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BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER NUMBER G-131-14

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

and

An Application by the FortisBC Energy Utilities
(consisting of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc.)
for Approval of Common Delivery Rates Methodology

BEFORE: L.A. O'Hara, Panel Chair/Commissioner
C.A. Brown, Commissioner
B.A. Magnan, Commissioner

September 11, 2014

O R D E R

WHEREAS:

A. On February 26, 2014, the British Columbia Utilities Commission (Commission) issued its Decision and Order G-21-14 in the FortisBC Energy Utilities (FEU) Application for Reconsideration and Variance of Commission Order G-26-13 on the FortisBC Energy Utilities' Common Rates, Amalgamation and Rate Design Application;

B. As per section 53 of the *Utilities Commission Act*, amalgamation is subject to the consent of the Lieutenant Governor in Council and, on May 23, 2014, Order in Council No. 300 consenting to the amalgamation of the FEU was issued. Pursuant to Order G-21-14, the FEU will be amalgamating on December 31, 2014, and common rates will be adopted across the service areas (excluding Fort Nelson) of the amalgamated companies, effective January 1, 2015;

C. On July 16, 2014, the FEU filed an application with the Commission for approval of the common delivery rates methodology (Application). The Application sought approval for the following:

- the calculation of common delivery rates for 2014 that will be used to compute the 2015 deficiency or surplus at existing 2014 rates, and the resulting 2015 common delivery rates;
- the calculation of the delivery rate riders required to implement common delivery rates over the three-year phase-in directed by the Commission; and
- the treatment of costs and savings related to amalgamation including the use of a temporary regulatory account to offset the costs and savings.

D. By Order G-105-14 the Commission established a written hearing process and issued a regulatory timetable which included one round of Information Requests;

E. Three Interveners and the FEU filed their Final Submissions with the Commission on August 29, 2014 and on September 5, 2014, respectively; and

F. The Commission reviewed the FEU's Common Delivery Rates Methodology Application and determines the methodology should be approved subject to certain amendments.

NOW THEREFORE the British Columbia Utilities Commission for the reasons attached orders as follows:

1. The calculation of the 2014 common delivery rates is approved, subject to updating the calculations for the Commission's decision in the Performance Based Ratemaking Application when issued. The resulting 2014 rates will be utilized to compute the 2015 deficiency or surplus at existing 2014 rates and the resulting 2015 common delivery rates.

2. The 2015 Rate Stabilization Deferral Account (RSDA) Rate Riders as set out in Table 4-12 of the Application are approved, subject to updating the calculations for the 2015 forecast demand and the closing December 31, 2014 balance in the RSDA and Gas Cost Variance Account.

3. The 2015 Phase-in Rate Riders as set out in Tables 4-15 and 4-16 of the Application are approved, subject to updating the calculations for the 2015 forecast demand, and subject to the adjustment for the approved amalgamation costs as described in the attached Reasons for Decision.

4. The non-rate base, non-interest bearing Phase-in Rider Balancing Account is approved.

5. A short-term interest bearing, non-rate base Amalgamation Regulatory Account is approved.

DATED at the City of Vancouver, In the Province of British Columbia, this 11th day of September, 2014.

BY ORDER

Original signed by:

L.A. O'Hara
Commissioner

Attachment

FortisBC Energy Utilities
Application for Approval of Common Delivery Rates Methodology

REASONS FOR DECISION

1.0 INTRODUCTION

The FortisBC Energy Utilities (FEU), consisting of FortisBC Energy Inc. (FEI), FortisBC Energy (Vancouver Island) Inc. (FEVI), and FortisBC Energy (Whistler) Inc. (FEW), have received approval for amalgamation and the establishment of common delivery rates. The process of implementing common delivery rates, upon amalgamation, will require a common delivery rate methodology, which is the subject of this application.

The FEU amalgamation is governed by section 53 of the *Utilities Commission Act*, and is subject to the consent of the Lieutenant Governor in Council and, on May 23, 2014, Order in Council No. 300 consenting to the amalgamation of the FEU was issued. Pursuant to Order G-21-14, the FEU will be amalgamating on December 31, 2014, and common rates will be adopted across the service areas (excluding Fort Nelson) of the amalgamated companies, effective January 1, 2015.

