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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-23-15**

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

and

**FortisBC Energy Inc.
An Application regarding the
2015 Core Market Administration Expense Budget**

BEFORE:

C. A. Brown, Commissioner
H. G. Harowitz, Commissioner
K. A. Keilty, Commissioner
N. E. MacMurchy, Commissioner
I. F. MacPhail, Commissioner
B. A. Magnan, Commissioner
D. M. Morton, Commissioner
R. D. Revel, Commissioner

February 19, 2015

O R D E R

WHEREAS:

- A. On June 18, 2014, pursuant to Order G-79-14, the British Columbia Utilities Commission (Commission) approved the FortisBC Energy Inc. (FEI) 2014 Core Market Administration Expense (CMAE) Budget of \$4,344,200;
- B. Order G-79-14 determined that until such time as FEI files its next revenue requirements application, FEI is directed to submit future CMAE budgets separately to the Commission at least two weeks prior to the fourth quarter gas cost report to allow the Commission sufficient time to review the CMAE Budget and to determine if there are sufficient variances from the previous CMAE Budget to warrant a more fulsome review;
- C. On October 22, 2014, FEI requested an extension to the filing date for its 2015 CMAE budget application to October 30, 2014;
- D. Letter L-55-14 accepted the requested extension to file the 2015 CMAE budget application on or before October 30, 2014;
- E. On October 30, 2014, FEI submitted its 2015 CMAE budget application (Application), requesting Commission approval of the 2015 CMAE budget of \$5,139,000;

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- F. In the Application, FEI also requests approval of the allocation of the 2015 CMAE, between the FEI Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account for the amalgamated FEI entity based on the existing allocation percentages of 30 percent and 70 percent, respectively;
- G. On November 28, 2014 the Commission issued an information request (IR No. 1) regarding the Application;
- H. FEI filed its response to Commission IR No. 1 on December 15, 2014; and
- I. The Commission reviewed the Application and FEI's responses to Commission IR No.1 to determine whether the nature and magnitude of the increase in the 2015 CMAE budget over the 2014 CMAE budget approved by the Commission in Order G-79-14 are reasonable and finds the 2015 CMAE budget should be approved as requested.

NOW THEREFORE pursuant to section 61(4) of the *Utilities Commission Act* and for the reasons set out in the attached Appendix A, the British Columbia Utilities Commission orders as follows:

1. FortisBC Energy Inc.'s (FEI) 2015 Core Market Administration Expense (CMAE) Budget is approved for \$5,139,000.
2. The allocation of the 2015 CMAE, between the Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account, is approved based on the allocation percentages of 30 percent and 70 percent, respectively.
3. For future CMAE budget applications, FEI is directed to use the revised format set out in the template attached as Appendix B, which includes a comparison by affiliation of actual company-wide benefits, company-wide incentives and company-wide salary increases to the actual CMAE benefits, incentives and salary increases.

DATED at the City of Vancouver, in the Province of British Columbia, this 20th day of February 2015.

BY ORDER

Original signed by:

D.M. Morton
Commissioner

Attachments

FortisBC Energy Inc.
An Application Regarding the
2015 Core Market Administration Expense Budget

REASONS FOR DECISION

1.0 BACKGROUND

The cost of gas for FortisBC Energy Utilities (FEU) includes costs, referred to as the Core Market Administration Expense (CMAE), associated with managing the FEU's natural gas and propane supply functions. These management activities are carried out by FortisBC Energy Inc.'s (FEI) Gas Supply group, which resides in the Energy Supply and Resource Planning department. The gas supply function encompasses most elements of the merchant role, including preparing the annual contracting plans, negotiating contracts for gas supply, transportation and storage, managing the day-to-day gas supply requirement and mitigating the resources not required to meet the daily load requirements.

Prior to the January 1, 2015 amalgamation of the FEU, the CMAE was allocated 90 percent to the FEI cost gas variance accounts (which included FortisBC Energy (Whistler) Inc.'s share) and 10 percent to the Fortis BC Energy (Vancouver Island) Inc. Gas Cost Variance Account. The FEI portion was then allocated 30 percent/70 percent to the Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA), respectively. The allocated shares of the CMAE are recorded in the applicable gas cost variance accounts and recovered as gas costs on a flow through basis.

