



**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER** G-162-06

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

**and**

**FortisBC Inc.  
2006 Annual Review, 2007 Revenue Requirements and  
Negotiated Settlement Process**

**BEFORE:** L.F. Kelsey, Commissioner  
L.A. Zaozirny, Commissioner December 19, 2006

**O R D E R**

**WHEREAS:**

- A. Commission Order No. G-58-06 approved for FortisBC Inc. ("FortisBC" or "Company") a Performance Based Regulation Settlement for the years 2007 to 2009 (the "PBR Settlement"). The PBR Settlement requires FortisBC to hold an Annual Review, Workshop and Negotiated Settlement Process ("NSP") each November with a goal of achieving firm rates by December 1<sup>st</sup> for the following year; and
- B. The Annual Review compares the Company's actual performance for the recently completed year to the approved targets for the Performance Standards and to determine whether the Company is entitled to an incentive payment. The Revenue Requirements Workshop is to focus on future test periods and the NSP is to establish rates for the following year; and
- C. One of the issues in the PBR Settlement was for FortisBC to continue to record Construction Work in Progress ("CWIP") subject to Allowance for Funds Used During Construction ("AFUDC") in rate base with a reduction to revenue requirements by the amount of the AFUDC for 2006. Beginning in 2007, FortisBC is to include only CWIP not subject to AFUDC in rate base and calculate interest expense and cost of equity only on Plant in Service and other costs approved for rate base treatment; and
- D. By letter dated September 8, 2006, the Company proposed a regulatory timetable for the filing of its 2007 Preliminary Revenue Requirements along with an Annual Review and 2007 Revenue Requirements Workshop followed by a NSP; and
- E. By Order No. G-118-06, the Commission established a Regulatory Timetable for the 2006 Annual Review and a 2007 Revenue Requirements Workshop on November 9 followed by an NSP on November 10, 2006; and

- F. On September 29, 2006, FortisBC filed its Preliminary Revenue Requirements which sought a 2.9 percent (revised in the November 1, 2006 Update to a 2.1 percent) general rate increase effective January 1, 2007 and proposed to delay the removal of CWIP subject to AFUDC from rate base as required by the PBR Settlement until such time that the change becomes revenue neutral or appropriate in the context of the relevant revenue requirements application. FortisBC forecasts that removing CWIP subject to AFUDC from rate base in 2007 and the associated reduction to revenue requirements would increase rates by a further 2.1 percent. In the responses to information requests (BCUC IR 3.1 and 3.2), FortisBC was unable to estimate what year the removal of CWIP subject to AFUDC could occur or the threshold percentage rate increase that represented rate shock; and
- G. A proposed Settlement Agreement, which included a delay in the removal of CWIP subject to AFUDC from rate base for 2007 only to allow for further study, was agreed to by FortisBC and some Intervenors, with the participation of Commission staff; and
- H. Letters of support to the proposed Settlement Agreement were received from the British Columbia Old Age Pensioners' Organization et. al ("BCOAPO") and from FortisBC; and
- I. In its letter of comment, the Interior Municipal Electrical Utilities ("IMEU") stated that it is in agreement with all parts of the proposed Settlement Agreement except for the proposed treatment of CWIP and AFUDC. The IMEU sees no reason to deviate from the treatment CWIP and AFUDC treatment established in the PBR Settlement. The IMEU also expects that the FortisBC general rate increase for 2007 will be less than 2 percent when the British Columbia Hydro and Power Authority final rates are flowed through. The IMEU estimates that future FortisBC rate increases will be in the range of 4 to 5 percent therefore 2007 is the optimal time to absorb the rate impact of the CWIP and AFUDC treatment change without rate shock; and
- J. In view of the IMEU submission, FortisBC, BCOAPO and the IMEU advised the Commission that they would support a severing of the treatment of CWIP and AFUDC from the proposed Settlement Agreement for a separate determination by the Commission. No letters of comment were received from registered intervenors who did not participate in the Settlement process; and
- K. The Commission has reviewed the proposed Settlement Agreement, the comments and submissions related thereto and considers that approval, in part, is warranted.

