BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-202-15

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

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

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Inc.
Application for Approval of 2016 Rates
Pursuant to the Multi-Year Performance Based Ratemaking Plan
Approved for 2014 through 2019 by Order G-139-14

BEFORE: D. M. Morton, Commissioner/Panel Chair
D. A. Cote, Commissioner
H. G. Harowitz, Commissioner

December 14, 2015

O R D E R

WHEREAS:

A. On September 15, 2014, the British Columbia Utilities Commission (Commission) issued Order G-139-14 along with its Reasons for Decision (PBR Decision) approving FortisBC Inc.'s (FBC) Multi-Year Performance Based Ratemaking (PBR) Plan for 2014 through 2019;

B. The PBR Decision directed FBC to conduct an Annual Review process to set rates for each year under the PBR Plan;

C. On September 11, 2015, FBC submitted an application for its Annual Review of 2016 Rates (Application) seeking approval for an interim rate increase of 1.98 percent, effective January 1, 2016, pending the outcome of the FortisBC Energy Inc.'s Application for a Common Equity Component and Return on Equity for 2016 proceeding;

D. The Commission issued Order G-139-15 on August 20, 2015, establishing the regulatory timetable for the review of the Application;

E. On October 21, 2015, FBC submitted an evidentiary update to the Application amending the requested interim rate increase to 3.12 percent;

F. In accordance with the regulatory timetable, a workshop was held in Vancouver, BC on October 26, 2015 and FBC filed its undertakings on November 4, 2015;

.../2

G. The Commission has reviewed the Application and evidence filed in the proceeding and finds it necessary to make determinations with Reasons for Decision to follow in a timely manner upon issuance of this order.

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act*, with Reasons for Decision to follow, the British Columbia Utilities Commission orders as follows:

1. FortisBC Inc.'s (FBC) permanent rate increase of 3.12 per cent for all customers effective January 1, 2016 is approved, subject to other adjustments as directed in this order.

2. Approval is granted for FBC to establish a deferral account to capture the difference between the rate impact of Directive No. 1 above and any future rate impact resulting from setting the Benchmark rate in the FortisBC Energy Inc. (FEI) Application for a Common Equity Component and Return on Equity for 2016 proceeding.

3. Approval is granted for FBC to create non-rate base deferral accounts for the following regulatory proceedings as described in Section 7.5 of the Application and as revised in FBC's Evidentiary Update:
    - Capacity and Energy Purchase and Sale Agreement (CEPSA) application and regulatory proceeding, financed at FBC's short term interest rate; and
    - 2017 Rate Design Application, financed at FBC's weighted average cost of debt.

4. Approval is granted to amortize, in 2016, $5.0 million of the 2015 closing balance of the 2014 Interim Rate Variance deferral account, with the remainder to be amortized in 2017, as set out in Section 12.4.2.1 of the Application.

5. Depreciation rates in the amounts set out in Table 12-2 in Section 12 of the Application are approved.

6. Net salvage rates in the amounts set out in Table 12-3 in Section 12 of the Application are approved.

7. Z-factor treatment is approved for the repair costs related to the Rock Creek and the Testalinden wildfire events of $1.728 million and $1.064 million, respectively. Z factor treatment is denied for the repair costs of $0.251 million related the Wilson Mountain fire.

8. Z-factor treatment for the forecast incremental costs of $0.445 million in 2016 related to its compliance with the changes to BC's Mandatory Reliability Standards program as adopted by the Commission in Order R-38-15 is approved.

9. FBC's request to recover from all customers the Advanced Metering Radio-off shortfall amounts, estimated at $0.168 million and $0.392 million for 2015 and 2016 respectively, is denied. Instead, FortisBC is directed to record the shortfall amounts in a deferral account the disposition of which will be determined in the future.

.../3

9. FBC is directed to file its 2015 actual All Injury Frequency Rate Service Quality Indicator (SQI) results as soon as the results are available. The Commission will make further determinations on this matter in due time.

10. FBC is directed to work with FEI to provide information on their capabilities for the individual tracking of service quality of FEI employees who perform work for FBC and an outline of additional costs if individual tracking was put in place in the future.

DATED at the City of Vancouver, in the Province of British Columbia, this 14th day of December, 2015.

BY ORDER

Original signed by:

D. M. Morton
Commissioner

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF

FORTISBC INC.

APPLICATION FOR APPROVAL OF 2016 RATES
PURSUANT TO THE MULTI-YEAR PERFORMANCE RATEMAKING PLAN
APPROVED FOR 2014 THROUGH 2019 BY ORDER G-139-14

REASONS FOR DECISION

January 7, 2016

BEFORE:

D. M. Morton, Panel Chair / Commissioner
D. A. Cote, Commissioner
H. G. Harowitz, Commissioner

TABLE OF CONTENTS

PAGE NO.

1.0 INTRODUCTION

1.1 Background

On September 15, 2014, by Order G-139-14, the British Columbia Utilities Commission (Commission) approved a Performance Based Ratemaking Plan (PBR) for FortisBC Inc. (FBC or the Company) covering a six-year period commencing in 2014. A primary purpose of the plan was to create an incentive for FBC to adopt a productivity focus and seek out sustainable operating and capital savings while maintaining service quality as measured by Service Quality Indicators (SQIs). The PBR Plan provided for an equal sharing of any PBR related savings between customers and the Company.

A key element of the PBR Plan is the provision for an annual review. The purpose and content of the annual review was a point of considerable contention in the PBR proceeding. FBC envisioned it to be primarily an information-sharing forum similar in terms of scope and process to less formal annual reviews held for previous PBRs. A number of interveners saw the annual review process as being much broader in scope providing a forum to deal with a variety of issues.[1] Considering these two perspectives, the Commission determined that an extensive annual review process was necessary to build trust among the stakeholders and to ensure the PBR was functioning as intended. For clarity, the Commission was prescriptive in setting out the list of activities to be undertaken in annual reviews. These activities are as follows:

1. Evaluation of the operation of the PBR Plan in the past year(s) and identification by any party of any deficiencies/concerns with the operation of the PBR Plan that have become apparent. Parties are expected to put forward recommendations with how to deal with such concerns.
2. Review of the current year's projections and the upcoming year's forecast, which includes:
    a. Customer growth, volumes and revenues;
    b. Year-end and average customers, and other cost driver information including inflation;
    c. Expenses (determined by the PBR formula plus flow-through items);
    d. Capital expenditures (as determined by the PBR formula plus flow-through items);
    e. Plant balances, deferral account balances and other rate base information and depreciation and amortization to be included in rates;
    f. Projected earnings sharing for the current year and report on true-up to actual earnings sharing for the prior year; and
    g. Any proposals for funding of incremental resources in support of customer service and load growth initiatives.
3. Identification of any efficiency initiatives that the Companies have undertaken, or intend to undertake, that require a payback period extending beyond the PBR plan period and make recommendations to the Commission with respect to the treatment of such initiatives.
4. Review of any exogenous events that the Company or stakeholders have identified that should be put forward to the Commission for decision as to their exclusion from the PBR plan. The review process should include recommendations as to how the exogenous events costs/revenues should be recovered from or credited to ratepayers.

