p. 12; Exhibit B-2, p. 9.

deficiency, that it has used its current approved capital structure and ROE of 40 percent and 9.15 percent, respectively, and it has not incorporated any potential change to its ROE or capital structure into the 2023 forecast revenue requirements.[234] On May 5, 2021, the BCUC found that the effective date to implement a new cost of capital will depend on the timing and progress of the GCOC proceeding.[235] FBC explains that when a decision is reached on the GCOC proceeding, it will update its rates calculations and apply for permanent 2023 rates.[236] If the FBC's proposed capital structure of 40 percent common equity and a ROE of 10.0 percent is approved as applied for in Stage 1 of the BCUC's GCOC proceeding, and it is made effective January 1, 2023, FBC calculates at this time that the 2023 rate increase for FBC would be amended from 3.98 percent to 5.90 percent.[237]

In this Annual Review, FBC states that its approach to requesting interim rates is consistent with the approach taken in the FBC Annual Review for 2016 Rates (2016 Annual Review) proceeding, where FBC requested interim rates effective January 1, 2016 pending the outcome of the FEI Common Equity and ROE for 2016 (cost of capital) proceeding that was in progress at that time.[238] FBC states that, depending on the timing and results of the BCUC's final determinations on Stage 1 of the GCOC proceeding, interim rates provide optionality to FBC for proposing permanent rates. For example, FBC explained that it could use a retroactive or forward-looking billing adjustment or a deferral account approach.[239]

Positions of the Parties

Subsequent to final and reply arguments being filed in this proceeding, the DSM Plan Decision was issued.

RCIA, MoveUP and BCSEA support FBC's request for interim rates or have no objections.[240] However, BCOAPO, the CEC and BCMEU do not support FBC's request for interim rates.

BCOAPO submits that FBC's proposal regarding "the scope and duration" of its interim rates creates an unnecessary level of rate uncertainty and that FBC has failed to provide sufficient evidence to approve an uncertain interim term for its rates.[241]

The CEC recommends that the BCUC approve FBC's 2023 rates on a permanent basis, subject to the outcome of FBC's 2023-2027 DSM Plan proceeding and until such time as a BCUC decision is issued with respect to the GCOC proceeding.[242]

The BCMEU requests that the Panel approve FBC rates as final and recommends that any determinations made by the BCUC in Stage 1 of the GCOC proceeding should apply going forward from the date of that decision.[243] The BCMEU is composed of wholesale customers of FBC who operate municipal utilities in the municipalities of Nelson, Penticton, Summerland, and Grand Forks.[244] The BCMEU explains that municipal utilities do not have the ability to implement interim rates and accordingly, will risk a shortfall if there is a retroactive rate increase, effective January 1, 2023, due to the results of the GCOC proceeding.[245] As such, the BCMEU submits that the proper time to implement any decisions on FBC's cost of capital should be on or subsequent to the date of the

[234] Exhibit B-2, p. 9; Exhibit B-3, BCUC IR 1.3.
[235] Exhibit B-2, p. 9; Order G-156-21.
[236] Exhibit B-2, p. 9.
[237] Exhibit B-5, BCSEA IR 2.2.
[238] Exhibit B-3, BCUC IR 1.3.
[239] FBC Workshop Transcript Vol. 1, p. 13.
[240] RCIA Final Argument, p. 6; BCSEA Final Argument, p. 3; MoveUP Final Argument, p. 2.
[241] BCOAPO Final Argument, p. 5.
[242] CEC Final Argument, pp. 37, 25.
[243] BCMEU Final Argument, p. 1.
[244] BCMEU Final Argument, p. 1.
[245] BCMEU Final Argument, p. 1.

BCUC's final decision on Stage 1 of the BCUC's GCOC proceeding.[246] To retroactively apply rates to customers, particularly wholesale customers who cannot apply rates retroactively, is punitive to those customers.[247]

In reply, FBC reiterates that pursuant to section 44.2(2) of the UCA, the BCUC may not approve permanent rates for the purpose of recovering DSM expenditures unless the DSM expenditures have been the subject of an accepted DSM expenditure schedule. In addition, FBC explains that if the GCOC panel directs a change to its cost of capital, effective January 1, 2023, FBC will need to incorporate the impact of that change and adjust 2023 rates accordingly. Barring the deferral account approach, this requires rates to be set on an interim basis now, so that permanent rates can reflect the 2023 impact of any decision in the future.[248] A deferral account approach to capture the impacts of the GCOC decision would have negative impacts in that the balance in the deferral account would not be recoverable until 2024 at the earliest, which would delay recovery by FBC and have rate implications for customers in 2024.[249]

Finally, FBC submits that the Panel in this proceeding should not, and cannot, dictate the date on which the GCOC panel should implement the GCOC decision. In FBC's view, municipalities are aware of the GCOC proceeding and the potential for interim rates, and it is their responsibility to plan accordingly. Municipalities have jurisdiction over the rates charged to their customers and should plan to approve rates to recover their costs as needed.[250]

Panel Determination

For the reasons outlined below, the Panel finds 2023 rates should be set on a permanent basis, effective January 1, 2023.