**NOW THEREFORE** the Commission orders as follows:

1. The Commission approves the Settlement Agreement attached as Appendix 1 to this Order except for the proposed delay in the removal of CWIP subject to AFUDC from rate base.
2. The proposed delay in the removal of CWIP subject to AFUDC from rate base will be examined separately and the Commission requires an expedited review of this issue. The Commission requires that FortisBC file written submissions on the proposed delay in the removal of CWIP subject to AFUDC from rate base by Friday, January 5, 2007. The IMEU and other intervenors are to file their comments by Friday, January 12, 2007. FortisBC is to file its reply by Wednesday, January 17, 2007. Following a review of those submissions, the Commission will make a determination on the proposed delay in the removal of CWIP subject to AFUDC from rate base.

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3. The 2007 revenue requirement impact, if any, of the Commission determination on the proposed delay in the removal of CWIP subject to AFUDC from rate base is to be effective from January 1, 2007 and is to be recovered in 2007 rates on a prospective basis.
4. The Commission will accept, subject to timely filing, amended Electric Tariff Rate Schedules in accordance with the terms of this Order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 20<sup>th</sup> day of December 2006.

BY ORDER

*Original signed by:*

L.F. Kelsey  
Commissioner

Attachment



WILLIAM J. GRANT  
TRANSITION ADVISOR.  
REGULATORY AFFAIRS & PLANNING  
bill.grant@bcuc.com  
web site: <http://www.bcuc.com>

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Log No. 16036

VIA E-MAIL

December 5, 2006

Dear Participants and Registered Intervenors:


Re: FortisBC Inc. ("FortisBC")  
Negotiated Settlement Agreement  
2007 Revenue Requirements

Enclosed with this letter is the Negotiated Settlement Agreement for FortisBC's 2007 Revenue Requirements Application.

Letters of Comment from the Participants in the negotiated settlement process are enclosed with this settlement package which is now public and is being submitted to the Commission and all Intervenors.

Prior to consideration by the Commission, Intervenors who did not participate in the settlement negotiations are requested to provide to the Commission their comments on the settlement package by Tuesday, December 12, 2006. Thereafter, the Commission will consider the settlement package. A public hearing may not be required unless there is significant opposition to the proposed settlement.

Yours truly,

  
William J. Grant

PWN/rt  
Enclosures

cc: Mr. Don Debienne  
Vice President Generation and Regulatory Affairs  
FortisBC Inc.

~~CONFIDENTIAL~~

FortisBC Inc. 2007 Revenue Requirements  
Negotiated Settlement Agreement

Introduction

FortisBC Inc. (“FortisBC” or the “Company”) filed its Preliminary 2007 Revenue Requirements on September 29, 2006, in accordance with the terms of a Negotiated Settlement Agreement dated May 23, 2006 (the “NSA”) in regard to a Multi-Year Performance Based Regulation Plan (“PBR Plan”) approved by way of British Columbia Utilities Commission (the “Commission”) Order No. G-58-06.

The Application requested a general rate increase of 2.9 percent effective January 1, 2007, based on the stand-alone operations of FortisBC. It also demonstrated that no rate impact would result from the addition of Princeton Light & Power Company, Limited. (“PLP”) operations if merged effective January 1, 2007. The impact of the proposed PLP merger was provided for information only in the Application. The acquisition of PLP by FortisBC is the subject of a separate application currently before the Commission.

Following the submission of Information Requests by the Commission and Registered Intervenor and filing of responses, the Company filed an update to the 2007 Revenue Requirements Application on November 1, 2006 (the “Update”), incorporating financial results and forecasts as of September 30, 2006, and final Performance Standards for the period October 1, 2005 to September 30, 2006. The Update reflected a general rate increase of 2.1 percent, effective January 1, 2007, subject to changes that may result from the Commission’s decision on FortisBC’s 2007-2008 Capital Expenditure Plan application and the determination of 2007 Return on Equity arising from the Automatic Adjustment Mechanism.

The 2006 Annual Review and 2007 Revenue Requirements Workshop was held in Kelowna, B.C. on November 9, 2006. FortisBC and a group of Intervenor participants participated in a Negotiated Settlement Process on November 10, 2006, and reached a Settlement Agreement, which is described in this document. FortisBC’s report on operating savings resulting from its capital projects is attached as Appendix A. The parties agree that this report meets FortisBC’s commitments arising from the 2006 Annual Review but should not be interpreted as being acceptance by the Intervenor on the substance of the report.