[1] FBC 2014–2018 Performance Based Ratemaking Revenue Requirements Decision dated September 15, 2014 (PBR Decision), p. 182.

5. Review of the Company's performance with respect to Service Quality Indicators (SQIs). Bring forward recommendations to the Commission where there have been a "sustained serious degradation" of service.
6. Assess and make recommendations with respect to any SQIs that should be reviewed in future annual reviews.
7. Assess and make recommendations to the Commission on the scope for future annual reviews.[2]

In compliance with Order G-139-14, FBC filed its second Annual Review Application (Application) on September 11, 2015. FBC is projecting savings in operations and maintenance (O&M) expenditures, but states that its capital expenditures continue to be above the formula. Overall, FBC projects the savings achieved in 2015 to result in $0.392 million of earnings sharing that will be distributed to customers in 2016. In FBC's view, its performance with respect to SQIs demonstrates that it achieved these savings while maintaining a high level of service quality, with only the performance of the All Injury Frequency Rate falling below the threshold.[3]

In its Application, FBC requests a net revenue requirement increase for 2016 of $6.797 million, which is equivalent to a general rate increase of 1.98 percent for 2016 compared to 2015 rates. The largest driver of the revenue requirement increase is Power Supply expense, which FBC forecasts to increase in 2016 by $16.595 million, "primarily due to higher gross load, increases to the Brilliant and BC Hydro rates, and the impact of the first full year of the 40-year Waneta Expansion Capacity Agreement."[4]

On October 21, 2015, FBC filed an Evidentiary Update[5] which included minor adjustments to property taxes and the balance to be accrued in the proposed Capacity and Energy Purchase Sale Agreement deferral account. FBC also provided an update to its 2015 and 2016 revenue forecast given the effect of certain determinations from the Commission's FBC Stepped and Standby Rates for Transmission Voltage Customers Stage IV Decision pertaining to the Standby Billing Demand proceeding for Zellstoff Celgar Limited Partnership (Celgar bill impact) detailed in Order G-149-15. The Celgar bill impact issue is the driver behind FBC's revisions to its forecast industrial revenue and the proposed reduction to the 2016 amortization of the remaining balance in FBC's 2014 Interim Rate Variance deferral account, which is further discussed in section 2.3 below.

Taking into account the effects of its Evidentiary Update, FBC's revenue requirement shortfall in 2016 is revised to $10.611 million which equates to a revised rate increase of 3.12 percent for 2016.[6]

1.2 Outline of these Reasons for Decision

Section 1 of these Reasons for Decision provides background to the Application and outlines the approvals and issues to be addressed in the following sections.

Section 2 addresses the approvals sought.

Section 3 addresses issues which have arisen over the course of the proceeding which require either clarification or a determination to be made by the Panel. The following issues will be addressed:

---

[2] FBC PBR Decision, pp. 185–186.
[3] Exhibit B-1-1, p. 4.
[4] Ibid., p. 5.
[5] Exhibit B-1-2.
[6] Exhibit B-1-2, pp. 1–2.

- Load Forecast
- Power supply costs, including issues related to WAX CAPA
- Interest Rates
- Exogenous events –FBC seeks approval of exogenous treatment of the cost to replace equipment damaged in wild fires and also costs related to Mandatory Reliability Standards (MRS)
- AMI Radio-off incremental costs
- Service Quality Indicators
- Cross charges between FEI and FBC – for work conducted in the contact centre on behalf of FBC, by FEI employees.
- Evaluation of the PBR Plan – addresses issues raised by CEC concerning the operation and effectiveness of the PBR Plan.

1.3 Approvals sought

FBC seeks approval of the following, pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA):

1. Interim rates for all customers effective January 1, 2016, resulting in a general increase of 3.12 percent compared to 2015 rates for all customer classes.

2. The creation of two non-rate based deferral accounts for the following regulatory proceedings, as described in Section 12.4.1 of the Application:

   - Capacity and Energy Purchase and Sales Agreement (CEPSA) application and regulatory proceeding costs financed at FBC's short term interest rate; and

   - 2017 Rate Design Application, financed at FBC's weighted average cost of debt.

3. Amortization of $5.0 million of the 2015 closing balance of the 2014 Interim Rate Variance deferral account, with the remainder to be amortized in 2017.

4. Depreciation rates in the amounts set out in Table 12-2 in Section 12 of the Application.

5. Net salvage rates in the amounts set out in Table 12-3 in Section 12 of the Application.[7]

1.4 Application review process

By Order G-139-15 on August 20, 2015, the Commission established a regulatory timetable which included one round of information requests (IRs), a Workshop open to all participants, an opportunity for FBC to provide undertakings for any outstanding responses from the Workshop, final submissions from interveners and a reply submission from FBC.

[7] Exhibit B-13, Revised Draft Order.

Seven interveners registered in the proceeding:

- British Columbia Pensioners' and Seniors' Organization, Active Support Against Poverty, BC Coalition of People with Disabilities, Counsel of Senior Citizens' Organizations of BC, and The Tenant Resource and Advisory Centre (BCOAPO);
- Commercial Energy Consumers Association of British Columbia (CEC);
- BC Sustainable Energy Association and The Sierra Club of British Columbia (BCSEA);
- Canadian Office and Professional Employees Union, Local 378 (COPE);
- British Columbia Municipal Electrical Utilities (BCMEU);
- Industrial Customers Group (ICG);
- Norman Gabana; and
- Alan Wait.

2.0 DETERMINATIONS ON APPROVALS SOUGHT

2.1 Interim rates effective January 1, 2016

FBC has requested interim rates resulting in an increase of 3.12 percent for all customers effective January 1, 2016. FBC has requested these rates remain interim pending the outcome of the Fortis Energy Inc. (FEI) Application for Common Equity Component and Return on Equity for 2016 currently before the Commission.

In the Workshop, FBC clarified that it is not seeking any change to FBC's equity thickness, only that FEI continue as the benchmark utility return on equity (ROE) so that any change in FEI's ROE will also flow through to FBC.[8]

Intervener submissions

BCMEU and ICG both recommend that the Commission determine the rates be made final rather than interim effective on January 1, 2016. Both interveners also recommend that any increase flowing from the FEI cost of capital proceeding be subject to recovery in future rates.[9]

BCSEA supports Commission approval of the requested 2016 interim rates or a lower rate in the event it is determined by the Commission that certain costs should not be included in revenue requirement.[10]

BCOAPO expresses concern with the impact on FBC's low and fixed income residential customers of the proposed rate increase plus the additional impact of the requested changes to FEI's cost of capital if approved. BCOAPO made no specific recommendation with respect to interim rates.[11]

---

[8] Transcript Volume 1, pp. 20–21.
[9] BCMEU Final Submission, p. 2; ICG Final Submission, p. 5.
[10] BCSEA Final Submission, p. 2.
[11] BCOAPO Final Submission, pp. 3–4.