The DSM Plan Decision and Order was issued on December 16, 2022, and therefore section 44.2 of the UCA, which would prevent the BCUC from setting permanent rates, is no longer relevant. .[251]

The Panel considered several issues raised by interveners and FBC when determining whether rates should be interim or permanent pending the outcome of the GCOC proceeding, including: the importance of cost predictability for customers, the challenge that interim rates pose for municipal utilities, and the fact that the GCOC proceeding is still underway. The Panel finds that a deferral account approach balances these considerations and is consistent with past practice in the BCUC's decision on FBC's 2016 Annual Review.[252] The Panel recognizes that a deferral account adds additional costs in the form of carrying charges for ratepayers and could result in additional rate implications to 2024 if there is a change to FBC's ROE and capital structure in 2023. However, the change would be identifiable and can be incorporated into any general rate increase for 2024 rates, if appropriate, thus providing rate certainty for all customers in 2023.

For the above reasons, **the Panel directs FBC to establish a rate base deferral account to capture the difference between FBC's 2023 permanent rates and any future rate impact resulting from the BCUC's final determinations on Stage 1 of the BCUC's GCOC proceeding, with the amortization period to be determined in a future proceeding.** The Panel finds that a rate base deferral account, which is implicitly financed at FBC's WACC, is reasonable because this results in the amounts expended on behalf of customers being financed for rate-making purposes at the same rate as they are financed by the utility.

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246 BCMEU Final Argument, p. 1.
247 BCMEU Final Argument, p. 1
248 FBC's Reply Argument, p. 6.
249 FBC Reply Argument, p. 7.
250 FBC Reply Argument, p. 9.
251 FBC Annual Review of 2017 Rates Decision and Order G-8-17, p. 5.
252 FBC 2016 Annual Review, Order G-202-15 dated December 14, 2015, Directive 2.

The Panel clarifies that the creation of the above-noted deferral account in this Annual Review does not change or otherwise impact the decisions to be made by the GCOC panel in that proceeding. If there is no change to FBC's ROE and capital structure as determined in Stage 1 of the BCUC's GCOC proceeding, or the effective date of any changes has no impact on 2023 rates, then FBC must close this deferral account.

We consider that BCMEU's recommendation that we find any determinations made by the GCOC panel should apply prospectively is out of scope for this proceeding and decline to take any action.

2.5 Overall Determination on 2023 Rates

Based on the revisions, findings, and determinations on the components of the forecast revenue requirement set out above, and subject to the capital adjustments identified in Section 2.1.3, the Panel finds the forecast revenue requirement is reasonable for setting 2023 rates. Therefore, **subject to the adjustments identified in Section 2.1.3 above, the Panel approves FBC to increase rates for 2023 by 3.98 percent on a permanent basis, effective January 1, 2023. For clarity, the BCUC directs FBC to refund/recover any differences between the interim rates approved in Order G-349-22 and 2023 permanent rates which reflect the adjustments from the removal of $27.959 million relating to the Corra Linn Spillway Gate Replacement Project from its 2023 rate base. The Panel directs FBC to file finalized financial schedules and updated tariff pages within 30 days of the issuance of this decision, reflecting the directives and determinations in this decision.**

In this Annual Review proceeding, FBC has provided sufficient evidence and submissions to satisfy the Panel that a rate increase, subject to the adjustments noted in this decision, is just and reasonable. The Panel notes that almost one-half of the rates increase (43 percent) is due to power purchase costs from an increase in load and rising energy market prices. Rates are also increasing due to growth in rate base with corresponding higher depreciation, and increased financing and ROE costs associated with increasing interest rates. In addition, O&M cost increases are primarily due to costs that are calculated by formulae that were approved in the MRP Decision.

3.0 Other Issues Arising

3.1 New Electric Vehicles Charging Stations

As a part of FBC's Application for Approval of Rate Design and Rates for Electric Vehicle Direct Current Fast Charging Service (FBC EV DCFC Service) Decision and Order G-341-21, the BCUC determined the following:

> The Panel accepts that FBC plans to have the BCUC review whether any EV charging stations that are not included in the Revised Application meet the criteria to be a prescribed undertaking in its Annual Review process. However, if the additional EV charging stations result in the need to recalculate the levelized rate, then it may be more appropriate to review these stations in a separate regulatory process. Therefore, as part of the Annual Review process, the Panel expects FBC to provide sufficient information for the BCUC to assess whether the prescribed undertaking criteria has been met and why the levelized rate does not need to be recalculated as a result of additional EV charging stations. If the levelized rate does need to be recalculated, then the Panel expects FBC to file this information for the BCUC's review as part of a separate application to review its levelized rates, outside of the normal Annual Review process.[253]

In this Application, FBC explains that two new DCFC stations were installed at the existing Naramata and Grand Forks sites in late 2021.[254] FBC states that, while it had identified Naramata and Grand Forks as sites in the

[253] Exhibit B-2, Section 7.2.2.1, p. 64; FBC EV DCFC Service Decision and Order G- 341-21, p. 27.
[254] Exhibit B-2, p. 64.

Revised Application for EV DCFC Service (Revised EV DCFC Application), each site only had a single station in that application and the additional stations built at each site in 2021 were not identified in the Revised EV DCFC Application.[255] In FBC's view, the two new stations each qualify as a prescribed undertaking under the Greenhouse Gas Reduction Regulations (GGRR), as assessed in Table 6 below:[256]

[255] Exhibit B-3, BCUC IR 17.1.
[256] Exhibit B-3, BCUC IR 17.2.