The Parties to the Settlement Agreement are:

- ◆ FortisBC Inc.;
- ◆ The British Columbia Old Age Pensioners Association et al.; and
- ◆ The Interior Municipal Electricity Utilities.

The Parties were assisted in reaching a Settlement Agreement by Commission staff. The Parties’ letters of support and comments with regard to the Settlement Agreement are attached as Appendix B.

### Settlement Agreement

The Parties accept the 2007 Revenue Requirements Application, including the Update, as filed, subject to the following:

#### Performance Standards and Incentive Sharing

The Parties accept that FortisBC has generally met its Performance Targets in 2006 and have met the test set out in the NSA and is therefore eligible for its share of the financial incentive. In particular, significant progress has been made with regard to Customer Service measures, which had been of concern to stakeholders.

Performance Targets for Generator Forced Outage and System Average Interruption Frequency Index were not met. The Parties wish to emphasize the importance of system reliability but accepted that the Company's performance with regard to those measures was not the result of negligence of the Company, and that the remedy proposed with regard to the Corra Linn Unit 1 fire protection system was acceptable.

The Parties accept the Company's proposal to exclude the effect of the ongoing Lower Bonnington Unit 2 outage from the calculation of the Generator Forced Outage results in 2007.

The Parties recognize that the 2007 Target for SAIFI, which is determined by a three-year rolling average, will decline as a result of outages during 2006 on the BCTC system and at DG Bell Terminal Station. It is recognized that these outages were unusual in nature, and the Company will strive for improvement in the performance of SAIFI reliability in 2007.

The Parties agree to the Company's proposal to retain the 2007 targets for Residential Extension Completion Time and Residential Construction Quote Times at 75%. The targets if calculated using the three-year rolling average would have been 72% and 73% respectively.

#### Demand Side Management

The Company will provide the load profile of various weather-sensitive DSM measures to demonstrate the impact on demand (kVA) and to confirm the valuation of avoided demand charges under Rate Schedule 3808.

#### Class Action Law Suit

The costs of this action will be held in a non Rate Base deferral account attracting FortisBC's short term interest rate of 5.96% for 2007 and adjusted annually thereafter to reflect the test year forecast short term rate. Disposition of the account will be the subject of a future application which may involve a prudency review.

Construction Work in Progress and AFUDC

The Company's proposal to continue its current practice of including CWIP in Rate Base and reducing Revenue Requirements by the amount of AFUDC is accepted for 2007 only. FortisBC will work with BCUC staff and stakeholders to understand any issues and future rate impacts, if any, arising out of the implementation of the new treatment of CWIP and AFUDC that is set out in the 2006 NSA and will report at the 2007 Annual Review.

Final Revenue Requirements and General Rate Increase

The Update reflected a general rate increase of 2.1 percent, effective January 1, 2007, subject to changes that may result from the Commission's decision on FortisBC's 2007-2008 Capital Expenditure Plan application and the determination of 2007 Return on Equity arising from the Automatic Adjustment Mechanism.

In addition, the final rate increases for BC Hydro and BCTC will be incorporated into FortisBC's Final 2007 Revenue Requirements provided the respective Negotiated Settlements are approved by the Commission on or before November 30, 2006. FortisBC's 2007 rates will include the new 2007 rates for BC Hydro, BCTC and Independent Power Producers whose rates are tied to BC Hydro's, in addition to the BC Hydro rate refund in respect of 2006 power purchase expense.

If the BC Hydro and BCTC final rates are not known by November 30, 2006, these costs will be deferred for flow-through treatment in 2008.

**Pursuant to Commission Order No. G-58-06 Appendix 1, subsection 2.2**  
**Capital Expenditures**

**Operating Savings**

Implementation of the capital plan can affect operating costs in a number of areas both positively and negatively: examples are lower power supply costs as a result of line loss reductions, maintenance cost increases from incremental plant in service and a reduction in costs as old plant is removed from service.

Line loss reductions resulting from the capital program are built into the power supply forecast directly.

**Transmission and Distribution:**

Typically, savings associated with capital plan expenditures can be attributed to plant removed from service. This is usually offset with new plant put into service that requires ongoing new maintenance. In 2006, one distribution substation (Wynndel) was decommissioned as planned. It resulted in no operating savings as no maintenance was planned nor budgeted on the substation in the 2006 base year. However, there were O&M savings that began prior to 2006 and will continue into the future.