CEC makes no specific recommendation with respect to interim rates. However, when the appropriate ROE is determined for FEI, CEC recommends the Commission "apply its judgement with regard to how many risk adjustments should be reflected in FBC's overall risk" and not necessarily update the ROE for FBC. It points out that FEI's ROE application will emphasize natural gas distribution risk.[12]

FBC reply

FBC is amenable to the recommendations of BCMEU and ICG to make its 2016 rates permanent subject to approval of a deferral account capturing the impact of the cost of capital decision on FBC's rates from January 1, 2016 forward. FBC points out that this would be consistent with the approach taken for the last change to FBC's ROE.

Concerning CEC's recommendations regarding the handling of FBC's ROE, the Company submits: There is an existing process in place for determining the ROE and FBC submits that the Commission should not make any determination in this proceeding regarding how FBC's ROE will be effected by an adjustment to the benchmark ROE.[13]

Commission determination

The Panel approves a permanent increase in rates of 3.12 percent for 2016, effective January 1, 2016 for all customers, subject to other adjustments outlined in these Reasons. The Panel also approves a deferral account to capture any 2016 rate impacts resulting from the FEI Common Equity and Return on Equity for 2016 proceeding.

The Panel considers the approach recommended by BCMEU and ICG and subsequently endorsed by FBC to be reasonable and in keeping with past practice. In addition, it provides greater certainty with respect to 2016 rates.

The Panel considers CEC's recommendation to apply judgement with regard to making adjustment to FBC's overall risk to be out of scope for this application. We consider it appropriate to leave this matter to the Panel reviewing the FEI cost of capital application to determine whether there is a need for further process for those utilities relying upon the benchmark to set their ROE.

2.2 New deferral accounts

FBC proposes to create two new deferral accounts in 2016 to address application costs for the Capacity and Energy Purchase and Sale Agreement (CEPSA) with Powerex Corporation and its upcoming 2017 Rate Design Application.

On March 6, 2015, FBC filed the CEPSA application and reports that it incurred costs of $0.163 million related to the application and proceeding. The final balance was subsequently revised to $0.147million in FBC's IR response and Evidentiary Update.[14] Costs incurred were primarily legal fees, Commission expenses and

[12] CEC Final Submission, p. 2.
[13] FBC Reply Submission, pp. 32–33.
[14] Exhibit B-2, BCUC IR 1.21.3; Exhibit B-1-2, pp. 1–2.

intervener funding.[15] The application was accepted by Order E-10-15 as an energy supply contract pursuant to section 71 of the UCA following a written public hearing. FBC proposes to amortize these costs over one year, in 2016, and is seeking approval of a deferral account attracting a short-term interest rate of return.

FBC anticipates filing its 2017 Rate Design Application (RDA) on or before December 31, 2017. Noting that work will commence on this application in 2016, FBC is requesting approval of a deferral account to capture these costs and FBC expects the balance in this deferral account to range between $0.600 and $0.700 million with the majority of costs expected to occur in 2017. FBC has forecast 2016 additions to this account at $0.250 million ($0.185 million after tax) related primarily to consultant costs and participant funding associated with workshops. No amortization period has been requested at this time and FBC states this will be addressed "once there is greater certainty over the process and forecast balance of the deferral account."[16]

Intervener submissions

BCOAPO does not take issue with the RDA deferral account but notes that FBC did not apply for the CEPSA deferral account as part of the CEPSA proceeding but only after it had been approved. "BCOAPO views this as retroactive or 'after the fact' ratemaking," and submits that the CEPSA deferral account should not be approved.[17]

ICG objects to the non-rate base deferral accounts proposed by FBC. It is ICG's position that using deferral accounts such as these in BC "provides significantly less incentive to efficiently and effectively manage costs than in other jurisdictions." Because of this, ICG requests the Commission establish a process to review the use of deferral accounts in BC (to include these types) submitting that deferral account treatment covers 80 percent of FBC's total revenue requirement and regulation in the province is much more defined by deferral accounts than by PBR Plans. ICG further submits that while it may be true the company has no control over the costs of regulatory proceedings, it can influence them to a considerable degree and once a deferral account is approved "the direct financial incentive to manage such cost is substantially reduced, if not eliminated." However, in the event that deferral costs are approved, both of the requested accounts' carrying costs should be based on FBC's short-term interest rates.

ICG also raises an issue with the timing of FBC's request for the CEPSA deferral account asserting that approval of a deferral account after costs are incurred adds another level of flexibility to FBC's use of deferral accounts. ICG requests that this 'after the fact' proposal be denied noting that allowing it "will expand the use of such deferral accounts beyond what ICG submits is appropriate."[18]

Concerning the proposed 2017 Rate Design Application deferral account, ICG submits there "is often an opportunity for more work [sic] be done internally in order to reduce external consultant costs." With a deferral account to cover external costs, FBC is incented to do more work with external consultants distorting "the balance between the use of internal and external resources from what may be a more efficient and effective means to accomplish the work." It takes the position that an alternate approach to a deferral account should be utilized. This would involve approving an amount based on the forecast submitted and requiring the Company to manage its costs within the approved forecast amount with no true-up to actual costs following the forecast period. Accordingly, ICG recommends for 2016 that the $0.250 million forecasted by FBC for external

---

[15] Exhibit B-1-1, p. 104.
[16] Exhibit B-1, p. 104.
[17] BCOAPO Final Submission, p. 33.
[18] ICG Final Submission, pp. 1–2.

consultants be approved with no true up to actuals. In its view, over time "effective and efficient management of costs will lead to lower comparisons for the forecast of future costs."[19]

Both CEC and BCSEA recommend approval of the deferral accounts as proposed by FBC.[20] No other intervener commented on these proposals.

FBC reply

FBC takes issue with ICG's proposal to forecast external costs for regulatory proceedings and manage them as a budget with no true up. FBC submits that this request "must be rejected as FBC's requested deferral accounts are consistent with past Commission approvals and ICG has not substantiated any issue with the current practice." It also asserts that under the PBR Plan, the treatment for variances for costs outside of the formula has already been determined under the PBR plan and changing the deferral treatment would not be appropriate while FBC is under PBR.[21]

FBC points out that it has been a long-standing practice that the Commission has consistently approved deferral accounts for external costs related to regulatory proceedings. It argues that this long-standing practice is based on sound rationale as the costs "are dependent on the nature of the application, the process determined by the Commission for its review, and the degree of participation by the interveners"[22] and are therefore out of the Company's control and vary from year to year.

