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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-13-06

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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 2006 Revenue Requirements
and Establishment of a Multi-Year Performance Based Regulation Mechanism**

BEFORE: L.F. Kelsey, Panel Chair and Commissioner
L.A. O'Hara, Commissioner

February 14, 2006

O R D E R

WHEREAS:

- A. On November 24, 2005, FortisBC Inc. ("FortisBC") filed for approval of its 2006 Revenue Requirements and to establish a Multi-Year Performance Based Regulation Mechanism ("the Application") with the British Columbia Utilities Commission ("the Commission") pursuant to Sections 60 and 61 of the Utilities Commission Act ("the Act"); and
- B. The Application requested an interim rate increase of 5.9 percent, effective January 1, 2006. The increase was based, in part, on significant capital expenditures, a change in the amortization rates for various assets and an increase in the amount of overheads charged to capital; and
- C. Commission Order No. G-52-05 dated May 31, 2005, approved FortisBC's 2005 Revenue Requirements Application, directed that an Annual Review of the 2005 incentive sharing mechanism along with a Review of the Performance Based Regulation Mechanism take place; and
- D. The Commission issued Order No. G-130-05 on December 2, 2005 approving for FortisBC an interim rate increase of 5.9 percent, effective January 1, 2006 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
- E. Commission Order No. G-130-05 further established a regulatory timetable for an Annual Review, Workshop and a Pre-hearing Conference on Thursday, February 9, 2006 and Friday, February 10, 2006; and
- F. Commission staff issued a letter on January 20, 2006 providing participants with a Draft Issues List and two Draft Regulatory Timetables to assist them in their preparation for the Pre-hearing Conference, as established in Order No. G-130-05; and
- G. The Commission held a Pre-hearing Conference in Kelowna, BC on February 10, 2006, wherein the Commission Panel considered submissions by participants on finalizing the issues, process steps, regulatory schedule, and other matters related to the proceeding; and

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H. The Regulatory Timetable set down in Order No. G-130-05 established that the Commission will issue a further procedural order and regulatory agenda for the review of the Application.

NOW THEREFORE the Commission orders as follows:

1. The Regulatory Timetable set down in Order No. G-130-05 is amended and finalized according to the timetable attached as Appendix A to this Order. A Negotiated Settlement Process will commence on April 18, 2006 in Kelowna, BC. If a Negotiated Settlement is not reached, an Oral Public Hearing will commence on June 20, 2006 in Kelowna, BC.
2. The regulatory process will include a review as necessary, of the issues detailed in the Final Issues List attached as Appendix B to this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 15th day of February 2006.

BY ORDER

Original signed by:

L.F. Kelsey
Panel Chair and Commissioner

Attachments

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REGULATORY TIMETABLE

Date	Action
Thursday, January 5, 2006	Registration deadline for Intervenors and Interested Parties
Thursday, February 9, 2006	Annual Review – 2005 Incentive Sharing Mechanism
Thursday, February 9, 2006	Workshop – 2006 Revenue Requirements Application and Multi-Year PBR Mechanism
Friday, February 10, 2006	Pre-hearing Conference
Wednesday, February 15, 2006	Commission Order finalizing regulatory process
Monday, February 20, 2006	Commission Information Request No. 1 to FortisBC
Wednesday, February 22, 2006	Intervenor Information Request No. 1 to FortisBC
Friday, February 24, 2006	Budget Estimates for Participant Assistance submitted
Wednesday, March 8, 2006	FortisBC responses to all Information Requests
Wednesday, March 22, 2006	Filing of Technical Committee Reports
Tuesday, April 18, 2006 to Thursday, April 20, 2006	Negotiated Settlement Process – Kelowna, BC
If a Negotiated Settlement is not reached then the following timetable will apply	
Wednesday, April 26, 2006	Commission and Intervenor Information Request No. 2 to FortisBC
Wednesday, May 3, 2006	FortisBC responses to all Information Requests
Wednesday, May 10, 2006	Intervenor Evidence
Wednesday, May 17, 2006	Information Requests to Intervenors
Wednesday, May 24, 2006	Intervenor Responses to Information Requests
Tuesday, June 20, 2006 to Thursday, June 22, 2006	Oral Public Hearing – Kelowna, BC
Thursday, July 6, 2006	FortisBC Final Argument
Thursday, July 13, 2006	Intervenor Final Argument
Thursday, July 20, 2006	FortisBC Final Reply



FORTISBC INC. ("FORTISBC")
2006 REVENUE REQUIREMENTS AND
MULTI-YEAR PERFORMANCE BASED REGULATION MECHANISM

FINAL ISSUES LIST

1. Performance Based Regulation Mechanism

- Choice of Base Year – 2005 vs. 2006
- Determination of Annual Revenue Requirements (2007-2009) – formula vs. forecast of individual cost of service line items
- Type of Performance Based Regulation – “Collared ROE” vs. discreet and controllable cost of service items
- Recognition of a “Z Factor” provision
- Performance Standards and their role in Performance Based Regulation – the primary test for inadequate performance
- Information Metrics and their role in Performance Based Regulation
- Forum and detailed process for review of actual vs. forecast variances – Annual Review vs. another forum, written vs. oral process
- Any outstanding / unresolved matters from the 2005 Annual Review
- PBR Study by Elenchus Research Associates

