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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-14-05

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

and

**An Application by FortisBC Inc.
for Approval of 2005 Revenue Requirements,
2005-2024 System Development Plan and 2005 Resource Plan**

BEFORE: L.F. Kelsey, Panel Chair and January 24, 2005
Commissioner
P.G. Bradley, Commissioner

O R D E R

WHEREAS:

- A. On November 26, 2004, FortisBC Inc. ("FortisBC") filed its 2005 Revenue Requirements Application (the "Application") with the British Columbia Utilities Commission ("Commission"). FortisBC applies for an Order, pursuant to the applicable provisions of the Utilities Commission Act (the "Act") including Sections 23, 45, 57, 60, and 61, approving the Application for the purpose of setting rates and other ancillary matters; and
- B. The Application includes a request for an interim refundable general rate increase of 4.4 percent, effective January 1, 2005. The increase is based, in part, on a proposal to increase the equity risk premium of FortisBC from 40 to 75 basis points. In response to a Commission request, FortisBC determined that the general rate increase would equal 3.7 percent if derived on the basis of its existing equity risk premium of 40 basis points; and
- C. As part of its Application, FortisBC filed its 2005-2024 System Development Plan pursuant to Section 45 (6.1)(a) of the Act. FortisBC filed its 2005 Resource Plan, pursuant to Section 45 (6.1)(b) of the Act, on December 21, 2004. FortisBC seeks Commission approval that these plans satisfy the requirements of Section 45 of the Act and are in the public interest; and
- D. The Commission required that interim rates be established and that a regulatory process be established to review the Application, the System Development Plan and the Resource Plan; and
- E. The Commission issued Order No. G-111-04 on December 14, 2004 approving for FortisBC an interim rate increase of 3.7 percent, effective January 1, 2005, subject to refund with interest calculated for the refund period at the average prime rate of the principal bank with which FortisBC conducts its business; and
- F. The Commission, through Order No. G-111-04, established a regulatory process to review the Application, the System Development Plan and the Resource Plan; and

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- G. Commission staff issued a letter on January 18, 2005 providing participants with a Draft Amended Regulatory Timetable and Draft Issues List to assist them in their preparation for the FortisBC Workshops and Commission Pre-Hearing Conference, as set down in Order No. G-111-04; and
- H. The Commission held a Pre-Hearing Conference in Kelowna, BC on January 21, 2005, wherein the Commission Panel considered submissions by participants on finalizing the issues, process steps and regulatory schedule for the proceeding. As part of its consideration of process steps, the Commission Panel heard submissions by parties on whether certain issues would be appropriately reviewed by Technical Committee; and
- I. The Regulatory Timetable set down in Order No. G-111-04 established that the Commission will issue an Order finalizing the regulatory schedule for the remainder of the regulatory process.

NOW THEREFORE the Commission orders as follows:

- J. The Regulatory Timetable set down in Order No. G-111-04 is amended and finalized according to the timetable attached as Appendix A to this Order. An Oral Public Hearing will commence on March 21, 2005 in Kelowna, BC.
- K. Issues associated with the Load Forecast, Demand-Side Management, Power Purchases, and Capital Additions will be reviewed by four separate Technical Committees as an adjunct to the Oral Public Hearing. Each Committee will comprise FortisBC staff, Registered Intervenors and Commission staff. FortisBC is to organize each Committee and solicit from Registered Intervenors their desire to form part of any specific Committee. Each Technical Committee will submit a report with recommendations to the Commission by Monday, March 14, 2005, one week prior to the commencement of the Oral Public Hearing. Each Technical Committee will set down their own schedule so as to meet this deadline.
- L. The regulatory process, including both the Oral Public Hearing and the work of the Technical Committees, will include a review, as necessary, of the issues detailed in the Issues List attached as Appendix B to this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 24th day of January 2005.

BY ORDER

Original signed by:

L. F. Kelsey
Panel Chair and Commissioner

Attachments

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AMENDED REGULATORY TIMETABLE

Action	Date
Registration deadline for Intervenor and Interested Parties	Wednesday, January 5, 2005
Workshop System Development Plan & Resource Plan	Tuesday, January 18, 2005, Trail
Workshop System Development Plan & Resource Plan	Thursday, January 20, 2005, Kelowna
Annual Review 2004 Revenue Requirements Settlement	Thursday, January 20, 2005, Kelowna
Workshop: 2005 Revenue Requirements Application	Friday, January 21, 2005, Kelowna
Pre-Hearing Conference 2005 Revenue Requirements Application & Plans	Friday, January 21, 2005, Kelowna
Commission Order finalizing regulatory process	Monday, January 24, 2005
Filing of Commission Information Requests to FortisBC	Friday, January 28, 2005
Filing of Intervenor Information Requests to FortisBC	Wednesday, February 2, 2005
Filing of FortisBC response to all Information Requests	Friday, February 18, 2005
Filing of Intervenor Evidence	Friday, February 25, 2005
Filing of Information Requests on Intervenor Evidence to Applicable Intervenor	Friday, March 4, 2005
Filing of Intervenor response to all Information Requests	Friday, March 11, 2005
Filing of Technical Committee Reports	Monday, March 14, 2005
Oral Public Hearing – Kelowna, BC	Monday, March 21 – Thursday, March 24, 2005
Filing of FortisBC Argument	Friday, April 15, 2005
Filing of Intervenor Final Argument	Friday, April 22, 2005
Filing of FortisBC Reply Argument	Friday, April 29, 2005

