

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC V6Z 2N3 CANADA
web site: <http://www.bcuc.com>



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-65-14**

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

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

and

**An Application by FortisBC Energy (Vancouver Island) Inc.
for Approval of 2014 Revenue Requirements and Rates**

BEFORE: D.M. Morton, Panel Chair/Commissioner
D.A. Cote, Commissioner May 23, 2014
B.A. Magnan, Commissioner

O R D E R

WHEREAS:

- A. On September 25, 2013, FortisBC Energy (Vancouver Island) Inc. (FEVI) filed for approval of interim and permanent delivery rates effective January 1, 2014 (Application) pursuant to sections 59 to 61 and 89 of the *Utilities Commission Act* (UCA) and the Special Direction to the British Columbia Utilities Commission (Commission) pursuant to Order in Council 1510 (Special Direction);
- B. FEVI seeks, among other things, approval to maintain current natural gas rates for all customers, other than those with specified rates in their transportation service agreements, for a one-year period commencing January 1, 2014. FEVI proposes to utilize the surplus that will exist in the Rate Stabilization Deferral Account (RSDA) to allow for rates to remain unchanged for 2014;
- C. FEVI also seeks approval of its schedule of demand and commodity charges, forecast gross operating and maintenance (O&M) expenditures and, pursuant to section 2.10 of the Special Direction, its forecast Cost of Service, forecast capital expenditures, and forecast revenue;
- D. FEVI also seeks, among other things, approvals including allocation of costs for corporate and shared services, and the discontinuation, continuation, and creation of deferral accounts and the amortization and disposition of balances in deferral accounts;
- E. On October 2, 2013, pursuant to Order G-161-13, the Commission established a Preliminary Regulatory Timetable which provided for one round of Information Requests and for submissions from FEVI and Registered Interveners on further regulatory process;

- F. On November 28, 2013, the Province of British Columbia deposited Order in Council No. 557, dated November 27, 2013, as B.C. Regulation 245/2013, Special Direction No. 5 to the Commission (Special Direction No. 5). Special Direction No. 5 contains, among other items, the following requirements:

3 In setting rates under the Act for a utility, the Commission must do the following:

- (a) treat CNG service and LNG service, and all other costs and revenues related to those services, as part of the utility's natural gas class of service;
- (b) allocate all costs and revenues related to CNG service and LNG service to all applicable customers;

- G. On December 13, 2013, FEVI filed with the Commission an Amendment to the Application to address, among other things, changes to the approvals sought in the Application as a result of the issuance of Special Direction No. 5 (Application Amendment);
- H. FEVI also filed on December 13, 2013, its submission on further regulatory process;
- I. On December 16, 2013, the British Columbia Pensioners' and Seniors' Organization *et al.* (BCPSO) and the Commercial Energy Consumers Association of British Columbia (CEC) filed submissions on further regulatory process;
- J. By Order G-217-13 dated December 17, 2013, the Commission established a Final Regulatory Timetable for the proceeding and determined that the Application be heard through a written hearing process;
- K. On January 10, 2014, FEVI filed an Evidentiary Update to reflect the changes to the forecast revenue deficiency resulting from the Application Amendment as well as certain other revisions identified in the first round of Information Requests;
- L. FEVI filed its Final Argument on February 20, 2014;
- M. By Order G-21-14 dated February 26, 2014, the Commission approved the amalgamation and adoption of common rates on a three year phase-in basis of FortisBC Energy Inc., FEVI, FortisBC Energy (Whistler) Inc., and Terasen Gas Holdings Inc. Directive 3(f) of Order G-21-14 makes the following determination on FEVI's RSDA:

3 Subject to the approval of amalgamation by the Lieutenant Governor in Council pursuant to section 53 of the Act, and effective upon amalgamation the Commission also approves the following:

... (f) The use of a Rate Stabilization Deferral Account (RSDA) Rider, to permit the distribution of the balance in the RSDA to non-bypass customers in the current FEI service area over a three year period effective as of the date of the amalgamation;

- N. BCPSO and CEC filed their Final Arguments on February 27, 2014;
- O. FEVI filed its Reply Argument on March 6, 2014;
- P. The Commission has considered the evidence and submissions of the parties in the Application.