2. Load Forecast

- 2006 Technical Review Committee – members list
- Forecast Methodology
 - forecast period (short-term, long-term)
 - comprehensiveness of database and the source of data
 - analysis of historical data
 - price of electricity and its impact
 - impact of DSM
- Theft
 - how much of the system losses is due to theft
 - fluctuation by year
- Design temperature methodology
- Temperature sensitive loads in the Fortis service area
- Comparison of Actual and Forecast Energy Consumption and Demand

3. 2006 Rate Base

- Summary Schedule of Rate Base and additions (1996 to 2006)
- Capital Additions by project by BCUC Account
- Reconciliation of Capital Expenditures to Plant Additions
- Deferral Accounts – all accounts (gross, tax, net of tax, amortization); debt issue costs
- Tax Rate used in Deferral Accounts
- Prudence of incurred 2005 Regulatory costs – additions
- Forecast 2006 Regulatory costs - additions
- Additional detail on Allowance for Working Capital
- Adjustment for Capital Expenditures
- Construction Work in Progress
- Plant Acquisition Adjustment; amortization rate; any change resulting from depreciation study

4. **2006 Capital Expenditures**

- Lease to Purchase for Vehicles Analysis
- AM/FM/GIS System Upgrade
- 2006 Capital expenditure by project by BCUC Account
- Update on Business Software Solution (SAP/Great Plains)

5. **Financing: Cost of Debt**

- Details of existing long-term debt (eg. issue details, maturity, coupon rate, etc.)
- Prime rate forecast
- Composition of short-term instruments (rate and principal), margins and rates of short-term instruments for Actual 2005 and Forecast 2006
- Any 2006 Deemed debt as in 2005 Forecast/Approved

6. **O and M expenses – Customer Service and Administration and General**

- Updated actuarial valuation of the 2006 pension costs
- Post retirement benefit in accordance with Order G-52-05 & calculation
- Staffing increases – executives, accounting, customer services
- Transitional benefits – stand-alone utility
- Customer services – call volume vs. staff level
- Detail of labour cost escalation – industry benchmark
- Procurement costs added to capital projects – change in process and policy

7. **Income Taxes**

- Surtax, and Large Corporation tax and Corporate Tax changes
- CCA rates for 2005 and 2006 – Deferral Account , Federal Government budget updates

8. **AFUDC**

Determination of AFUDC Rate

- Confirmation of calculation and components of AFUDC rate
- Calculation of AFUDC \$ amount

Application of AFUDC to Construction Work in Progress

- Proposal for change in methodology

Treatment of Construction Work in Progress and AFUDC

- Rate base versus non-rate base treatment

9. **Capitalized Overhead**

- Proposal mechanism for change in methodology
- Approved method versus proposed method: comparison of amounts, rates, and methodology
- Tax deductibility of capitalized overhead
- Historical amounts of capitalized overhead
- History of capitalized overhead methodology
- Proposed change: effect on rates

10. **Other Income**

- Contract Revenue – Waneta Management
- Interest on the Capital Tax refund

11. **Depreciation Study & Depreciation Expense**

- 2005 Depreciation Study: scope, methodology and assumptions
- Proposed depreciation rates for assets
- Plant not studied
- Evidence of Larry Edwin Kennedy
- Disposition of the Rate Stabilization Account (RSA)
- Demand Side Management Amortization
- Comparison of current and proposed depreciation rates by BCUC Account
- Comparison of current and proposed depreciation expense by BCUC Account

12. **2006 Performance Standards**

- Type of Performance Standards
- Appropriateness of proposed targets for Performance Standards
- Proposed reporting time period for actual results – October 1 to September 30

13. **Demand Side Management – Power Sense**

- DSM Incentive Committee – members list
- Planned and forecast cost and savings – assumptions, inputs and methodology
- Rate impact by including “life-style changes” to DSM programs
- “Hard-wired” programs versus “life-style changes” programs – respective budgets and savings
- Gannett Fleming review of the lives of DSM programs
 - Sampling
 - Steps undertaken in the review process
 - Amortization of programs with different life span
- Free Riders
- Operating expenses in DSM
- Incentive Mechanism – targets and performance

14. **Aesthetic & Environmental Upgrades**

- The criteria and justification for upgrade programs – Government and FortisBC
- Policies and funding requirement for the upgrade programs
- Historical data and funding for upgrade programs

15. **Power Purchases**

16. **Brilliant Terminal Station**

- Lease costs and direction