In the British Columbia Utilities Commission (Commission) decision and accompanying Order G-79-14 dated June 18, 2014 (2014 CMAE Decision) the Commission denied the requested 2014 CMAE Budget amount of \$4,672,200 and instead approved a 2014 CMAE Budget for \$4,344,200. The Commission reduced the labour component of the 2014 CMAE budget by \$328,000 noting that FEI had submitted a budget with labour costs that were 17 percent higher than the actual labour costs for the previous year. The Commission accepted FEI's inflation factor of 2.7 percent but applied it to the 2013 CMAE actual labour costs as the starting point to determine the reduced approved 2014 CMAE labour budget amount.¹

The Commission also determined that the appropriate review process for the CMAE budget is as part of FEI's revenue requirements applications. As such, the Commission directed that the CMAE budget review and approval process is to be included within the FEI revenue requirements applications starting with the next such application filed by FEI. Until such time, the Commission directed FEI to submit future CMAE budgets separately to the Commission at least two weeks prior to the fourth quarter gas cost report to allow time for the Commission to review the CMAE Budget and to determine if there are sufficient variances from the previous CMAE budget to warrant a more fulsome review than afforded by the fourth quarter gas cost report review process. In the 2014 CMAE Decision the Commission also provided templates that FEI is directed to use for

¹ Commission decision and accompanying Order G-79-14 dated June 18, 2014 regarding the FEI Core Market Administration Expense 2014 Budget Application (2014 CMAE Decision), p. 7

CMAE budget applications and for reporting the CMAE component in the annual gas cost variance account status reports.

2.0 APPLICATION

On October 30, 2014, after Commission approval via Letter L-55-14 of a requested two-week delay of the filing deadline set out in Order G-79-14, FEI filed its application for approval of the 2015 CMAE budget (Application). In the Application FEI seeks approval of a 2015 CMAE budget of \$5.139 million and approval of the allocation of the 2015 CMAE between the CCRA and MCRA for the amalgamated FEI entity based on the existing allocation of 30 percent to CCRA and 70 percent to MCRA.

As directed in the 2014 CMAE Decision, in Schedule 1 of the Application FEI provides details of the actual CMAE for the period from 2010 through 2013, the original 2014 budget request, the approved 2014 budget and the 2014 projected amounts together with the requested 2015 budget.

The difference between the requested 2015 CMAE budget of \$5.139 million and the approved 2014 CMAE budget of \$4.3442 million represents an increase of 18.3 percent and it is the magnitude of this difference that led to a more detailed review of the Application by the Commission.

3.0 VARIANCE BETWEEN APPROVED 2014 CMAE BUDGET AND PROJECTED 2014 COSTS

Prior to examining the 2015 CMAE budget request, the Commission reviewed the explanations for the increase in the 2014 CMAE projected amount as compared to the approved 2014 CMAE budget. In particular, the Commission reviewed the extent to which the \$729,000 or 16.8 percent increase in the projected 2014 CMAE amount over the Commission approved 2014 CMAE budget is due to factors outside FEI's control.

In the Application FEI describes the causes of the variance between the 2014 CMAE projected amount and the approved 2014 CMAE budget. The bulk of this variance was driven by two factors:

- FEI's participation in the National Energy Board (NEB) regulatory review process for the NOVA Gas Transmission Ltd. (NGTL) North Montney Project, and
- increased benefits and incentives labour loading costs recorded in the CMAE.

FEI's participation in NEB North Montney proceeding was described and contemplated as part of the 2014 CMAE budget approved by the Commission. FEI's participation in this proceeding led to an increase of \$373,000 over the approved 2014 budgeted cost of \$500,000 as the scope of the NEB hearing was broader, the number of interveners was greater and the duration of the oral hearing phase was longer than originally expected.² The Commission notes that FEI's participation in the NGTL North Montney NEB proceeding was significant as FEI filed evidence and put forward a witness panel.³

² FEI 2015 CMAE Budget Application dated October 30, 2014, Schedule 1

³ National Energy Board website, 2013-11-08 Application for North Montney Project (GH-001-2014), Intervener Documents, <https://docs.neb-one.gc.ca/II-eng/IIisapi.dll?func=II&objId=2452372&objAction=browse&viewType=1>

A further \$363,000 in variances between the approved 2014 CMAE budget and the projected 2014 CMAE is related to the combined “COPE Benefits” and “M&E Benefits” components of the labour costs. The “Benefits” components of the 2014 variances are described by FEI as attributed to increased benefits loading of \$66,000 for COPE labour and \$215,000 for M&E labour, respectively, “due primarily to significant increase in current service portion of employee pension, and an accounting change whereby the retiree portion of pension (is now) included in departmental labour loading that was previously charged to Corporate O&M”.⁴ FEI confirms that the changes referred to are the accounting changes requested by FEI in its application for approval of a multi-year Performance Based Ratemaking Plan for 2014 through 2018 (2013-2018 PBR Application) and approved in the Commission decision and accompanying Order G-138-14 (PBR Decision).⁵

In the Commission’s view the explanations provided for the variances between the projected 2014 CMAE and the approved 2014 CMAE show the variances to be reasonable and appropriate.