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ISSUES LIST

Volume 1 – 2005 Revenue Requirements Application

1. ROE and Capital Structure

- Basis for debt/equity ratio of 60/40
- Basis for increase in risk premium from 40 to 75 basis points

2. Historical data for Rate Base

- Additional detail on the major components of the rate base and how they have increased/decreased on a historical Basis (Perhaps 10 years of history).
- Additional detail by capital expenditure by project
- Rate Base continuity schedules for gross plant and accumulated depreciation/amortization
- Reconciliation of Capital Expenditures to Plant Additions
- 2005 Depreciation Study; depreciation rates for assets
- Additional detail on Deferred Charges and Credits
- Additional Detail on Allowance for Working Capital
- Adjustment for Capital Expenditures versus 13 month average calculation
- Software Additions and Software tax credit

3. Performance standards

- Actual performance
- Customer expectations and needs
- Appropriate goals
- How those goals relate to Capital and OM expenditures
- Adequacy of service levels

4. Analysis of Base levels for O and M and sustaining capital

- Changes to historical levels
- Reliability goals
- How expenditures will achieve those goals.

5. O and M Expenses – Customer Service and Administration and General

- Initiatives to improve customer service
- Buy-out of lease vehicles
- Other expense reduction opportunities
- Pension details

- Post retirement benefits: accrual or cash basis
- Stock options as a utility expense
- Uncollectable accounts variability
- Details on Insurance

6. **Power Purchases**

- Opportunity for and costs of longer term capacity purchases
- Brilliant Agreement (educational)
- Power Purchase incentive Mechanism Proposal
- Appropriateness?

7. **Cost of Debt**

- Forecast issue of \$75 million in unsecured debentures
- Prime rate forecast
- 2005 Deemed debt and interest rate
- Other refinancing opportunities

8. **Income Taxes**

- CCA and Un-depreciated capital cost
- Treatment of additions to deferred charges, AFUDC, capitalized overhead
- Surtax and Large Corporation Tax
- Software tax credit

9. **Capital Tax**

- BC Capital tax appeal

10. **AFUDC**

- Methodology

11. **Capitalized Overhead**

- Methodology

12. **Other Income**

- Pricing (market vs. cost)
- Additional opportunities for earning other income

13. **Proposal for Sharing for 2005**

- New vs. existing sharing mechanisms
- 2005 incentives

14. Transition Plan to a stand-alone utility

- Costs vs. benefits
- Total impact on annual recurring O&M expenses

15. Load Forecast

- Use per account and Customer forecast - assumptions, inputs and methodology by customer class
- Improvement of load forecasting i.e. separation of Okanagan and West Kootenay residential demand

16. Demand Side Management

- Planned and forecast costs and savings - assumptions, inputs and methodology
- Incentive Mechanism - Targets and Performance
- Program measure cost effectiveness
- Rate Base treatment and amortization
- Conservation Potential Review

17. Miscellaneous

- Design of bills
- Billing estimates
- Canal Plant Agreement renegotiation
- Present value calculations
- Line losses
- Capital Improvement Programs (Big White, 11-line, Boundary supply, 32-line)
- Contracting out processes for capital projects
- Purchase of PLP – effect on FortisBC ratepayers
- Relationship of Walden Hydro Electric Project in Lillooet to FortisBC Inc. and Fortis Inc.

Volume 2 – System Development Plan 2005 - 2024

- Implications of the Capital Plan and the System Plan for the next 5 to 10 year period on rate increases and customers' ability to sustain these increases.
- Opportunities for alternative capital expenditure scenarios
- Examination of methods of prioritization

Volume 3 – 2005 Resource Plan

1. **Forecasts**

- Load Forecast
- DSM Forecast
- Electricity Market Price Forecast

2. **Load / Resource Balance**

- Existing and planned resources
- Renewal of BC Hydro Power Purchase Agreement
- Purchase options
- New firm resources - CCGT, BC Clean resources
- DSM resources

3. **Resource Plan Model and Cases**

- Inputs and Assumptions - Common and Case Specific
- Methodology
- Results and Sensitivity analysis

4. **Conclusions and Action Plan**