Table 6: Assessment of New EV DCFC Stations as Prescribed Undertakings under the GGRR[257]

	Greenhouse Gas Reduction Regulation Criteria						
GGRR Section	5(1)(a)	5(1)(b)	5(1)(c)	5(2)(a)	5(2)(b)(i)	5(2)(a)(ii)	5(2)(c)
	Station is available for use 24 hours a day by any member of the public	Station does not require users to be members of a charging network	Station is capable of charging electric vehicles of more than one make	Eligible charging station is constructed and operated or purchased and operated by the public utility	The public utility reasonably expects, on the date the public utility decides to construct or purchase an eligible charging station, that		For any eligible charging station coming into operation on or after January 1, 2022, the station uses or is configured to use the Open Charge Point Protocol.
					The station will come into operation by December 31, 2025. (Operation Date)	Is the station located in a limited municipality? (Population – 2021 Census)	
Sites							
Naramata	Yes	Yes	Yes	Yes	Q4 2021	No[1]	Yes
Grand Forks	Yes	Yes	Yes	Yes	Q4 2021	No (4,112)	Yes

In regards to whether the levelized rates for EV DCFC service need to be recalculated as a result of the two additional EV charging stations, FBC submits that it would be inefficient to review the levelized rates in this Annual Review. FBC outlines that it is required to file a detailed assessment of the EV DCFC service by the end of December 31, 2022. Since this assessment will include an update of the EV DCFC service financial models with actual and forecast information as well as a detailed assessment of Rate Schedule (RS) 96 and alternative rate design options,[258] FBC states that it will address the impact of two additional stations at the Naramata and Grand Forks sites on the levelized rates in the assessment report.[259] During the Workshop, FBC noted that, as travel restrictions from the COVID-19 pandemic are lifting and the availability of EVs increase, it expects to meet their forecasted usage that was originally set.[260]

Further, FBC explains that at the end of 2022, there will be 42 EV DCFC stations in service across 23 sites.[261] As such, the forecast costs and revenues for all 42 stations have been included as part of the 2023 rates.[262] For the two new stations installed in 2021 at Naramata and Grand Forks, the incremental revenue requirement (including the offsetting revenue under RS 96) and the equivalent rate impact in 2023 is approximately $35 thousand and 0.008 percent, respectively.[263]

Positions of the Parties

Interveners generally did not comment on whether FBC's EV DCFC stations are prescribed undertakings. BCSEA agrees the stations are prescribed undertakings and ICG supports FBC's proposal that the levelized rates will be assessed in the report due December 31, 2022.[264] BCOAPO states that it expects FBC's detailed assessment of the EV DCFC service will fully explore the increase in usage of FBC's EV DCFC charging stations in the last year and its expectation to meet the levelized rates.[265]

Panel Discussion

The Panel finds the additional EV DCFC station at each of the existing Naramata and Grand Forks sites meet the requirements of the GGRR to be a prescribed undertaking**.** Accordingly, the Panel finds that the assets

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257 Exhibit B-2, p.64.
258 Exhibit B-2, p. 64.
259 Exhibit B-2, p. 64, Exhibit B-3, BCUC IR 17.4.1.
260 FBC Workshop Transcript. P. 39.
261 Exhibit B-2, p. 63.
262 Exhibit B-3, BCUC IR 17.3.
263 Exhibit B-3, BCUC IR 17.3.
264 BCSEA Final Argument, p. 7; ICG Final Argument, p. 4.
265 BCOAPO Final Argument, p. 54.

associated with these stations have been appropriately included in FBC's rate base and the costs and revenues related to these EV DCFC stations in its revenue requirements for 2023.

The Panel agrees with FBC's proposal that it is regulatorily efficient for FBC to address the review of the levelized rates under RS 96 EV DCFC service, including the two new EV DCFC charging stations, in the assessment report due by December 31, 2022. The Panel reminds FBC that Order G-341-21 lays out the expectation that it is to provide sufficient information to assess why the levelized rates do not need to be recalculated as a result of additional EV charging stations.

3.2 Power Purchase Expense and Related Contract Revenue

FBC uses a combination of Company-owned generation entitlements, firm contracted supply, and market purchases to meet its load requirements.[266] FBC's firm resources include the Brilliant Power Purchase Agreement (BPPA), and the Waneta Expansion Capacity Purchase Agreement (WAX CAPA).[267]

For the BPPA, FBC states that the Brilliant PPE is forecasted to increase in 2023 compared to 2022 Projected due to increased rates. Brilliant Power's rates are based on a forecast of the operating and maintenance (O&M) cost of the plant, as well as a true-up to the prior year's actual costs compared to forecast.[268] FBC explains that it uses the same asset management department to manage the Brilliant facility as its own facilities, the only difference being that it works with the owner, Columbia Power Corporation (CPC).[269] FBC states that there is a Brilliant Management Committee, which is composed of two appointees from FBC and two appointees from either CPC or Columbia Basin Trust (CBT). FBC states that part of the responsibilities of the committee include approving an operating plan and budget for the upcoming year, which include FBC's recommendations for work to be performed, and budgeting priorities of CPC and CBT. FBC acknowledges that this committee is not completely independent because two appointees are from FBC, but notes that the two independent members from CPC/CBT serve as a governance function that is necessary for approval of annual scopes of work and O&M costs.[270]

