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BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-150-13

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

Application by FortisBC Energy Inc.
for Approval of a Multi-Year Performance Based Ratemaking Plan for the years 2014 through 2018

BEFORE: D.M. Morton, Panel Chair/Commissioner
D.A. Cote, Commissioner
N.E. MacMurchy, Commissioner
B.A. Magnan, Commissioner

September 12, 2013

O R D E R

WHEREAS:

A. On June 10, 2013, FortisBC Energy Inc. (FEI) applied to the British Columbia Utilities Commission (Commission) for approval of a multi-year performance based ratemaking (PBR) plan for the years 2014 through 2018, and for approval of a permanent natural gas delivery rate increase of approximately 0.7 percent as compared to 2013 permanent delivery rates effective January 1, 2014, pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA) (FEI Application);

B. FEI seeks, among other things, approvals including: allocation of costs for corporate and shared services; discontinuation, continuation and creation of deferral accounts and the amortization and disposition of balances in deferral accounts; the Rate Stabilization Adjustment Mechanism rider for applicable rate classes for 2014 as set out in the Application;

C. FEI, FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc. (together, the FortisBC Energy Utilities) seek acceptance of Energy Efficiency and Conservation expenditures pursuant to section 44.2 of the UCA;

D. By Order G-99-13 on June 21,2013, the Commission established a Preliminary Regulatory Timetable for review of the FEI Application;

E. On July 5, 2013, FortisBC Inc. (FBC) applied to the Commission for, among other things, approval of a multi-year Performance Based Ratemaking Plan for the years 2014 through 2018 (FBC Application);

F. On July 16, 2013, FEI filed an Evidentiary Update to reflect Commission Order G-75-13 regarding Phase 1 of the Generic Cost of Capital Proceeding, the 2013 Amendment to Rate Schedule 16 on a Permanent Basis Decision and Order G-88-13, as well as some other minor corrections to the FEI Application and its financial schedules;

.../2

G. On August 29, 2013, the Commission issued a letter to FEI and Registered Interveners stating that the Procedural Conference scheduled for September 5, 2013 would be a Joint Procedural Conference to discuss the regulatory process for both the FEI and FBC proceedings, and to consider combining some parts or all of the two proceedings;

H. At the Joint Procedural Conference FEI, FBC and all Registered Interveners, except British Columbia Hydro and Power Authority and the Ministry of Energy and Mines, provided submissions on the regulatory process, timelines for the Application and other general matters;

I. During the Joint Procedural Conference the Commercial Energy Consumers Association of British Columbia (CEC) submitted a proposed regulatory timetable;

J. The Commission considered the views of FEI, FBC and the Registered Interveners expressed at the Joint Procedural Conference and determined that changes to the Regulatory Timetable are required.

NOW THEREFORE the Commission orders as follows:

1. The regulatory process established by Order G-99-13 for the review of the FortisBC Energy Inc. (FEI) Application is amended and is to proceed according to the Amended Regulatory Timetable attached as Appendix A to this Order. This Timetable will also apply to the FortisBC Inc. (FBC) Application.

2. An Oral Public Hearing to review the Performance Based Ratemaking (PBR) methodology for both FEI and FBC will commence on March 10, 2014, at 9:00 a.m. in the Commission Hearing Room on the 12th Floor, 1125 Howe Street, Vancouver, BC.

3. The scope of the Oral Hearing will be limited to the PBR methodology. Establishment of the 2013 Base Year Costs and Demand-Side Management issues are excluded from the Oral Hearing and will be reviewed through a written hearing process.

4. All dates included in the Amended Regulatory Timetable will apply to both the FEI and FBC proceedings, unless otherwise stated. The Information Requests related to the PBR Methodology will be combined for the two companies.

5. The disposition of the Thermal Energy Services Deferral Account is out of scope for this proceeding.

DATED at the City of Vancouver, in the Province of British Columbia, this 12th day of September of 2013.