4.0 REQUESTED 2015 CMAE BUDGET

The difference between FEI’s requested 2015 CMAE budget of \$5.139 million and the projected 2014 CMAE amount of \$5.073 million is an increase of 1.3 percent or \$66,000. The Commission reviewed the 2015 CMAE budget and, in particular, the “Consulting & Legal” component and the various labour components.

For 2015 FEI anticipates it will have significant expenditures of \$735,000 or \$235,000 over the approved 2014 CMAE budgeted amount for “Consulting & Legal” due to FEI’s anticipated participation in three NEB proceedings regarding NGTL in 2015. Although this budgeted amount is higher than the \$500,000 amount approved in the 2014 CMAE budget, it is \$138,000 less than the projected amount for 2014. FEI notes its participation in NEB proceedings depends on the nature of the application, scope of issues and the principles at stake. Given the cost of FEI’s participation in recent NEB proceedings regarding NGTL, the ongoing concerns regarding the potential impact of the outcome of the NGTL proceedings on the development of infrastructure in northeastern BC and the number of relevant proceedings that are scheduled to come before the NEB in 2015, the Commission considers FEI’s 2015 “Consulting & Legal” budget to be reasonable.

With regard to the CMAE labour, Commission staff prepared the following table summarizing the labour cost components.

⁴ FEI 2015 CMAE Budget Application dated October 30, 2014, Schedule 1

⁵ FEI 2015 CMAE Budget Application, FEI Response to Commission IR No.1 dated December 15, 2014, BCUC 1.3.1

Table 1 – CMAE Labour Components

	2014	2014	2014	2015
	Requested Budget	Approved Budget	Projected	Requested Budget
	(\$ in thousands)	(\$ in thousands)	(\$ in thousands)	(\$ in thousands)
COPE Salaries	\$469	\$469	\$481	\$392
COPE Benefits & Incentives	\$142	\$142	\$199	\$185
COPE Total Cost	\$611	\$611	\$680	\$577
COPE FTE Count	5.7		5.8	4.8
M&E Salaries	\$1,465	\$1,232	\$1,208	\$1,400
M&E Benefits & Incentives	\$594	\$499	\$805	\$874
M&E Total Cost	\$2,059	\$1,731	\$2,013	\$2,274
M&E FTE Count	16.0		15.0	15.0
CMAE Total Salaries	\$1,934	\$1,701	\$1,689	\$1,792
CMAE Total Benefits	\$736	\$641	\$1,004	\$1,059
CMAE Total Labour	\$2,670	\$2,342	\$2,693	\$2,851

FEI states that it reduced the M&E FTE count by one from 2013 to 2014. This reduction from the originally requested 2014 FTE count is put forth as evidence of FEI's efforts to comply with the reduced labour cost component approved by the Commission for the 2014 CMAE budget. FEI note that the 2014 M&E labour costs were also lower due to unfilled vacancies for short durations over the course of 2014 due to staff turnover as well as due to non-recurring cross charges to FortisBC Inc. FEI plans to reduce the COPE full-time equivalent (FTE) count by one from 2014 to 2015 as a result of information technology efficiencies.

With regard to benefits and incentives, FEI states that CMAE benefits and incentives amounts are budgeted as a single loading percentage for each labour affiliation based on company-wide estimates.⁶ The significant increase in the benefits and incentives component are driven by the increase in the company-wide labour loading percentages which are in the outcome of the changes approved in the PBR Decision. Since the company-wide loading is a single percentage FEI states it is unable to split the incentives portion of labour loading out separately from the overall benefits component in the CMAE projected and budgeted amounts as FEI has done when reporting actuals in the Commission specified reporting template.

FEI states that labour loading percentages are applied to M&E salaries before netting off cross-charging. Based on the gross salary figures provided by FEI in response to BCUC 1.5.1⁷ and the company-wide labour loading percentages by affiliation provided in response to BCUC IR 1.4.2, Commission staff constructed the following table for the purpose of comparing CMAE labour loading to the company-wide figures.