In addition, FBC submits that if it were to forecast its regulatory proceeding costs outside of the formulaic O&M and Capital they would be captured in the flow though deferral account as the PBR Plan dictates that costs outside of the formulaic O&M and Capital are subject to deferral treatment through the operation of this account. ICG's proposal for no true up would be a material change to the PBR Plan "which is a request for reconsideration of the PBR Decision and outside the scope of this proceeding." Further, FBC notes that ICG has not identified any compelling reason to make such a material change and argues that the ICG alternative proposal is inferior to the current practice and therefore should be denied.[23]

With respect to the timing of the application for the CEPSA deferral account, FBC submits that its request is consistent with past practice, reasonable and should be approved. It submits that it is the Company's general practice to seek approval of deferral accounts for non-CPCN applications as part of its revenue requirement proceedings. In FBC's view, the practice is appropriate and has benefits as it is transparent and such deferrals can be considered at one time and reviewed and approved on a consistent basis. In addition, FBC points out that costs are recovered from customers on a prospective basis regardless of whether a deferral account application is made before or after costs are being incurred.[24]

Concerning the 2017 RDA deferral account, FBC denies that there is an incentive or opportunity to shift Base O&M costs to the 2017 RDA deferral account as asserted by ICG. The categories of external costs to be recorded in this deferral account are not part of the Company's Base O&M and are described as incremental costs

[19] ICG Final Submission, p. 3.
[20] CEC Final Submission, p. 14; BCSEA Final Submission, p. 3.
[21] FBC Reply Submission, p. 24.
[22] Ibid., p. 25.
[23] FBC Final Submission, pp. 24–28.
[24] FBC Reply Submission, pp. 28–29.

account should be financed at the Company's short-term interest rate. FBC argues that its application of the weighted average cost of debt in this instance is in accordance with the account financing principles set out by the Commission in Order G-110-12 and upheld in the PBR Decision. Moreover, it points out that ICG provided no support for its request nor have explained why the principles set out in previous orders should not be followed.[25]

Commission determination

The Panel approves the CEPSA and 2017 RDA deferral accounts as applied for by FBC and as revised in FortisBC's Evidentiary Update. These accounts are to be financed in accordance with principles set out in Commission Order G-110-12.

As pointed out by FBC, under the terms of the PBR Plan, costs outside of the formulaic O&M and capital are to be captured in the flow through deferral account and would therefore be accorded deferral account treatment in any case. The Panel notes that both ICG and BCOAPO raised concerns about the timing of the CEPSA deferral account application being subsequent to costs being incurred. We are satisfied with FBC's explanation concerning the timing of such deferral requests but note that where possible, a request for a deferral account to capture regulatory costs is more appropriately handled prior to the expenses being incurred.

ICG proposed making a change to the handling of external costs for regulatory proceedings representing a significant departure from current practice. While not appropriate to conside r their proposal at this time, the Panel is in support of a more fulsome review of deferral account alternatives as appropriate at either the end of this PBR term or at the time of rebasing. This could provide the parties the opportunity to comment on whet her certain deferral accounts are necessary, or could be eliminated, or combined and other alternatives to handling items currently deferred.

2.3 Amortization of the 2014 Interim Rate Variance deferral account

FBC initially proposed to amortize $6.201 million of the year-end closing balance of its 2014 Interim Rate Variance deferral account, with the remainder to be amortized in 2017.[26] In its Evidentiary Update, FBC proposed to reduce the 2016 amortization to $5.0 million in light of future rate impacts resulting from the Commission's FBC Stepped and Standby Rates for Transmission Voltage Customers Stage IV Decision triggering the Celgar bill impact issue.[27]

Commission determination

The Panels finds the reduction to the proposed amortization to be reasonable and therefore approves the amortization of $5.0 million for 2016. The Panel further notes that no parties have made submissions on this issue.

---

[25] Ibid., p.30.
[26] Exhibit B-1-1, p. 2.
[27] Exhibit B-1-2, p. 2.

2.4 Depreciation and net salvage rates

FBC filed an updated depreciation study, included as Appendix C of the Application, prepared based on its electric plant-in-service as of December 31, 2014. FBC last received approval to update its depreciation rates in Order G-110-12, effective January 1, 2012, which was five years ago since the completion of the last study.

FBC's consultant Gannet Fleming Valuation and Rate Consultants Inc. (Gannett Fleming) estimated the depreciation rates using various statistical methods, operational interviews with FBC staff and informed judgement based on their experience in the electricity industry. The depreciation study includes recommendations for both depreciation rates and net salvage rates. FBC explains that implementation of the recommended rates for depreciation, net salvage and amortization of contribution in aid of construction (CIAC) results in a net decrease in depreciation and amortization expense of approximately $3.0 million per year, a 5.5 percent decrease compared to the depreciation expense using current approved rates.[28]

FBC's proposed depreciation rates are provided in Table 12-2 of the Application.

In addition to the proposed depreciation rates, FBC also propose to implement an alternative method of recovering net salvage over the useful lives of its assets starting in 2016. While FBC's current method of charging net salvage to accumulated depreciation at the time assets are removed from service is an acceptable practice, it states that the proposed method is a better match of costs of the asset to the service it provides and preserves intergenerational equity.[29]

FBC submits that the current test period is an appropriate time to transition to the net salvage method given that the increase in rates due to the implementation will be offset by the proposed changes to depreciation rates and the amortization of the associated CIAC.[30] Table 12-1 in the Application, reproduced below, illustrates the net financial impact of implementing the proposed depreciation and net salvages rates for 2016:

Table 1:
Net financial impact of implementing the proposed depreciation and net salvages rates for 2016

Line No.	Description	Existing	Recommended	Change
1	Depreciation	$ 58.1	$ 44.3	$ (13.8)
2	Net Salvage	-	10.1	10.1
3	Subtotal	58.1	54.4	(3.7)
4	CIAC	(4.3)	(3.5)	0.8
5	Total	$ 53.9	$ 50.9	$ (3.0)

FBC further states that the method of including a provision for estimated net salvage value in depreciation rates is consistent with the BCUC Uniform System of Accounts and that this method is generally followed by other utilities across Canada and is the approach recommended by Gannett Fleming.[31] The asset classes where net salvage is recommend by Gannet Fleming are shown in Table 12-3 of the Application.

---

[28] Exhibit B-1-1, p. 98.
[29] Ibid., p. 101.
[30] Ibid., p. 98.
[31] Ibid., p. 101.