As part of the capital plan a number of power transformers have been replaced, and although new, will still require preventive maintenance and to a lesser extent corrective maintenance. A number of projects will be implemented over the next two years that will indeed increase operating costs. For example, the greenfield projects (example: Kettle Valley Distribution Source) recently approved and submitted by way of CPCNs are forecast to increase annual maintenance costs from \$15,000 – \$25,000 per project. Incremental substation equipment such as transformers, switches, circuit breakers and current limiting reactors added in 2006 will require ongoing maintenance not currently included in the O&M formula. As well customer growth has increased distribution plant in service by approximately 80 kms or 1.5% and the associated annual O&M costs are also assumed to be absorbed within the current O&M formula.



Transmission maintenance for the most part appears in the form of capital refurbishments associated with the condition assessment program, and as such, improvements to the plant are reflected in reductions to future capital requirements and not operating expenses.

In summary, the Capital Expenditure Plan is adding plant and the associated incremental maintenance at a rate that outpaces the rate at which old plant is being salvaged. The resulting increase in operating cost is being absorbed by the Company in productivity improvements to meet the current O&M formula and associated built in 2% productivity factor.

**Generation:**

Included in each Upgrade and Life Extension project is an O&M savings of \$100,000 for the year of implementation and the year immediately following as a result of avoided annual maintenance inspections. The savings were included for the 2006 Revenue Requirements Application and associated Negotiated Settlement Agreement and subsequently achieved.

**General Plant:**

General Plant includes three projects of note with regard to O&M savings; the separation of SAP support from FortisAlberta predicts an annual decrease in O&M of approximately \$200,000, the vehicle lease to ownership predicts a \$282,000 annual savings, both of which were included for in the 2006 Revenue Requirements Application and associated Negotiated Settlement Agreement and subsequently achieved. The AM/FM project predicts an increase of approximately \$150,000 / year in O&M expense.

**Summary:**

Operating and maintenance (“O&M”) expense is calculated by a formula as directed by the 2006 Negotiated Settlement Agreement. The NSA includes a 2% PIF for 2007 which equates to approximately \$800,000 of O&M reduction. Although there is a 2% CPI inflator, market conditions and current labour wage escalation are greater than the current CPI. This PIF was intended to not only recognize operating savings as a result of capital expenditures, but also other operating efficiencies.

Table A

	<b>Capital Project</b>	<b>Application</b>	<b>2006 Savings (included in Base O&amp;M)</b>	<b>2007 Savings</b>	<b>Future Years Savings</b>	<b>Comments</b>
	<b>Transmission &amp; Distribution</b>					
1	Creston Distribution Upgrade:	2006 CEP	20	20	20	Wynndel Substation Salvage
2	Kettle Valley Distribution Source:	2005 CPCN			<20>.	Growth-related
3	Nk'Mip Distribution Source:	2005 CPCN			<20>	Growth-related
4	Big White Supply:	2006 CPCN			<20>	Growth-related
5	Ellison Distribution Source:	2006 CPCN			<15>	Growth-related
	<b>Generation</b>					
6	Lower Bonnington Unit 1 ULE	2005 CEP	100	0		Avoided maintenance in year of life extension and year following
7	Lower Bonnington Unit 3 ULE	2006 CEP	100	100	0	Avoided maintenance in year of life extension and year following
	<b>General Plant</b>					
8	AM/FM:	2006 CPCN		<150>	<150>	Future operating cost increase
9	Vehicle Lease Buy-out:	2005/2006 CEP	280	280	280	
10	Business Software Solution	2006 CEP	200	200	200	

# *I.M.E.U.*

*Interior Municipal Electrical Utilities  
Cities of Kelowna, Penticton, Grand Forks, District of Summerland, Nelson Hydro*

November 30, 2006

**Via Email:** fong.kwok@bcuc.com

William J. Grant  
Transition Advisor  
British Columbia Utilities Commission  
Sixth Floor, 900 Howe Street, Box 250  
Vancouver BC V6Z 2N3

Dear Mr. Grant:

***Re: FortisBC 2007 Revenue Requirements  
Negotiated Settlement Agreement  
2007 Revenue Requirements***

The IMEU is in receipt of your letter dated November 28, 2006 requesting acceptance of the Negotiated Settlement Agreement (NSA) for the FortisBC 2007 Revenue Requirement Application.