⁶ Ibid, BCUC 1.6.1

⁷ FEI 2015 CMAE Budget Application, FEI Response to Commission IR No.1 dated December 15, 2014, BCUC 1.5.1

Table 2 – Comparison of CMAE Labour Loading to Company-wide Labour Loading

Component	2013 Actuals	2014 Budget	2015 Budget
	(\$ in thousands)	(\$ in thousands)	(\$ in thousands)
CMAE COPE salaries	\$534	\$469	\$392
CMAE COPE labour loading on salaries*	29.0%	41.4%	47.2%
Company-wide COPE labour loading	31.9%	44.9%	47.5%
CMAE M&E salaries before cross-charging	\$1,158	\$1,430	\$1,539
CMAE M&E labour loading on salaries before cross-charging*	38.3%	56.3%	56.8%
Company-wide M&E labour loading	38.9%	59.0%	57.7%

* including Benefits and Incentives

Commission Determinations

The Commission is of the view that FEI is making efforts to control salary costs. With regard to labour loading, the Commission accepts that the cause of the increase in the “Benefits” cost component is primarily driven by the changes to the treatment of pension costs as approved in the PBR Decision. However, the Commission considers that the use of a company-wide labour loading percentage for each affiliation which includes the incentives with other benefits makes it more challenging to review the budgeted CMAE labour loading costs against the actuals in previous years.

FortisBC Energy Inc.’s 2015 CMAE is approved for \$5,139,000.

For future CMAE budget applications, FEI is directed to use the revised format set out in the template attached as Appendix B, which includes a comparison by affiliation of actual company-wide benefits, company-wide incentives and company-wide salary increases to the actual CMAE benefits, incentives and salary increases.

5.0 ALLOCATION OF CMAE TO CCRA AND MCRA

On May 1, 2014 FEI filed its 2014/15 Annual Contracting Plan (2014/15 ACP) for the gas year commencing November 1, 2014. The 2014/15 ACP was developed to meet the combined gas supply resource requirements of the FortisBC Energy Utilities (FEU) and was based on the expansion of the FEI Essential Services Model (ESM) to the combined portfolio. Via Letter L-40-14 dated July 17, 2014 the Commission accepted the 2014/15 ACP, including FEI’s recommendation to establish a single, combined portfolio effective November 1, 2014, representing the forecast resource requirements of the FEU. The Commission also accepted FEI’s recommendation to implement the ESM for the entire combined portfolio in order to be able to continue to support the existing commodity unbundling program and its extension to the Vancouver Island and Whistler service areas on or after November 1, 2015. It is the ESM that results in the FEI gas portfolio being split into two

components with FEI as commodity provider and FEI as midstream provider together with the respective CCRA and MCRA gas cost variance accounts.⁸

Commission Determinations

Under the ESM, the nature of the CMAE activities associated with managing the two components of the amalgamated FEU gas portfolio will be the same as for the pre-amalgamation FEI portfolio. **The Commission approves the allocation of the 2015 CMAE, between the Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account based on the allocation percentages of 30 percent and 70 percent, respectively.**

⁸ Commission Letter L-40-14 dated July 17, 2014 accepting FEI's 2014/15 Annual Contracting Plan

Template for 2016 CMAE Budget Application

Line #	CMAE Cost Component	2011 Actual	2012 Actual	2013 Actual	2014 Actual	Approved	Projected	Variance	2015 Variance %	Variance Explanation	2016 Budget Request
1	CMAE Cost Component										
2	(\$000, unless specified otherwise)										
3	IT										
4	Consulting & Legal										
5	Subscriptions & Memberships										
6	Sundries										
7	Training & Travel										
8	COPE Salaries before Benefits & Incentives										
9	COPE Benefits										
10	COPE Incentives										
11	M&E Salaries before Benefits & Incentives										
12	M&E Benefits										
13	M&E Incentives										
14	Energy Management Service Revenue										
15	Shared Services										
16	Total										
17											
18	CMAE FTE										
19	(Number)										
20	COPE										
21	M&E										
22	Total										
23											
24	Comparative Labour Loading										
25	(percentages, except for salaries which is \$000)										
26	Company-wide COPE Benefits as percentage of salaries										
27	Company-wide COPE Incentives as percentage of salaries										
28	Company-wide M&E Benefits as percentage of salaries										
29	Company-wide M&E Incentives as percentage of salaries										
30	CMAE COPE Salaries before cross-charging										
31	CMAE COPE Benefits as percentage of salaries before cross-charging										
32	CMAE COPE Incentives as percentage of salaries before cross-charging										
33	CMAE M&E Salaries before cross-charging										
34	CMAE M&E Benefits as percentage of salaries before cross-charging										
35	CMAE M&E Incentives as percentage of salaries before cross-charging										

For 2011 to 2013 actuals, Incentives are to be reported as separate line item from Benefits
For Comparative Labour Loading (lines 26 through 35) salaries are before cross-charging