BCOAPO submits that the proposed change in accounting practice should not be approved, otherwise the Commission should hold off until the end of PBR period and the resolution of the Celgar bill impact issue outlined in FBC's Evidentiary Update.[32] In Reply, FBC argues that the implementation should not be postponed as the two issues are unrelated and that the decrease in depreciation rates still offset the effects of the change to net salvage going forward.[33]

Commission determination

The Panels approves FBC's depreciation and net salvage rates as proposed in the Application. The Panel recognizes that the Commission had been concerned about the rate impact which would result from a change from FBC's existing method of accounting for asset removal costs to the proposed method of recognizing net salvage and therefore did not impose the change in accounting methods during the 2012-2013 test period. Notwithstanding, the Commission and other interveners recognized that the net salvage method was the recommended practice by FBC's consultant at that time.[34] The Panel finds that the current test period is the opportune time to implement this change given the combined net impact with the change in depreciation rates for 2016.

Further, the Panel agrees with FBC that the effects of the Celgar bill impact issue should not be combined with the effects of the change to net salvage. The Panel therefore dismisses BCOAPO's suggestion of denying or postponing the implementation of net salvage.

3.0 DETERMINATIONS ON ISSUES ARISING

3.1 Load forecast

FBC describes its forecast gross system energy load as consisting of a mix of residential, commercial, wholesale, industrial, street lighting, irrigation loads and system losses. The gross load forecast includes the impacts of forecast energy savings which include Demand Side Management (DSM) savings, Residential Conservation Rate, the Consumer Information Portal program, the Advanced Metering Infrastructure (AMI) program and future rate changes.[35]

FBC confirms that its load forecast is based upon a methodology that is consistent with that used in prior years and accepted by the Load Forecast Technical Committee in 2011.[36] FBC's load forecast is shown in the table below.

[32] BCOAPO Final Submission, p. 32.
[33] FBC Reply Submission, p. 37.
[34] FBC 2012-2013 Revenue Requirement and Integrated System Plan, Decision dated August 15, 2012, p. 86.
[35] Exhibit B-1-1, p. 12.
[36] Ibid.

Table 2: Normalized after-savings gross energy (GWh)[37]

Description	2010	2011	2012	2013	2014	2015	2016
Energy (GWh)							
Residential	1,242	1,249	1,229	1,353	1,296	1,363	1,367
Commercial	660	657	681	788	866	862	871
Wholesale	895	910	899	675	567	572	579
Industrial	234	271	291	352	381	388	393
Lighting	14	13	13	13	16	14	13
Irrigation	40	40	38	40	40	39	39
Net Load	3,085	3,140	3,151	3,222	3,166	3,238	3,262
Losses	284	307	271	278	270	279	278
Gross Load	3,369	3,447	3,422	3,500	3,436	3,517	3,540
System Peak (MW)							
Winter Peak	726	702	723	698	645	752	760
Summer Peak	566	537	589	600	620	593	598

ICG believes that periodic reviews of the load forecast are appropriate and requests that there be an opportunity for all interested stakeholders to participate in a technical review of the load forecast prior to FBC's 2016 annual review proceeding and workshop.[38]

In its Reply, FBC submits that the ICG has not established the need for such a technical review explaining that none of the interveners took issue with FBC's demand forecast and that the gross forecasting accuracy for the past four years has been in the range of 0.65 to 2.6 percent, which is on par with the current industry benchmark of 1.5 percent on average.[39] FBC also submits that, while variances in FBC's load forecast affect the revenue and power purchase forecast for that year, they are trued-up in the following year.[40]

Commission determination

The Panel approves the 2016 load forecast as provided for by FBC.

The Panel is not persuaded that there is a need to perform a technical review of the load forecast methodologies, as suggested by the ICG at this time, considering the current load forecast accuracy range. The Panel also notes that the Load Forecast Technical Committee had reviewed the methodologies in 2011.[41]

In making this determination the Panel considered the following factors:

- the forecasting trends and explanations already provided for by FBC in its IR responses and its Reply submission;
- the impact of load forecasts affects revenue and power purchase expense, for which both variances are trued-up in the following year through a deferral mechanism during the PBR term;

---

[37] Ibid., p. 16.
[38] ICG Final Submission, p. 4.
[39] FBC Reply Submission, p. 13; Exhibit B-1-1, p. 13.
[40] Ibid., p. 13.
[41] FBC 2012–2013 Revenue Requirements and Integrated System Plan Application, Exhibit B-16, Load Forecast Technical Committee Report, dated November 25, 2011.

- the regulatory costs to ratepayers of a review of the load forecast methodology compared to the potential benefits/savings that could arise from that exercise.

3.2 Power supply costs

In Table 4-1 of the Application and copied below, FBC forecasts the 2016 power supply costs to be $148.962 million which represents an increase of 12.5 percent over the 2015 approved costs. FBC explains that the increase in the 2016 forecast power supply cost is due to higher gross load, increases to the Brilliant and BC Hydro rates, and the impact of the first full year of the 40-year capacity purchase agreement with the Waneta Expansion Limited Partnership and resulting Waneta Capacity Purchase Agreement (WAX CAPA) which was accepted by the Commission through Orders E-29-10 and E-15-12. [42] FBC's 2016 power supply cost forecast is shown in the table below:

Table 3: Power Supply Cost ($ million) [43]

Description	Approved 2015	Projected 2015	Forecast 2016
Power Purchase Expense	$ 117.837	$ 111.277	$ 133.907
Wheeling Expense	4.734	4.723	4.764
Water Fees	9.796	9.706	10.291
Total Power Supply Cost	$ 132.367	$ 125.706	$ 148.962
Gross Load (GWh)	3,499	3,438	3,540

Variances in the power supply cost forecast are recorded in a flow-through deferral account and return to or recovered from customers in the subsequent year. [44]

FBC's power purchase expense includes forecast WAX CAPA costs of $37.358 million for 2016 (2015 approved $25.808 million). FBC submits that its rate increase due to the WAX CAPA cost during 2015 (approved) and 2016 (forecast) are 6.8% and 2.3% respectively, which compares to 6.6% and 3.0% for 2015 and 2016 respectively forecast in FBC's accepted section 71 Application for WAX CAPA (August 27, 2010). FBC submits that the difference in rate impacts is mainly attributable to minor variances in available WAX capacity and surplus sales revenue.[45]

In its Final Submission, ICG indicates that it opposed approval of the WAX CAPA for several reasons and believes that customers should be given an opportunity to review the costs, in particular the affiliate transaction costs that are now being paid by customers.[46]

In its response, FBC submits that the Commission has already heard and rejected extensive submissions from ICG that ratepayers should have the opportunity to review the WAX CAPA costs and argues that disclosure of the details to the public could result in material financial loss and significant harm and prejudice to FBC's

[42] Exhibit B-1-1, pp. 27–28.
[43] Ibid., p. 27.
[44] Ibid., pp. 27–28.
[45] Exhibit B-2, BCUC IR 1.9.3.
[46] ICG Final Submission, p. 3.

competitive and negotiating position.[47] FBC refers to past Commission decisions where it was concluded that Celgar, a member of the ICG, could reasonably be expected to be a potential competitor in regards to the residual capacity agreement.[48]

No other intervener raised concern regarding the WAX CAPA costs.