BY ORDER

Original signed by:

D.M. Morton
Panel Chair/Commissioner

Application by FortisBC Energy Inc.
For Approval of a Multi-Year Performance Based Ratemaking Plan for the years 2014 through 2018

AMENDED REGULATORY TIMETABLE

ACTION	DATE (2013)
PACA Budget Submissions (incl. Expert Costs)	Tuesday, September 17
Commission Information Request No. 2 to FEI on All Non-PBR Methodology Issues	Friday, October 25
Intervener Information Request No. 2 to FEI on All Non-PBR Methodology Issues	Friday, November 1
Commission Information Request No. 2 to FEI and FBC (jointly) on PBR Methodology	Friday, November 8
Intervener Information Request No. 2 to FEI and FBC (jointly) on PBR Methodology	Friday, November 15
FEI Response to Information Request No. 2 on All Non-PBR Methodology Issues	Friday, November 22
FEI and FBC Joint Response to Information Request No. 2 on PBR Methodology	Friday, December 6
Intervener Evidence	Friday, December 13
	DATE (2014)
Information Request No. 1 on Intervener Evidence (All Parties)	Wednesday, January 8
Response to Information Request No. 1 on Intervener Evidence	Wednesday, January 22
Information Request No. 2 on Intervener Evidence (All Parties)	Wednesday, February 5
Response to Information Request No. 2 on Intervener Evidence	Wednesday, February 19
Rebuttal Evidence	Wednesday, February 26
Oral Hearing on PBR Methodology	Monday, March 10
Final Argument on All Issues	Monday, March 31
Intervener Final Arguments on All Issues	Wednesday, April 16
Reply Argument on All Issues	Wednesday, April 30

FortisBC Inc. and FortisBC Energy Inc.
Applications for Approval of a
Multi-Year Performance Based Ratemaking Plan
for the years 2014 through 2018
REASONS FOR DECISION

1. BACKGROUND

In accordance with Commission Orders G-99-13, G-133-13 and the August 29, 2013 letter to all participants registered in the FortisBC Energy Inc. (FEI) Application for Approval of a Multi-Year Performance Based Ratemaking Plan(PBR) for 2014 through 2018 (FEI Application), a Joint Procedural Conference was held to discuss the regulatory process relating to this proceeding and also relating to the FortisBC Inc (FBC) Application for Approval of a Performance Based Ratemaking Plan for 2014 through 2018 (FBC Application). The Joint Procedural Conference took place in Vancouver on September 5, 2013.

By letter dated August 30, 2013 (Exhibit A-7, FEI Application; Exhibit A-10, FBC Application), the Commission identified the following matters to be addressed at the Procedural Conference:

a. Process options for review of the Application
b. Timetable (further information requests, intervener evidence, etc.);
c. Interim rates;
d. Location(s) of the proceedings; and
e. Other matters that will assist in the efficient review of the Applications

The Commission Panel also stated that it would like participants to specifically address the following items at the Procedural Conference, in addition to any other submissions they wish to make:

- Identification of significant issues in the Applications and the scope of the Commission review of various sections of the Applications.
- Completeness of the Applications.
- Whether parties need to commission additional studies.
- Whether one or more parts of the FEI and FBC Applications should be combined and jointly reviewed, and why.
- Whether it is best to review the two Applications through a combination of process options.
- If so, which process options should the Commission Panel adopt for which part(s) of the Applications, and why.
- Whether there is a need for and should interim rates be granted as applied for.

In addition to the Applicants, the following Interveners made appearances and submissions at the Procedural Conference:

- Commercial Energy Consumers Association (CEC)
- British Columbia Municipal Electric Utilities (BCMEU)

- B.C. Pensioners' and Seniors' Organization (BCPSO)
- B.C. Sustainable Energy Association and Sierra Club of British Columbia (BCSEA)
- Industrial Consumers Group (ICG)
- Canadian Office and Professional Employees Union (COPE)
- Coalition for Open Competition (COC)
- Irrigation Ratepayers Group (IRG)

PROCEDURAL CONFERENCE

2. INTRODUCTION

In addition to those issues raised by the Panel, the Interveners raised the following issues or requests:

1. Deadlines for filing Participant Assistance/Cost Award budgets and expert evidence budgets (T1:70; T1:97-99; T1:110-111; T1:115-116; T1:117-118 and T1:131-132).