FBC also performs work under contract to third parties at the Brilliant and Waneta hydroelectric generating facilities. FBC explains that this third-party work, and the associated management fees earned, fluctuate from year to year based on customer requirements, which include routine and non routine work planned at the start of the customer's fiscal year.[271]

Positions of the Parties

RCIA requests that the BCUC direct FBC to provide the following in the next Annual Review and during the next MRP for FBC and FEI:

1. Where applicable, elaborate on the relationship between PPEs, particularly power supplier flowthrough costs, and any revenue acquired through contracted work to the same power suppliers through qualitative and quantitative analysis (e.g., a more detailed breakdown of costs).
2. Provide transparency into oversight management committees' decision-making processes and how FBC internal processes (e.g., asset management practices) are incorporated into these processes,

[266] Exhibit B-2, p. 30.
[267] Exhibit B-2, pp. 30–31.
[268] Exhibit B-2, p. 34.
[269] FBC Workshop Volume 1 Transcript, pp. 28–29.
[270] Exhibit B-7, RCIA IR 5.1.
[271] Exhibit B-2, p. 39.

including qualitative discussions and submissions of materials such as meeting minutes and other relevant documentation for review.[272]

RCIA submits that its concern relates to power supplier variable costs that flow through to FBC in the form of PPE, and the variable costs' relationship to contract revenue that FBC obtains from the same power suppliers.[273]

In RCIA's view, the BCUC and intervening parties in future rate applications and FBC's next MRP should have an opportunity to engage in thorough reviews of power supplier costs (e.g., O&M costs or otherwise) stemming from FBC's power purchase agreements, such that ratepayers are not overburdened with disproportionate rate charges. RCIA submits that there is no truly independent arm's length entity that works to ensure residential ratepayers are paying for optimum costs within the power purchase agreements.[274]

In reply, FBC submits that RCIA is free to review and challenge power supplier flow-through costs and contract revenues when FBC files for approval of its next MRP, but that this is beyond the scope of this proceeding and FBC's next Annual Review which are governed by the currently approved MRP. As such, FBC submits that the RCIA's recommendations for FBC to file further information in its next Annual Review should not be accepted. FBC also submits that RCIA's request for further information in FBC's next MRP is premature as the current MRP is still in progress, and RCIA has not established any particular concern with respect to FBC's costs that warrant a BCUC direction.[275]

Panel Discussion

The Panel acknowledges RCIA's concerns regarding PPEs and the related contract revenues from the same power suppliers. However, these items are beyond the scope of Annual Reviews, and therefore the Panel points RCIA to the next MRP or Long-term Resource Planning proceedings as better avenues for providing transparency.

3.3 Service Quality Indicators

In the MRP Decision, the BCUC approved a balanced set of SQIs for FBC, covering safety, responsiveness to customer needs, and reliability. SQIs are used to monitor the utility's performance to ensure that any efficiencies and cost reductions do not result in a degradation of the quality of service to customers. Eight 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 informational purposes only.[276]

As noted in Section 1.1 above, the Annual Review provides an opportunity for the BCUC and interveners to review FBC's SQI results for the prior year and the year-to-date (YTD) results for the current year. The final evaluation of the results for the current year will be completed in the next Annual Review once complete SQI results for 2022 are known.[277]

For the eight SQIs with benchmarks, FBC reports that six SQIs met or were better than benchmark and two were between the benchmark and threshold in 2021. For June 2022 YTD, FBC submits that the performance metrics with benchmarks are trending towards meeting the benchmark or threshold.[278] Table 7 below summarizes FBC's 2021 and June 2022 YTD results as follows:

[272] RCIA Final Argument, pp. 8–9.
[273] RCIA Final Argument, p. 6.
[274] RCIA Final Argument, p. 8.
[275] FBC Reply Argument, p. 17.
[276] MRP Decision, Section 3.3, pp. 96–100; FBC Annual Review for 2020 and 2021 Rates Decision and Order G-42-21, p. 24.
[277] Workshop Transcript Volume 1., p. 77.
[278] Exhibit B-2, pp. 9, 130.

Table 7: FBC Approved SQIs, Benchmarks, 2021 and June 2022 YTD Performance[279]

Performance Measure	Description	Benchmark	Threshold	2021 Results	June 2022 YTD Results
Safety SQIs					
Emergency Response Time	Percent of calls responded to within two hours	>=93%	90.6%	93%	95%
All Injury Frequency Rate (AIFR)	3 year average of lost time injuries plus medical treatment injuries per 200,000 hours worked	<=1.64	2.39	0.67	0.80
Responsiveness to Customer Needs SQIs					
First Contact Resolution	Percent of customers who achieved call resolution in one call	>=78%	74%	82%	78%
Billing Index	Measure of customer bills produced meeting performance criteria	<=3.0	5.0	0.12	0.14
Meter Reading Accuracy	Number of scheduled meters that were read	>=98%	96%	99%	99%
Telephone Service Factor (Non-Emergency)	Percent of non-emergency calls answered within 30 seconds or less	>=70%	68%	70%	63%
Customer Satisfaction Index	Informational indicator - measures overall customer satisfaction	-	-	8.4	8.4
Average Speed of Answer	Informational indicator – the amount of time it takes to answer a call (seconds)	-	-	65	98
Reliability SQIs					
System Average Interruption Duration Index (SAIDI) – Normalized	Annual SAIDI (average of cumulative customer outage time)	3.22[65]	4.52	4.27	2.94
System Average Interruption Frequency Index (SAIFI) - Normalized	Annual SAIFI (average customer outage)	1.57	2.19	2.08	1.58
Generator Forced Outage Rate	Informational indicator – Percent of time a generating unit is removed from service due to component failure or other events.	-	-	0.23%	0.85%
Interconnection Utilization	Informational indicator – percent of time that an interconnection point was available and providing electrical service to wholesale customers.	-	-	99.90%	99.91%