Commission determination

The Panel approves the FBC forecast 2016 power supply cost.

The Panel also denies ICG's request for further review of the WAX CAPA costs. The Panel finds that FBC's current forecast rate impacts due to WAX CAPA are in line with those anticipated when the contract was reviewed and approved. The Panel also notes that this issue has been brought to the Commission in the past and ICG has not provided additional new information to warrant reconsideration by this Panel.

3.3 Interest rates update

FBC uses interest rate forecasts to estimate future interest expense. Forecasts of Treasury Bills and benchmark Government of Canada Bond interest rates are used in determining the overall interest rates for short-term debt and for rates on new issues of long-term debt, respectively. The forecasts are based on available projections made by Canadian Chartered banks.

FBC's Flow-through deferral account will capture the variances in interest expense for return to or recovery from customers in the following year.

In response to BCOAPO IR 1.16.3, FBC indicated that it obtained rate forecasts from three Canadian banks: Canadian Imperial Bank of Commerce, Royal Bank of Canada and Bank of Montreal. The dates of publication for each of the 3 sources used are in June of 2015.[49]

In its Final Submission, BCOAPO submits that a more recent forecast of interest rates, which would reduce interest expenses by $239,000 should be incorporated into the rate calculations for 2016.[50] FBC argues that this update is unnecessary because the change in interest expense does not represent a significant change in market outlook and the decrease of $239,000 would only reduce the rate increase by less than 0.1 percent.[51]

Commission determination

The Panel approves the interest rate forecasts as applied for by FBC in the Application.

The Panel finds that updates to interest rates may be warranted in certain situations, but we are not persuaded that there is a need for change and, in addition, any variance will be picked up in a deferral account **Therefore BCOAPO's request is denied.**

[47] FBC Reply Submission, p. 15.
[48] Ibid., Footnote 42.
[49] Exhibit B-3, BCOAPO IR 1.16.3.
[50] BCOAPO Final Submission, p. 26.
[51] FBC Reply Submission, p. 34.

3.4 Exogenous events

FBC has applied for acceptance of two items for Z-factor treatment: costs relating to the wildfires in 2015 and costs related to its compliance with the new and/or revised MRS standards for 2016 and future years.

The following criteria (individually, Criterion #1 through Criterion #5 and in aggregate, the Z-factor Criteria) have been established for evaluating whether the impact of an event qualifies for exogenous Z-factor treatment:

1. The costs/savings must be attributable entirely to events outside the control of a prudently operated utility;
2. The costs/savings must be directly related to the exogenous event and clearly outside the base upon which the rates were originally derived;
3. The impact of the event was unforeseen;
4. The costs must be prudently incurred; and
5. The costs/savings related to each exogenous event must exceed the Commission defined materiality threshold.[52]

Pursuant to Commission Order G-139-14, the materiality threshold for FBC has been set at 0.5 percent of its 2013 Base O&M or approximately $0.301 million.

3.4.1 <u>2015 Wildfires</u>

FBC incurred an estimated $3.043 million in damages to transmission and distribution facilities in August 2015, "to an extent not previously experienced," caused by three wildfires: the Rock Creek wildlife on August 13; the Wilson Mountain wildfire on August 14; and the Testalinden wildfire on August 14.[53]

FBC provides the following summary of damages and expected repair costs:

- Distribution line Kettle Valley Feeder 1 had 115 structures damaged from the Rock Creek fire;
- Transmission line 43 Line (Oliver to Princeton) had 6 structures damaged from the Wilson Mountain fire;
- Distribution line Pine Street Feeder has a minimum of 12-15 structures damaged by the Testalinden fire near Oliver.[54]

Estimated Repair Costs ($ millions)[55]	
Kettle Valley Feeder 1 (Rock Creek fire)	$1.728
43 Line (Wilson Mountain fire)	$0.251
Pine Street Feeder 2 (Testalinden fire)	$1.064
	$3.043

FBC reports that it "has no records of wildfires causing damage to company assets in the past 10 years. Therefore, there were no fire-related capital expenditures in FBC's 2013 capital expenditures, upon which the

[52] FBC PBR Decision, p. 97.
[53] Exhibit B-1-1, p. 47.
[54] Exhibit B-3, BCOAPO IR 1.13.1.
[55] Ibid.

PBR formula amount is based."[56] Information on the Urgent Repairs category was provided in a Workshop Undertaking, showing both budget and actual values, absent the costs associated with the wildfires discussed in this proceeding. The information shows that:

- The 2013 PBR budget was set at $2.605 million, subsequently escalated according to the PBR capital expenditure formula;
- In the years 2013 through 2015, Equipment Failure and Storm Damage accounted for approximately 78% of actual costs and 92% of budget (again, excluding the costs relating to the wildfires identified in this Application ; and
- Wildfires is a line item under Urgent Repairs, showing zero actual dollars incurred in all years reported (2006 – 2015) with the exception of the costs relating to the wildfires identified in this Application.[57]

FBC makes the following case for treating the wildfires as either one or possibly two events for the purposes of applying the materiality threshold:

> The wildfires are also close in time and space, occurring in the space of two consecutive days. As described on page 47 of the Application…
>
> Therefore, although three fires occurred, they constitute a "specific event" in the words of the PBR Decision as cited by ICG. The damage caused was all of the same kind (wildfire damage), was all precipitated by the same unusually dry conditions, was of a magnitude that exceeded historical experience, and occurred within the space of two consecutive days. FBC submits that these facts warrant treating all the fires as a single exogenous event.
>
> As an alternative approach, it would be plausible to divide the Rock Creek Fire, which was human caused, from the Oliver area fires which were caused by the same storm. Either of these two specific events exceeds the materiality threshold. However, in FBC's submission, a more granular division of the fires is not warranted. A single storm in the unusually dry conditions of August 2015 is as much a "specific event" as each of the wildfires caused by that storm. Further, dividing wildfire events by lightning strike would lead to clearly unreasonable results. For example, a single storm that caused a dozen wildfires in the same area should not constitute a dozen "specific events" for the purpose of exogenous factor treatment.[58]

ICG submits that costs for wildfires are part of the base capital categorized under "Urgent Repairs" and that the Commission should not approve Z-factor treatment for these costs.[59]

BCOAPO accepts FBC's explanation that even if treated as two events, both would pass the materiality threshold, and further states that it does not take issue with Z-factor treatment for these costs.[60]

BCSEA is satisfied that the wildfire events were outside the control of a prudently operated utility, the impact of the event was unforeseen, and the costs exceed the threshold.[61]

---

[56] Exhibit B-2, BCUC IR 1.14.4.
[57] Exhibit B-13, Workshop Undertakings, derived from Undertaking #2, p. 1.
[58] FBC Reply, pp. 41–43.
[59] ICG Final Submission, pp. 4–5.
[60] BCOAPO Final Submission, p. 30.
[61] BCSEA Final Submission, p. 3.