Speaking on behalf of both FEI and FBC, Mr. Ghikas outlined three principles that "the companies regard as the principles that should be at play in the determination of an ideal process":

1. An appropriate evidentiary record that provides a sufficient level of detail to allow the Commission to make a determination on the issues before it.
2. Efficiency, "which recognizes that there are in fact costs associated with the regulatory process and that ultimately customers are going to be paying for it."
3. Timeliness, which "recognizes that there is a real interest on the part of the utility in particular that's applying for orders to recognize that there is risk associated with a process that takes us well into whatever the test period may be."
   (T1:9-11)

3. PROCESS OPTIONS FOR REVIEW OF THE APPLICATION

There is general agreement from the parties on combining portions of the two proceedings, in particular the Information Requests (IR) and the PBR mechanism. Interveners are in general agreement with the submissions of FEI and FBC that the review of the PBR mechanism proceed by way of an oral hearing. There is also general agreement on a second round of IRs. Several Interveners indicated that they wished to file evidence. Some parties submitted that they wished to ask IRs on Intervener Evidence. Two other significant areas identified include establishing the base year and evaluation of DSM/EEC programs.

Most parties are in favour of issues other than the PBR mechanism proceeding to a negotiated settlement process (NSP).

BCPSO submits that "with respect to the type of process, we do believe that an analysis of the PBR model itself is too complex for a written hearing and we would support an oral hearing on that issue. [We] believe that a

written process would be appropriate for the issue that staff raised with respect to setting the initial rate base" (T1:76).

BCSEA expresses concern that FBC cutbacks in DSM spending is not something that they would be able to easily negotiate. However, it stated that if there were NSPs, it would be willing to participate and entertain the proposals that would come forward (T1:82).

ICG proposes a negotiated settlement process to be held in early November. It submits that after receiving responses to the second round of IRs, a move to an NSP should be immediate. ICG anticipates that if the NSP fails, then it may be necessary for Fortis to file a traditional cost of service application at that point. Interveners will have an opportunity to file evidence after the NSP process and there would then be a fulsome process after that including IRs on the evidence filed by interveners. (T1:85-86)

COPE states that FEI and FBC should not be complaining about the Commission and Interveners wanting a rigorous process to make sure everything is done right. "If any of the dials are wrong in the calibration and in the way this is designed now, over that period of time the opportunity for things to stray away from the trajectory they should be on is very substantial" (T1:88). COPE also comments on the submission of ICG with respect to the timing of an NSP. COPE states "there's a fundamental weakness in asking the parties to try to grapple with these issues before the interveners have had an opportunity to produce, present their evidence and have it challenged. And if that isn't on the record, the notion that the alternatives to what the utilities put forward aren't on the table until after we've tried negotiating, and my submission is sort of cart before the horse" (T1:100).

COPE agrees that a negotiated settlement process is a well-designed tool for addressing the issue of the base year. It further submits that "to some extent DSM is a PBR issue, to some extent it is a financial basing issue" and that "we could make headway on those issues in a negotiated settlement" (T1:96-97).

COC would prefer a written hearing, but do not oppose an oral hearing (T1:101).

The Irrigation Ratepayers support an NSP (T1:108).

In addition to Intervener and Applicant submissions, prior to the Procedural Conference, Commission staff filed their submissions. In general, staff view each of the Applications as having 3 parts: review of the 2013 Base Costs, review and establishment of the PBR Plan and the ongoing Annual Reviews. For the review of the 2013 Base costs, staff submit that this should continue in its own separate review for each utility and should be accomplished through a written proceeding.

Staff also confirmed that a second round of IRs for both proceedings is recommended. In the case of FEI, it is important that IR No. 2 separates non-gas utility costs – ie. thermal services, biomethane and other service offerings – from gas utility costs.

Staff propose that the review and establishment of the proposed PBR Plan could be combined and reviewed through a separate process. They further submit that the review process for this combined review of the PBR Plan should follow completion of the evidentiary process and should be a written process. However, they would be open to an oral hearing if that is what Interveners propose. Staff does not, however, believe that an NSP would be appropriate and provided several reasons for taking this position. (FBC Application, Exhibit A2-12; FEI Application, Exhibit A2-9)

4. TIMETABLE

CEC provided a draft timetable that incorporated an additional IR round, intervener evidence and an oral hearing on the PBR mechanism with a Panel decision on those issues (FEI Application, Exhibit C1-4; FBC Application, Exhibit C6-3). The CEC proposal does not include an opportunity for IRs on the intervener evidence or for the Utilities to submit a rebuttal. Subsequent to the oral hearing, CEC proposes negotiated settlement processes with each of the respective utilities, FEI held in Vancouver and FBC held in Kelowna (T1:69).