With respect to the informational performance measures (i.e. Customer Satisfaction Index, Average Speed of Answer, Generator Forced Outage Rate and Interconnection Utilization), FBC reports that performance in 2021 generally remains at a level consistent with prior years.[280] For the June 2022 YTD results, FBC states that the recovery of the Average Speed of Answer back towards normal performance is expected through the remainder of the year.[281]

<u>All Injury Frequency Rate (AIFR)</u>

The AIFR is an employee safety performance indicator based on injuries per 200,000 hours worked. For this SQI, the measurement of performance (benchmark and threshold) is based on the three-year rolling average of the annual results.[282] FBC's historical annual and three-year rolling average AIFR results are summarized in the following table:

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[279] Exhibit B-2, p. 131, Table 13-1.
[280] Exhibit B-2, p. 130.
[281] Exhibit B-2, p. 139.
[282] Exhibit B-2, p. 133.

Table 8: FBC 2014 to June 2022 YTD AIFR Results[283]

Description	2014	2015	2016	2017	2018	2019	2020	2021	June 2022 YTD
Annual Results	3.21	1.54	1.15	1.13	1.56	0.46	0.66	0.89	1.25
Three year rolling average	2.58	2.52	1.97	1.27	1.28	1.06	0.87	0.67	0.80
Benchmark	1.64								
Threshold	2.39								

FBC states that the 2021 (three-year rolling average) result is 0.67 and June 2022 YTD (three-year rolling average) results is 0.80, which are each better than the benchmark of 1.64. FBC states that building on the commitment to learn from safety events, identifying safety hazards, assessing risks and continually improving through the implementation and sustainment of robust safety barriers and controls, continues to be a key driver for the utility.[284]

Telephone Service Factor (TSF) (Non-Emergency)

The TSF (Non-Emergency) measures the percentage of non-emergency calls that are answered in 30 seconds compared to the number of non-emergency calls received.[285] FBC states that the principal factors influencing the TSF (Non-Emergency) results include the volume and type of inbound calls received, and the resources available to answer those calls. Other factors that can influence the TSF (Non-Emergency) results are billing system-related issues, weather patterns that may generate a high number of billing-related queries, and complexity of the calls.[286] FBC's historical TSF (Non-Emergency) results are summarized in the following table:

Table 9: FBC 2014 to June 2022 YTD TSF (Non-Emergency) Results[287]

Description	2014	2015	2016	2017	2018	2019	2020	2021	June 2022 YTD
Annual Results	48%	71%	70%	70%	72%	70%	70%	70%	63%
Benchmark	70%								
Threshold	68%								

FBC acknowledges that the June 2022 YTD performance for the Telephone Service Factor (Non-Emergency) is currently 63 percent, which is 7 percentage points below the benchmark. FBC explains that it has faced a number of challenges in the first quarter of 2022 which have impacted its June 2022 YTD performance in the TSF (Non-Emergency). These include higher than normal attrition levels being experienced in the contact centre, and colder temperatures in the first quarter, resulting in a higher volume of high bill inquiries than anticipated and lasting longer than typical (carrying into April instead of early March).[288]

FBC states, however, that it expects performance to improve by year end, noting that its performance, on a monthly basis, since June 2022 has stabilized and is now a lot closer to the threshold level.[289] FBC explained that its stabilization plan is focused on coaching and exploring the potential use of data analytics to help identify potential opportunities for improvements, among other things.[290]

Average Speed of Answer (ASA)

283 Exhibit B-2, p. 133.
284 Exhibit B-2, p. 133.
285 Exhibit B-2, p. 136.
286 Exhibit B-2, p. 136.
287 Exhibit B-2, p. 137.
288 Exhibit B-2, pp. 136–137.
289 Workshop Transcript, pp. 79, 94.
290 Exhibit B-3, BCUC IR 27.1; Workshop Transcript, p.95.