On July 16, 2014, the FEU filed an application with the British Columbia Utilities Commission (Commission) for Approval of the Common Delivery Rates Methodology (Application).

2.0 REGULATORY CONTEXT

On February 26, 2014, the Commission issued its Decision and Order G-21-14 (Reconsideration Decision) in the FEU Application for Reconsideration and Variance of Commission Order G-26-13 on the FEU's Common Rates, Amalgamation and Rate Design Application.

On page 27 of the Reconsideration Decision, the Commission Panel found it to be appropriate that all customers be phased in to postage stamp rates over a three-year period. The balance in the FEVI Rate Stabilization Deferral Account (RSDA) will be used to phase-in the rate increases for the customers of FEI, as will the additional funds available from the phase-in of the FEW and FEVI customers

On page 31 of the Reconsideration Decision, the Commission Panel denied the proposed deferral accounts. In the Panel's view the phase-in, which has been ordered for FEW and FEVI, will readily cover the additional amalgamation costs without the need for deferral. Further, the Panel stated that other cost reductions, such as the $2 million in interest expense savings forecasted for the amalgamated entity, will also serve to contribute to defray these costs.

3.0 APPROVALS SOUGHT

The FEU are requesting approval of the following:

1. Approval of the Amalgamation Flow-Through Account to be included in rate base starting in 2015, to match the actual amalgamation costs with the actual amalgamation savings over time.

2. Approval of the calculation of 2014 common delivery rates that will be utilized in the Annual Review process to compute the 2015 deficiency or surplus at existing 2014 rates to determine the 2015 common rates. Calculation of the 2014 common delivery rates is subject to updating the calculations for the Commission's decision in the Performance Based Rates (PBR) 2014-2018 Application. The resulting 2014 rates will be utilized to compute the 2015 deficiency or surplus at existing 2014 rates, and the resulting 2015 common delivery rates.

3. Approval of the RSDA Rate Riders for 2015 resulting from the balances in the FEVI RSDA and Gas Cost Variance Account (GCVA) as set out in Table 4-12, subject to updating the calculations for both the RSDA and GCVA balances, and the 2015 demand.

4. Approval of the Phase-in Rate Riders for 2015 as set out in Tables 4-15 and 4-16, subject to updating the calculations for the 2015 demand, shortly after the FEU file their Q4 2014 Gas Cost Reports on November 4, 2014 with the final reports before April 30, 2015.

5. Approval of the non-rate base Phase-in Rider Balancing Account to capture the differences between the Phase-in Rate Rider amounts collected from Vancouver Island and Whistler customers and the amounts distributed to former FEI (or Mainland) customers each year from 2015 through 2017.

   (Exhibit B-1, pp. 3-4)

4.0 AMALGAMATION COSTS AND THE FLOW-THROUGH DEFERRAL ACCOUNT

4.1 Forecast Amalgamation Costs and Savings

The FEU's current forecast costs to implement amalgamation are estimated to be $2.2 million, $150,000 higher than the previous estimate. By way of comparison, the FEU is currently forecasting annual O&M savings of approximately $330,000, primarily in the Finance and Regulatory department from reduced labour, rating agency fees and audit fees. An additional $100,000 in annual savings is expected from various other departments. The FEU states that "with forecast annualized savings of approximately $430,000, the $2.2 million costs of amalgamation are expected to be recovered over a five year period." (Exhibit B-1, pp. 13-16)

A breakdown of the original and updated forecast for amalgamation costs is shown below.

Table 3-1: Forecast Costs of Amalgamation

	(Amounts in $000s)		
	Current	Application	Variance
Customers:			
Customer Service & Billing	$ 150	$ 100	$ 50
Communications & Media	500	-	500
Employees:			-
HR/Payroll/Pension	25	100	(75)
Operations/Support:			-
Information Systems	1,170	1,000	170
Compliance:			-
Legal	150	500	(350)
Taxation	25	100	(75)
Accounting/Finance	100	-	100
Treasury	50	250	(200)
Internal Audit	30	-	30
Total	**$ 2,200**	**$ 2,050**	**$ 150**

4.2 Intervener Submissions

The British Columbia Old Age Pensioners' Organization *et al.,* the Commercial Energy Consumers Association of British Columbia and Mr. Randolph F. Robinson filed Final Submissions.