Commission Determination

Having considered the submissions of the parties, the Panel considers that the Applications can be reviewed in two parts. First, the Panel agrees that the consideration of the PBR mechanism is best undertaken in an oral hearing and a review that is combined for both FEI and FBC in order to promote efficiencies and reduce duplication. For the PBR mechanism review, the Panel finds the oral hearing which provides an opportunity to cross examine expert witnesses is the most appropriate means to obtain the complete evidentiary record necessary to assess these complex and challenging methodologies. Other components of the two proceedings, including DSM/EEC, base year cost and all other non-PBR issues should proceed in a written hearing.

In making this determination, the Panel considered the submissions of the parties that stated an NSP may be an efficient way to deal with these other non-PBR issues. However, the Panel is mindful that these applications are for a five year period, and encompass policy issues (such as deferral accounts, intercompany cost allocations and other service offerings) that when dealt with, may have implications for other utilities regulated by the Commission.

The Panel is generally in agreement with the three principles put forward by FEI and FBC at the September 5, 2013 Procedural Conference. The Panel is mindful of these principles, in particular that of timeliness. In this regard, there is no significant difference in the regulatory delay imposed by the timetable set out in this Order as compared to the timetable suggested by CEC and endorsed by a number of parties. However, the Panel believes that the CEC timetable should be modified to allow for additional items such as IRs on intervener evidence and rebuttal evidence, and the response time to IRs should be increased to a more realistic time period.

The Panel is in agreement with the parties that there should be a second round of IRs in both proceedings. The combined review of the PBR methodology would be reviewed jointly and therefore IRs should be filed for the

two utilities together. For all other non-PBR issues (including DSM/EEC and base year costs), the Panel believes that because they are specific to each utility, the review should continue to be separate for each utility but could be reviewed within the same schedule. As such, the Panel has aligned the IR No. 2 schedule for both FEI and FBC.

Additionally, the Panel believes that Interveners should have the opportunity to file evidence and parties should have the opportunity to ask IRs on that evidence. FEI and FBC should also be provided the opportunity to file rebuttal evidence. When filing evidence and argument, parties may choose to file one joint filing covering both companies, a separate filing for each company or a combination of the two.

The Panel also agrees with staff that advanced approval should be considered prior to the attainment of experts.

5. INTERIM RATES

In each of FEI and FBC Applications, the companies did not specifically seek approval of interim rates for 2014, however, the Panel asked for submissions on this issue during the Procedural Conference. FEI and FBC indicated that they are seeking interim rates, to take effect January 1, 2014, based on the applied for delivery rates for 2014. FEI and FBC submit that the practice has been for the Commission to generally put them in place at the amount that is applied for. (T1:21-22; T1:118-119)

CEC supports interim rates to ensure there is certainty for the utility (T1:74), however does not clarify what the appropriate rates should be.

BCPSO takes the position that current rates should be maintained for the interim, otherwise interim rates could be set at a midpoint between the current rate and the proposed rate (T1:77).

BCSEA and IRG agree to the concept of allowing an interim rate, but take no position on whether it should be based on the 2013 or the proposed 2014 rates (T1:83; T1:109).

ICG submits that interim rates should be approved and be based on the rates that have been in place since January 2013. However, ICG submits that given that the final rates to be approved by the Commission may not be based on the utility's proposed PBR mechanism, the interim rates proposed for 2014 should not be approved (T1:86).

COPE and COC take no position on the issue of interim rates (T1:97; T1:104).

Commission Determination

After reviewing the submissions from all parties, the Panel notes that there are two issues pertaining to interim rates that must be dealt with: FBC's existing interim rates for 2013 and whether FBC and FEI should be granted interim rates for 2014.