The ASA measures the amount of time in seconds that it takes for a customer service representative to answer a customer's call. FBC's performance results for 2021 and June 2022 YTD, as well as 2014 to 2020, are presented in the following table:

Table 10: FBC 2014 to June 2022 YTD ASA Results[291]

Description	2014	2015	2016	2017	2018	2019	2020	2021	June 2022 YTD
Annual Results	226	49	48	49	49	49	71	65	98
Benchmark	n/a								
Threshold	n/a								

FBC states that the June 2022 YTD results reflect the challenging circumstances in the first quarter of 2022, which are described above related to the TSF (Non-Emergency). FBC submits that a recovery of the ASA back towards normal performance is expected to continue through the remainder of the year.[292]

Positions of the Parties

Except as noted below, interveners either did not comment or generally agree that FBC's SQI results for 2021 and June 2022 YTD indicate that the utility is meeting service quality requirements.[293]

MoveUP submits that the current performance of FBC's TSF (Non-Emergency) and ASA is "inadequate."[294] In MoveUP's view, the financial and operational impacts of staff vacancies are significant and FBC's difficulties recruiting and retaining staff have had a serious impact in the customer contact centre in particular.[295] MoveUP submits that the BCUC should pay particular attention to the "staffing crisis" in the customer contact centre and demand "significant improvement" when FBC files its 2024 Annual Review materials.[296]

In reply, FBC submits that MoveUP is incorrect as all FBC's 2021 customer-service related SQIs met or exceeded the approved benchmark.[297] FBC explains that while attrition is higher than normal at the end of 2021 and first two quarters of 2022, there is no evidence that indicates a "crisis". Moreover, FBC states that 2022 results for the TSF (Non-Emergency) have stabilized, and that the monthly ASA is expected to be in the 60 seconds range by end of 2022.[298]

BCOAPO submits that it is concerned about the year-over-year decline in the AIFR results since 2019 although historical performance is above the benchmark. BCOAPO submits that a continued deterioration in these results should be of concern "even if the benchmark is exceeded."[299] Regarding the TSF (Non-Emergency) and ASA, BCOAPO states that it expects FBC to provide a full explanation in the next Annual Review of the efforts undertaken in 2022 and 2023 to improve its performance if the results do not improve by the end of the year.[300]

FBC disagrees in principle that SQI results that are better than the benchmark "should be of concern." On the contrary, the fact that FBC's AIFR SQI results have exceeded the benchmark since 2015 is indicative of a

[291] Exhibit B-2, p. 139.
[292] Exhibit B-2, p. 139.
[293] CEC Final Argument, pp. 41–42; ICG Final Argument, p. 1; BCOAPO Final Argument, p. 53.
[294] MoveUP Final Argument, p. 5.
[295] MoveUP Final Argument, p. 3.
[296] MoveUP Final Argument, p. 6.
[297] FBC Reply Argument, p. 25.
[298] FBC Reply Argument, p. 27.
[299] BCOAPO Final Argument, p. 47.
[300] BOAPO Final Argument, p. 51.

consistently high level of service quality.[301] For the TSF (Non-Emergency) and ASA, FBC responds to BCOAPO stating that, consistent with past BCUC determinations, it is the 2021 actual results that should be the subject of review in this proceeding, while 2022 actual results will be evaluated in the next Annual Review. Notwithstanding, FBC argues that is has explained the causes of the results to date, which have had a compound effect, and the steps that it is taking to improve TSF (Non-Emergency) and ASA performance.[302]

The CEC encourages FBC to continue to improve its performance in its customer-related SQIs, specifically related to the TSF (Non-Emergency) and ASA.[303]

Panel Discussion

The Panel finds FBC's 2021 and June 2022 YTD SQI results indicate that its overall performance meets service quality requirements. FBC's performance in 2021 met or exceeded the benchmark in all eight indicators with a benchmark or threshold. For 2022 to date, FBC's performance has met or exceeded the benchmark in seven indicators. In the one area in which FBC's performance is below threshold (TSF Non-Emergency), the Panel accepts FBC's explanation that its performance is expected to improve and is now trending towards the threshold by year end given FBC's most recently available data. Accordingly, the Panel disagrees with MoveUP and BCOAPO that FBC's performance is inadequate or concerning. Further, the Panel also disagrees with BCOAPO's concern regarding the decline in AIFR results because these results exceed the benchmark.

Regarding the ASA SQI, the Panel notes that this is an informational indicator only, for which there is no approved benchmark or threshold in the MRP Decision. Consequently, while the ASA does appear to be increasing, the Panel declines to comment on whether FBC's performance meets service quality requirements and what action(s) may be needed.

[301] FBC Reply Argument, pp. 27–28.
[302] FBC Reply Argument, pp. 25–27.
[303] CEC Final Argument, p. 42.

Dated at the City of Vancouver, in the Province of British Columbia, this 22nd day of December 2022.

Original signed by:

E. B. Lockhart
Panel Chair / Commissioner

Original signed by:

C. M. Brewer
Commissioner

Original signed by:

A. Pape-Salmon
Commissioner

bcuc
British Columbia
Utilities Commission

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

P: 604.660.4700
TF: 1.800.663.1385
F: 604.660.1102

ORDER NUMBER
G-382-22

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

and

FortisBC Inc.
Annual Review for 2023 Rates

BEFORE:
E. B. Lockhart, Panel Chair
C. M. Brewer, Commissioner
A. Pape-Salmon, Commissioner

on December 22, 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. and Order G-166-20 for FortisBC Inc. (FBC) approving a Multi-Year Rate Plan for 2020 through 2024 (MRP Decision). In accordance with the MRP Decision, FBC is to conduct an annual review (Annual Review) process to set rates for each year;