CEC recommends approval of Z-factor treatment for the 2015 wildfires.[62]

Commission determination

For the reasons outlined below, the Panel determines that:

- **The costs to repair the damage from the Rock Creek fire ($1.728 million) and the costs to repair the damage from the Testalinden fire ($1.064 million) are afforded Z-factor treatment; and**
- **The costs to repair the damage from the Wilson Mountain fire ($0.251 million) are not afforded Z-factor treatment.**

The costs in question arise from three wildfires which were not foreseeable and over which the utility had no control or any ability to prevent. Further, the costs are "clearly outside the base upon which the rates were originally derived."

FBC provides evidence that it had not incurred any wildfire losses in the past ten years. Hence, notwithstanding ICG's argument that costs associated with wildfires are part of Urgent Repairs we find that no specific dollar amounts for such occurrences have been factored into rates. This does not mean, however, that any/all costs associated with wildfire damage would automatically be afforded Z-factor treatment: each occurrence must still meet the full test of all five Z-factor Criteria, including materiality.

The Panel rejects FBC's argument that the three fires should be treated as one exogenous event. We do not agree that just because the region experienced unusually dry conditions all wildfires occurring within a proximate time and distance should automatically be treated as one event. Such an approach does not take into account the direct cause of the fire. We note that FBC is willing to agree to the treatment of the Rock Creek fire as separate from the other two. In so doing, it has implicitly accepted that there is a distinction between underlying factors (i.e. unusually dry conditions) and the direct cause of the fire (human action versus nature). It argues, however, that a determination that the Testalinden and Wilson Mountain fires are separate events would by extension lead to the "unreasonable" result of treating a dozen wildfires caused by the same storm (presumably by different lightning strikes) as a dozen specific events. We agree with FBC that such a determination would by extension most probably lead to the dozen event scenario, but we do not agree that such an outcome is inherently "unreasonable."

The Panel has considered other hypothetical scenarios:

- What if instead of two lightning strikes on the same day, the storm lasted two days and the offending strikes occurred 30 hours apart? What of a three-day storm with the two strikes in question being on a Monday and a Wednesday?
- What if the Monday and Wednesday fires scenario above took place amidst a fact pattern that included: no other fires (i.e. as opposed to other fires not causing utility damage) were started in between these two fires; and the weather office reported this protracted three-day storm produced no lightning activity on the intervening Tuesday?
- What of two coincident storms some many miles separated (that according to the weather office were distinct storm fronts but part of a much broader weather system) that unleashed lightning bolts causing fires at the identical moment?

[62] CEC Final Submission, p. 12.

- What of a single heavy snowfall from a severe winter storm that was considered the underlying cause of two distinct avalanches that occurred two days later on two separate mountains? And again, what if the avalanches were two days apart?

In short, aggregating different specific events that occurred in different areas under what may or may not be a common weather event is problematic, whereas looking to the most proximate cause of the damage is both straightforward and easily determined.

The Panel also takes note of the wording of Criterion #2, which states that the costs "must be directly related to the exogenous event" (emphasis added).

Given the wording "must be directly related to," the Panel considers the most proximate determinative cause of the loss to be the most reasonable and operable guideline under which "exogenous event" status should be determined in the context of Z-factor Criteria. In addition to this being a reasonable basis for describing a discrete exogenous event, it also benefits from being practical and straightforward to assess.

Given that these findings delineate three separate exogenous forest fire events, the $0.301 million materiality threshold level for FBC means that the costs related to the Rock Creek fire and the costs related to the Testalinden fire meet Criterion #5, whereas the costs related to the Wilson Mountain fire do not.

3.4.2 Incremental O&M expenses related to MRS

FBC is applying for Z-factor treatment for the incremental costs associated with complying with the changes to BC's MRS program adopted by the Commission in Order R-38-15.[63]

In outlining how these costs satisfy the Z-factor Criteria, FBC provides the following information:

- Changes to the MRS are the collective purview of US regulatory bodies, BC Hydro and ultimately the Commission, and FBC is legally obligated to comply with changes.
- The costs are entirely attributable to complying with the changes to BC's MRS program, have not been previously incurred, and were not known at the time the 2013 Base O&M was determined.
- At the time the PBR base was set, these costs could not be foreseen as the new standards were either non-existent or under preliminary development at the time.
- FBC will manage costs in a prudent manner and the Commission will have the opportunity to review the costs in subsequent annual reviews.
- The forecast O&M costs of $0.445 million in 2016, $0.500 million in 2017, and $0.425 million in 2018 and beyond, and forecast capital expenditures of $0.445 million in 2017 exceed the materiality threshold of $0.301 million.[64]

ICG states that all MRS costs should be tracked in a separate account. ICG further argues that the 2017 & 2018 costs should be refined by efforts of 2016, and should not be entitled for true-up to actual costs.[65]

Other interveners either support FBC's application for Z-factor treatment, or provide no comment.

---

[63] Exhibit B-1-1, p. 95.
[64] Ibid., p. 96.
[65] ICG Final Submission, p. 5.

Commission determination

The Panel approves for Z-factor treatment the forecast O&M costs of $0.445 million in 2016 relating to its compliance with the changes to BC's MRS program.

FBC has provided sufficient evidence and justification to satisfy the Z-factor Criteria in their entirety as relating to these forecast expenditures.

The Panel rejects ICG's suggestion that only budgeted amounts should be approved for Z-factor treatment with no true-up to actual costs. The suggestion runs counter to the current PBR structure, which allows recovery of costs that are outside of Base O&M and have met the Z-factor Criteria. Thus, the suggestion cannot be considered unless the Panel were to open up this proceeding to include an examination of the basic structu re of PBR, which is clearly beyond the scope of this proceeding.