All three Interveners were supportive of the FEU recovering amalgamation costs. However, they expressed concerns related to the viability of tracking the forecast $430,000 annual savings from amalgamation. FEU addressed these concerns in its Final Submission dated September 5, 2014.

4.3 Commission Determination

The Commission Panel notes an increase in the forecast Amalgamation Costs with a significant recent addition of $500,000 in Communications and Media costs. Included in these costs are $139,500 for bill inserts, and $310,950 for paid media print, radio, and digital. Looking at the FEI website[1], it can be seen that the normal FEI practice is to have a monthly bill insert. The majority of these regular inserts contain information on changes in the natural gas rates. The Panel assumes FEU (FEI) will be doing monthly bill inserts, as a matter of continued normal business practice, over the next three years. Accordingly, the Panel is not persuaded that $500,000 in Communication and Media costs is necessary and reasonable for this amalgamation.

After review of the Amalgamation Costs detailed in the Application, the Commission Panel determines to set an upper limit of $1.9 million on the Amalgamation Costs, which can be charged to the Amalgamation Regulatory Account.

Due to the difficulties inherent in tracking amalgamation cost savings, the Panel is of the opinion that a methodology based solution as shown in the next Section will result in the most efficient process to balance amalgamation savings against the amalgamation costs. The regulatory account to be approved will be an

[1] http://www.fortisbc.com/About/GasFormsBrochures/BillInserts/Pages/default.aspx

interest bearing and non-rate base account. The regulatory account is expected to be eliminated following the end of 2017, when it should have a nil or very minimum balance.

5.0 CALCULATION OF COMMON DELIVERY RATES

5.1 Phase-in Methodology

The Phase-in Riders for FEVI and FEW will reduce their delivery rates over the next three-year period. The funds accumulated from the Phase-in Riders will be credited to FEI customers. **The Panel determines that the FEVI and FEW Phase-in Riders must be adjusted to provide an additional $1.9 million over the three-year period, which will be credited appropriately on an annual basis to the Amalgamation Regulatory Account.**

This minor additional cost to the FEVI and FEW customers is offset by the significant delivery rate reductions to FEVI and FEW customers over the three-year period. This additional cost to FEVI and FEW customers is also consistent with the Order G-21-14 Decision.

5.2 Amalgamation Cost Regulatory Account

The Panel approves a short-term interest bearing, non-rate base Amalgamation Regulatory Account effective immediately, to match the constrained amalgamation costs, not to exceed $1.9 million, with the equivalent recovery from the increased FEVI and FEW Phase-in Riders over the three year period.

5.3 Calculation of 2014 Common Delivery Rates

The Panel approves the calculation of the 2014 common delivery rates that will be utilized in the Annual Review process to compute the 2015 deficiency or surplus at existing 2014 rates to determine the 2015 common rates. Calculation of the 2014 common delivery rates is subject to updating the calculations for the Commission's Decision in the Performance Based Ratemaking Application. The resulting 2014 rates will be utilized to compute the 2015 deficiency or surplus at existing 2014 rates, and the resulting 2015 common delivery rates.

5.4 RSDA Rate Riders

The Panel approves the RSDA Rate Riders for 2015 resulting from the balances in the FEVI RSDA and Gas Cost Variance Account (GCVA) as set out in Table 4-12, subject to updating the calculations for both the RSDA and GCVA forecast balances, and the 2015 forecast demand.

5.5 Phase-in Rate Riders for 2015

The Panel approves the Phase-in Rate Riders for 2015 as set out in Tables 4-15 and 4-16, subject to updating the calculations for the 2015 demand shortly after the FEU file their Q4 2014 Gas Cost Reports on November 4, 2014, with the final reports due before April 30, 2015, and subject to the addition of the proportionate share of the $1.9 million.

5.6 Non-rate base Phase-in Rider Balancing Account

The Panel approves the non-interest bearing, non-rate base Phase-in Rider Balancing Account to capture the differences between the Phase-in Rate Rider amounts collected from Vancouver Island and Whistler customers and the amounts distributed to former FEI (or Mainland) customers each year from 2015 through 2017.