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

C. By Order G-193-22 dated July 15, 2022, the BCUC established a regulatory timetable for the Annual Review of FBC's 2023 rates, which included the anticipated date for FBC to file its Annual Review materials, the deadline for intervener registration, one round of information requests, a workshop, FBC's response to undertakings at the workshop, intervener written final arguments and FBC written reply argument;

D. On August 5, 2022, FBC submitted its Annual Review for 2023 Rates Application seeking, among other things, pursuant to sections 59 to 61 and 89 of the *Utilities Commission Act* (UCA), approval of a general rate increase of 3.99 precent over 2022 rates (Application);

E. By letter dated November 29, 2022, FBC submitted a request to the BCUC for approval of an amended interim general rate increase of 3.98 percent over 2022 rates, effective January 1, 2023. The amended rate request was based on a re-calculation of the forecast 2023 revenue deficiency and resulting rates due to adjustments identified by FBC during the regulatory review process and which were explained at the workshop;

DATED at the City of Vancouver, in the Province of British Columbia, this 22nd day of December 2022.

BY ORDER

Original signed by:

E.B. Lockhart
Commissioner

F. By Order G-349-22, dated December 5, 2022, the BCUC approved an amended general rate increase of 3.98 percent over 2022 rates, on an interim and refundable/recoverable basis, effective January 1, 2023, pending the BCUC's final decision on the Application; and

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

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

1. Subject to the adjustments from the removal of $27.959 million relating to the Corra Linn Spillway Gate Replacement Project from its 2023 rate base as outlined in the Decision, FBC is approved to increase its rates for 2023 by 3.98 percent on a permanent basis effective January 1, 2023.

2. FBC is directed to establish a rate base deferral account to capture the difference between FBC's 2023 permanent rates, and any future rate impact resulting from the BCUC's final determinations on Stage 1 of the BCUC's Generic Cost of Capital proceeding.

3. The level of forecast growth, sustainment and other capital to be incorporated into rates for the years 2023 and 2024, as set out in Section 7.2.1 of the Application and adjusted as described in Table 1 of the Decision, is approved.

4. FBC is approved to:

    a. Establish a rate base deferral account for the 2023 Joint Pole Use Audit, with the balance in the deferral account to be amortized over five years commencing January 1, 2023;

    b. Amortize the existing COVID-19 Customer Recovery Fund Deferral Account over a three-year period, commencing January 1, 2023; and

    c. Cease reporting on the COVID-19 Customer Recovery Fund Deferral Account following the submission of a final quarterly report for Q4 2022.

5. Directive 6 of Order G-42-21 is rescinded and replaced with the following: "FBC 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."

6. Directive 2 of Order G-83-14 is rescinded and replaced with the following: "Approval is granted until such time as FBC 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."

7. FBC is directed to file finalized financial schedules and updated tariff pages within 30 days of the issuance of this order, reflecting the directives and determinations in this Decision.

8. FBC is directed to comply with all other directives identified in the Decision.

Fortis BC Inc.
Annual Review for 2023 Delivery Rates

Glossary and List of Acronyms

Acronym	Description
2018 Annual Review	FBC Annual Review for 2018 Rates
2020-2021 Annual Review	FBC Annual Review for 2020 and 2021 Rates
2022 Annual Review	FBC Annual Review for 2022 Rates
2022 Annual Review Decision	BCUC Decision and Order G-374-21 on the FBC Annual Review for 2022 Rates dated December 15, 2021
2022S	Seed Year (the year prior to the first forecast year)
2023F	2023 Forecast Year (the year for which the forecast is being developed
AFUDC	Allowance for Funds Used During Construction
AIFR	All Injury Frequency Rate (employee safety performance indicator)
Annual Review	An annual review process to set rates for each year of the MRP
Application	FBC Annual Review for 2023 Rates Application
ASA	Average Speed of Answer
AWE	Average Weekly Earnings
AWE-BC	Statistics Canada Average Weekly Earnings for British Columbia
BCMEU	British Columbia Municipal Electrical Utilities
BCOAPO	British Columbia Old Age Pensioners' Organization et al
BCSEA	British Columbia Sustainable Energy Association
BCSC	British Columbia Securities Commission
BCUC	British Columbia Utilities Commission
BPPA	Brilliant Power Purchase Agreement
CBOC	Conference Board of Canada
The CEC	Commercial Energy Consumers Association of British Columbia
CIAC	Contribution in Aid of Construction
CPC	Columbia Power Corporation
CPI	Consumer Price Index
CBT	Columbia Basin Trust
DCFC	Direct Current Fast Charging

DSM	Demand Side Management
DSM Plan	FBC’s 2023-2027 demand-side management (DSM) expenditures plan
ESM	Earnings Sharing Mechanism
EV DCFC	Electric Vehicle Direct Current Fast Chargers
FEI	FortisBC Energy Inc.
Formula O&M	Formula by which Operations and Maintenance (O&M) expense is determined
GAAP	Generally Accepted Accounting Principles
GCOC	Generic Cost of Capital
GGRR	Greenhouse Gas Reduction Regulations
GWh	Gigawatt hours
ICG	Industrial Customers Group
I-Factor	Inflation Factor
IFRS	International Financial Reporting Standards
IR	Information Request
MoveUP	Movement of United Professionals
MRP	Multi-year Rate Plan
MRP Decision	BCUC approved multi-year rate plan for FortisBC Inc. covering a five-year period from 2020 to 2024
O&M	Operations and Maintenance
Original Revenue Deficiency	FBC’s original 2023 forecast revenue deficiency before adjustments
OSC	Ontario Securities Commission
PPA	Power Purchase Agreement
PPE	Power Purchase Expense
Revised EV DCFC Application	FortisBC Inc. Revised Application for Approval of Rate Design and Rates for Electric Vehicle Direct Current Fast Charging Service dated 2020-09-30
ROE	Return on Equity
RS	Rate Schedule
SEC Issuer	US Securities and Exchange Commission Issuer
SQI	Service Quality Indicators
TSF(Non-Emergency)	Telephone Service Factor (Non Emergency)
UBO Project	Upper Bonnington Old Units Refurbishment Project