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA), for the reasons set out in Appendix A to this Order:

1. FortisBC Energy (Vancouver Island) Inc.'s (FEVI) request, pursuant to sections 59 to 61 of the UCA and section 2.1 of the *Vancouver Island Natural Gas Pipeline Act* Special Direction (Special Direction), to establish permanent rates effective January 1, 2014 for Core Market sales and transportation customers other than customers who have specified rates in their transportation service agreements, at the same level as 2013 rates, is approved.
2. FEVI's forecast Cost of Service for 2014, subject to the modifications contained in Directives 3 through 13 of this Order, is approved pursuant to section 2.10(a)(i) of the Special Direction.
3. FEVI's forecast capital expenditures for 2014, subject to the modifications contained in Directive 13 of this Order, is approved as filed pursuant to section 2.10(a)(i) of the Special Direction.
4. FEVI's forecast revenue for 2014, based on its proposed rates, is approved as filed pursuant to section 2.10(a)(ii) of the Special Direction.
5. FEVI's forecast gross operations and maintenance (O&M) expenditures for 2014 are not approved as filed. FEVI's request for an additional \$200 thousand in expenditures in 2014 for the Energy Solutions and External Relations department's natural gas heating awareness initiative is declined. FEVI is further directed to reduce its overall 2014 O&M forecast by an additional \$800 thousand, for a total reduction to the 2014 O&M forecast of \$1 million. This \$1 million reduction to O&M is independent of the modifications to O&M required in Directive 13.
6. FEVI is directed to reduce its 2014 forecast for Transportation Demand Charges by \$495 thousand. Subject to this modification, FEVI's 2014 cost of gas, as set out in Table B2-1 of the Application Amendment, is approved.
7. FEVI is directed to file with the Commission, within six months of the date of this decision, a report analyzing the unaccounted for gas levels and to provide a mitigation strategy if warranted.
8. FEVI's request to allocate the difference between the net revenues received and the actual cost of service, excluding O&M variances from allowed, to the Rate Stabilization Deferral Account is approved.

9. The allocation of costs for corporate services between FortisBC Holdings Inc. and FEVI and for Shared Services between FortisBC Energy Inc. (FEI) and FEVI, as reflected in the Corporate Services Agreement and Shared Service Agreement is approved. The amount of the allocations shall be in accordance with the Commission's determination on these allocations in the FEI 2014-2018 Performance Based Ratemaking Revenue Requirements proceeding (PBR Application).
10. With respect to FEVI's requests for the discontinuance, modification, and creation of deferral accounts, and the amortization and disposition of balances of deferral accounts commencing January 1, 2014:
 - a. FEVI's request to establish the 2014 Revenue Requirements Application Costs deferral account as a rate base deferral account and to amortize this deferral account over a one year period commencing January 1, 2014 is approved.
 - b. FEVI's request to establish the Generic Cost of Capital Application Costs deferral account as a rate base deferral account and to amortize this deferral account over a two year period commencing January 1, 2014 is approved.
 - c. The request to change the amortization period for the Pension and Other Post Employment Benefits (OPEB) Variance deferral account from the currently approved one year amortization period to the Expected Average Remaining Service Life (EARS�) of the benefit plans is not approved at this time. However, FEVI may adopt any change in amortization period for this account which is approved for FEI in the FEI PBR proceeding.
 - d. FEVI is directed to adopt, effective January 1, 2014, the amortization period for the Customer Service Variance deferral account that is approved for FEI in the FEI PBR proceeding.
 - e. The request to transfer FEVI's portion of the balance of the Amalgamation and Rate Design Application costs to rate base is approved.
 - f. FEVI is directed to adopt, effective January 1, 2014, the amortization period for the Amalgamation and Rate Design Application costs which is approved for FEI in the FEI PBR proceeding.
 - g. FEVI's request, as set out in section C4.4.2 of the Application, for discontinuance of various deferral accounts is approved as filed.
11. FEVI's request, as set out in section C3.2 of the Application, for modification to the approved Lead Lag days with the removal of the HST lead days and the insertion on GST and PST lead days is approved as filed effective January 1, 2014.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-65-14

5

12. FEVI's request, as set out in section C3.1 of the Application, to discontinue reconciliation of US Generally Accepted Accounting Principles (GAAP) to Canadian GAAP in future BCUC Annual Reports is approved.
13. With respect to FEVI's requests for accounting policy changes:
- a. FEVI's request, as set out in section 3.3 of the Application, to change its method for calculation of depreciation, whereby depreciation expense shall commence at the beginning of the year following when the asset is placed into service, is not approved at this time. However, FEVI may adopt the method for calculation of depreciation approved for FEI in the FEI PBR Proceeding.
 - b. FEVI's request, as set in section C3.1 of the Application, to include the retiree portion of pension and OPEB expenses in benefit loadings for O&M and capital is not approved at this time. However, FEVI may adopt the treatment of pension and OPEB expenses approved for FEI in the FEI PBR proceeding.
 - c. FEVI's request, as set out in section C3.1 of the Application, to capitalize annual software costs paid to vendors in support of upgrade capability is not approved at this time. However, FEVI may adopt the treatment of capitalization of the annual software costs approved for FEI in the FEI PBR proceeding.
14. FEVI must file revised financial schedules in accordance with the directives in this Decision and in accordance with the applicable directives in the Commission's decision in the FEI PBR proceeding, no later than 30 days after the issuance of that decision.

DATED at the City of Vancouver, in the Province of British Columbia, this 23rd day of May, 2014.

BY ORDER

Original Signed By:

D.M. Morton
Commissioner