There were no submissions by any parties on the first issue, although FBC states in its Application that:

> "[t]he Company is requesting that the Commission approve its existing rates as permanent, effective January 1, 2013, and that the Stage 1 GCOC impact be deferred and returned to customers in 2014. Any further changes to FBC's revenue requirements would be the subject of a flow-through as soon as practicable following a decision in the Stage 2 GCOC proceeding" (FBC Application, Exhibit B-1, p. 7).

Given the lack of submissions on this topic, the Panel looks to other Commission orders for guidance. The Panel notes Commission Letter L-31-13A issued on June 6, 2013, states that "[t]he Commission's view is that the interim rates for all other utilities remain interim until a decision is rendered for the Stage 2 of GCOC." Further, the Panel also refers to the Reasons for Decision in the Pacific Northern Gas Ltd. 2013 Revenue Requirement Application, where the Commission reaffirmed its decision that "for all regulated utilities in B.C. that rely on the benchmark utility to establish Rates are to be maintained and made interim, effective January 1, 2013" and that "[a]ny determinations of the premiums on the benchmark ROE and Capital structure of regulated utilities that depend on the benchmark utility for rate setting will be made following the decisions made in Stage 2" (Order G-87-12). **The Panel denies FBC's request to make permanent its interim 2013 rates. These rates will remain as interim until a decision is rendered for the Stage 2 of GCOC.**

The proposed 2014 rate for FBC is a 3.3 percent increase over the 2013 rate (FBC Application, Exhibit B-1, p. 7,). The proposed 2014 rate for FEI has now been updated to be "approximately 1.4 percent higher than the existing 2013 delivery rates" according to FEI's Evidentiary Update, submitted on September 6, 2013 (FEI Application, Exhibit B-15, p. 4,). The Panel sees no reasoning to calculate a midpoint of rate impact as suggested by BCPSO and the Panel also recognizes that interim rates for 2014 will be necessary based on the timing of the Amended Regulatory Timetable, attached as Appendix A to the Order. Given that interim rates are refundable subject to further determinations and the general practice of implementing the rates that are applied for by the utilities, **the Panel determines that the FEI and FBC should be granted their respectively proposed interim rate adjustments, effective January 1, 2014.**

6. LOCATION(S) OF THE PROCEEDINGS

FEI and FBC propose that there would be a limited oral hearing on the PBR issues in Vancouver, and if an NSP were to occur as proposed, FEI's would occur in Vancouver and FBC's would occur in Kelowna, as is typical (T1:23). CEC agrees to these locations for an NSP (T1:69).

Commission Panel Determination

The Panel determines that the Oral Hearing on March 10, 2014, be held at the Commission Hearing Room on the 12th Floor, 1125 Howe Street, Vancouver, BC.

7. DEADLINES FOR FILING PARTICIPANT ASSISTANCE/COST AWARD BUDGETS AND EXPERT EVIDENCE BUDGETS

CEC requests that the Commission provide pre-approval of at least a portion of Intervener budgets, in order to be able to move forward with their respective expert evidence (T1:72-73).

Commission Panel Determination

The Panel will consider any budget submissions provided such submissions are made in accordance with the regulatory timetable.

8. SCOPE OF THE HEARING

With regard to the scope of the hearing, FEI submits that the following items should be out of scope:

1. What amount should be transferred from FEI, the gas utility business, to the Thermal Energy Services Deferral Account (TESDA)?
2. How should the TESDA be allocated among thermal energy projects?

Regarding the first issue, FEI submits that "there is going to be a proceeding in the spring to deal with what that amount is, the Code of Conduct and Transfer Pricing proceeding will address that determinatively." Accordingly, FEI proposes to take the amount of $854,000, which is the approved 2013 amount, and use that as a placeholder in this proceeding (T1:16-17).

COC requests that this issue remain on the table in this proceeding (T1:103).

No Interveners disagree with FEI's position on issue two.

Commission Determination

With regard to the out of scope items identified by FEI, the Panel agrees that the disposition of the balance in the TESDA is out of scope for this proceeding. However, the Panel is not persuaded there is sufficient evidence to justify FEI's suggested approach of using the placeholder amount for transfers into the TESDA. The potential for cross subsidization of FAES' thermal customers by FEI's ratepayers is an issue that should be examined in this proceeding, as there is the potential for mis-allocations in the base year to be carried through to subsequent years in the PBR mechanism.