UPC	Use per Customer
WACC	Weighted Average Cost of Capital
WACD	Weight Average Cost of Debt
WAX CAPA	Waneta Expansion Capacity Purchase Agreement
X-Factor	Productivity Improvement Factor
O&M Costs	Operation and Maintenance Costs
RCIA	Residential Consumer Intervener Association
RRA	Revenue requirement application
UCA	*Utilities Commission Act*
UPC	Use Per Customer
WACC	Weighted Average Cost of Capital
WACD	Weight Average Cost of Debt
Workshop	FBC workshop held virtually on October 22, 2022

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

and

FortisBC Inc.
2023 Annual Review of Rates

EXHIBIT LIST

Exhibit No.	Description
COMMISSION DOCUMENTS	
A-1	Letter dated June 30, 2022 - Appointing the Panel for the review of FortisBC Inc.'s Annual Review 2023 Rates Application
A-2	Letter dated July 15, 2022 - BCUC Order G-193-22 establishing a regulatory timetable
A-3	Letter dated September 15, 2022 – BCUC Information Request No. 1 to FBC
A-4	Letter dated November 8, 2022 - BCUC providing scope for FBC's Reply Argument
A-5	Letter dated December 5, 2022 – BCUC Order G-349-22 approving interim rates
APPLICANT DOCUMENTS	
B-1	**FORTISBC INC. (FBC)** - 2023 Annual Review of Rates – Proposed Process dated June 28, 2022
B-2	Letter dated August 5, 2022 – FBC submitting the 2023 Annual Review of Rates Application
B-3	Letter dated October 6, 2022 – FBC submitting responses to BCUC Information Request No. 1
B-4	Letter dated October 6, 2022 – FBC submitting responses to MoveUP Information Request No. 1
B-5	Letter dated October 6, 2022 – FBC submitting responses to BCSEA Information Request No. 1
B-6	Letter dated October 6, 2022 – FBC submitting responses to BCOAPO Information Request No. 1

B-7	Letter dated October 6, 2022 – FBC submitting responses to RCIA Information Request No. 1
B-8	Letter dated October 6, 2022 – FBC submitting responses to ICG Information Request No. 1
B-9	Letter dated October 6, 2022 – FBC submitting responses to CEC Information Request No. 1
B-10	Letter dated October 12, 2022 – FBC submitting Workshop Agenda
B-11	Letter dated October 20, 2022 – FBC submitting Workshop Presentation
B-12	Letter dated October 24, 2022 – FBC submitting response to Workshop Undertaking
B-13	Letter dated November 29, 2022 – FBC submitting Interim Rate request

INTERVENER DOCUMENTS

C1-1	**MOVEUP (MOVEUP)** – Letter dated July 27, 2022 request to intervene by Jim Quail
C1-2	Letter dated September 15, 2022 – MoveUP Information Request No. 1 to FBC
C2-1	**BC SUSTAINABLE ENERGY ASSOCIATION (BCSEA)** – Letter dated July 29, 2022 request to intervene by Thomas Hackney
C2-2	Letter dated September 14, 2022 – BCSEA submitting Information Request No. 1 to FBC
C3-1	**BRITISH COLUMBIA OLD AGE PENSIONERS' ORGANIZATION, DISABILITY ALLIANCE BC, COUNCIL OF SENIOR CITIZENS' ORGANIZATIONS OF BC, AND THE TENANT RESOURCE AND ADVISORY CENTRE (BCOAPO) –** Letter dated August 17, 2022 submitting request to intervene by Leigha Worth
C3-2	Letter dated September 15, 2022 – BCOAPO Information Request No. 1 to FBC
C4-1	**BRITISH COLUMBIA MUNICIPAL ELECTRICAL UTILITIES (BCMEU)** – Letter dated August 18, 2022 submitting request to intervene by Scott Spencer
C5-1	**RESIDENTIAL CONSUMER INTERVENER ASSOCIATION (RCIA) -** Letter dated August 18, 2022 submitting request to intervene by Matthew Matusiak
C5-2	Letter dated September 15, 2022 – RCIA Information Request No. 1 to FBC
C6-1	**INDUSTRIAL CUSTOMERS GROUP (ICG) -** Letter dated August 20, 2022 revised request to intervene by Robert Hobbs
C6-2	Letter dated September 15, 2022 – ICG submitting Information Request No. 1 to FBC
C7-1	**COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF BC (CEC)** – Letter dated August 19, 2022 request to intervene by David Craig
C7-2	Letter dated September 15, 2022 – CEC submitting Information Request No. 1 to FBC