The IMEU is in agreement with all parts of the NSA document with the exception of the proposed treatment of Construction Work in Progress and AFUDC for 2007. We do not accept the continuation of the current practice in 2007 for two reasons:

The May 23, 2006 NSA for the FortisBC multi-year PBR plan as approved by Commission Order G-58-06 directs Fortis to discontinue its current practice and treat CWIP in the same manner as other Canadian utilities. This was negotiated as part of a larger package, and IMEU sees no reason to deviate from the Negotiated Settlement.

The IMEU has concerns with future rate impacts as a result of delaying the change to CWIP. In the absence of the change in CWIP, it is likely that the final FortisBC rate increase for 2007 will be less than 2% and perhaps as low as 1%. With approved capital expenditures for 2007 and 2008 in excess of \$100 million per year, and with no further one-time offsets such as tax reductions or BC Hydro rate rollbacks likely, we will probably return to minimum rate increases in the order of 4% to 5% for the remainder of this PBR period and 6% to 7% in the year that the change in CWIP occurs. FortisBC is unable to provide any comfort around when the CWIP change would have no impact, nor was an opinion offered with respect to what rate shock constitutes (BCUC IR #1, Q3.1 and Q3.2). We submit that an increase in the order of 6% to 7% in 2008 or 2009 would be difficult to justify to our customers and Councils.

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We believe that circumstances in 2007 are optimal to absorb the impact of the change in CWIP without rate shock, and to levelize the impact of FortisBC's aggressive capital program during the current PBR period. Based on the best information available at this time, we believe that spending the next year studying the impacts of the CWIP change will eliminate our ability to take advantage of a unique opportunity, and for this reason, we cannot agree to the delay in the change to the treatment in CWIP. If you have any questions or concerns, please contact the undersigned at (250) 352-8212, or by e-mail at [rleslie@city.nelson.bc.ca](mailto:rleslie@city.nelson.bc.ca)

Respectfully submitted,

A handwritten signature in cursive script, appearing to read 'Russell Leslie'.

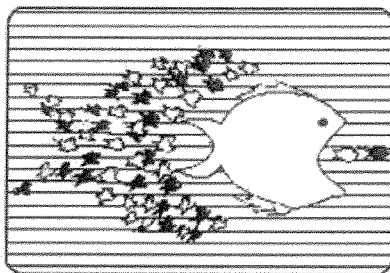
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Russell Leslie, P.Eng  
Chairman, IMEU

cc: IMEU group  
Participants

**The  
British Columbia  
Public Interest  
Advocacy Centre**

208-1090 West Pender Street  
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Zara Suleman  
Articled Student

**Via email**

November 30, 2006

BRITISH COLUMBIA UTILITIES COMMISSION  
6<sup>th</sup> Floor, 900 Howe Street  
Vancouver, BC V6Z 2N3

**Attention: William J. Grant, Transition Advisor,  
Regulatory Affairs & Planning**

Dear Mr. Grant,

**Re: FortisBC Inc. 2007 Revenue Requirements ("FortisBC")  
Negotiated Settlement Agreement, 2007 Revenue Requirements**

BCOAPO approves the 2007 Revenue Requirements Negotiated Settlement Agreement dated November 28, 2006. We would also like to thank Commission staff and the parties for their efforts in reaching the NSA.

Yours truly,

**BC PUBLIC INTEREST ADVOCACY CENTRE**

*original signed by*

Sarah Khan  
Counsel for BCOAPO

cc: Parties to the NSA



David Bennett  
General Counsel and Corporate Secretary

**FortisBC Inc.**  
**Regulatory Affairs Department**  
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David.Bennett@fortisbc.com  
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November 29, 2006

**Via Email**

Original via mail

Mr. W. J. Grant  
BC Utilities Commission  
Sixth Floor, 900 Howe Street, Box 250  
Vancouver, BC V6Z 2N3

Dear Mr. Grant:

***Re: FortisBC Inc. ("FortisBC") 2007 Revenue Requirements  
Negotiated Settlement Agreement***

FortisBC approves the 2007 Revenue Requirements Negotiated Settlement Agreement dated November 28, 2006. We would like to thank the Parties and Commission Staff for their efforts in reaching this Agreement.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Bennett". The signature is written in a cursive, flowing style.

David Bennett  
General Counsel and Corporate Secretary

cc: Parties to the NSA