3.5 AMI radio-off incremental costs

FBC states that the approved tariff fees for radio-off customers are not sufficient to recover the costs associated with providing this service, estimating a shortfall of $0.168 million and $0.392 million for 2015 and 2016 respectively.[66]

FBC states that while it would be amenable to placing the shortfall amounts in a deferral account for future determination, "recovery of these deferred amounts from future radi o-off customers would result in a significant increase to their fees (potentially tripling them). FBC's preferred approach is to recover these costs from all customers until such time as the radio-off fees are reset."[67]

Pursuant to Order G-220-13, FBC will report by September 30, 2016, on whether or not a revision to the radio-off meter reading fee is required to restore matching of cost and causation for manual reading of radio-off meters (the Radio-off Report).[68]

BCOAPO summarizes their position against deferral account treatment as follows: "BCUC IR 1.12.4 explored the issue of whether the shortfall in Radio-off cost recovery should go into a deferral account and, if so, who the shortfall should be recovered from – all customers or just Radio-off customers. BCOAPO does not support such a proposal."[69]

In its Reply, FBC comments on BCOAPO's position, stating: "Due to the large negative impact on radio-off customers, FBC interprets BCOAPO's submission as indicating its opposition to recovering the radio-off cost recovery in a deferral account to be recovered from radio-off customers, and that BCOAPO is aligned with FBC's preferred approach."[70]

---

[66] Exhibit B-1-1, p. 39.
[67] Exhibit B-2 BCUC IR 1.12.4.
[68] Exhibit B-2 BCUC IR 1.12.3.
[69] BCOAPO Final Submission, p. 37.
[70] FBC Reply, p. 32.

Commission determination

The Panel denies FBC's request to recover from all customers the Radio-off shortfall amounts, estimated at $0.168 million and $0.392 million for 2015 and 2016 respectively. Instead, FBC is directed to record the shortfall amounts in a deferral account for future determination.

In making this determination, the Panel considered that the information before us is limited, particularly in contrast to the more complete and detailed treatment of the issue that will be available from the upcoming Radio-off Report. The Commission will be better equipped to make decisions on establishing just and reasonable rates for all ratepayers with the benefit of that additional information.

3.6 Service Quality Indicators

Of the 8 SQIs with benchmarks, 5 performed at or better than the approved benchmarks, with 2 performing better than the threshold and one SQI, the All Injury Frequency Rate (AIFR), performing below the threshold for the second consecutive year. For the 3 SQIs that are informational only, performance is consistent with or better than recent years' performance.[71]

For the purposes of the PBR SQIs, AIFR is based on the three-year rolling average of the annual results. The indicator is framed such that improved performance is reflected in a lower AIFR number. The benchmark value for AIFR is 1.64 and the Threshold value is 2.39.

The table of historical AIFR results is compiled from a number of exhibits.

	2009	2010	2011	2012	2013	2014	2015
Annual AIFR values							
at June[72]					4.29	1.35	2.55
at August[73]							2.60
at September[74]							2.02
at December[75]	1.41	1.72	1.48	1.72	2.82	3.21	
3-Year rolling average							
at June[76]							2.86
at August[77]							2.88
at September[78]							2.68
at December[79]	2.00	2.00	1.54	1.64	2.01	2.58	

Legend:

At or below Benchmark
Between Benchmark and Threshold
At or above Threshold

[71] Exhibit B-1-1, p. 109.
[72] Ibid., p. 111.
[73] Exhibit B-6, COPE IR 1.4.1.
[74] Exhibit B-12, Workshop presentation, p. 31.
[75] Exhibit B-1-1, p. 113.
[76] Ibid., p. 111.
[77] Exhibit B-6, COPE IR 1.4.1.
[78] Exhibit B-12, Workshop presentation, p. 31.
[79] Exhibit B-1-1, p. 113.

FBC states "[t]he 2015 AIFR results are below the threshold for the second consecutive year and continue to be of concern for the Company… the Company is taking action to improve AIFR performance with a comprehensive review of its Safety Management System and the introduction of the Target Zero program to enhance the programs and activities already in place."[80]

FBC argues that

> [w]hile the AIFR performance has been below the threshold, FBC's view is that there has not been a serious degradation of service. FBC recognizes that the AIFR results are a factor to consider in the determination of whether there has been a serious degradation of service. The other two factors noted by the Commission in its Decision on FBC's Annual Review for 2015 Rates are: (a) the impact on the delivery of safe, reliable and adequate service; and (2) whether the impact is seen to be transitory or of a sustained nature.[81]

In support of its position that the AIFR results have limited impact on the delivery of safe, reliable and adequate service, FBC provides a number of comments throughout the proceeding, that make a distinction between AIFR results and deterioration of service to customers.

- In the Application, FBC states:

  > Although the number of incidents is of concern, the majority (85) of the lost days were attributable to a single injury involving a First Aid attendant which did not have an impact on the quality of service being provided to customers. The remaining 46 days of lost time were split between injuries to temporary workers (35 days), office worker (2) days and field workers (8 days), all of whose duties were covered off through normal business practice with no resulting impact on service to customers.[82]

- In an IR response, FBC states: "The Commission has determined that a component of safe, reliable and adequate service includes protection of the safety of FBC's employees, as explained in the Application. However, the lost time from the injuries has not contributed to deterioration in the quality of service to customers."[83]

- In Reply, FBC states: "[t]here is no indication that there has been any deterioration of the service quality to customers." In support of this assertion, it points out that the AIFR results are the only SQI below threshold, and five are performing better than Benchmark.[84]

In addressing whether the impact is seen to be transitory or of a sustained nature, FBC argues that although the results have been below threshold for two consecutive years, there has been some improvement.

- "Based on the annual AIFR results over the last three years, there is an improvement in the current year AIFR compared to the past two years' annual AIFR performance."

- "The three-year rolling average for 2013 and 2014 is 2.82 and 3.21, respectively, while based on 2015 September YTD, the three-year rolling average is 2.68."[85]

---

[80] FBC Reply, pp. 46–47.
[81] Ibid., pp. 50-51.
[82] Exhibit B-1-1, p. 112.
[83] Exhibit B-6, COPE IR 1.6.3.
[84] FBC Reply, p. 51.
[85] Ibid., pp. 51–52.

In addressing the other two factors that are part of the framework for assessing penalty, FBC introduces the topic as follows. "If a serious degradation of service is found to exist, the next question is whether it is due to the actions or inactions of the Company. The Commission has identified two factors relevant to this inquiry, namely: (1) any economic gain made by the Company in allowing service levels to deteriorate; and, (2) whether the Company has taken measures to ameliorate the deterioration in service."[86]

FBC then makes a number of points in support of its assertion that the Company has not received any economic gain due to the AIFR results, including:

- The Company is maintaining its safety management system;
- There is no evidence that the results are due to cost-cutting or efficiency measures put in place under PBR; and
- There will be an increase in safety funding with the launch of the Target Zero campaign in 2016.[87]

In support of its position that measures were taken to ameliorate the results, FBC notes:

- FBC undertook a comprehensive review of is Safety Management System;
- FBC has maintained its safety management system and continues to maintain its Certificate of Recognition ("COR") from WorkSafeBC;
- FBC will be launching Target Zero, targeted at a higher level of safety support to all business units; and
- FBC therefore anticipates an overall increase in awareness of hazards and measures used to control them.[88]

In Reply Submission in the FBC 2015 Annual Review, FBC makes the following statements:

- The facts are that the increase in injuries coincides with the labour dispute over 2013 and 2014. Prior to 2013, the AIFR results were much lower. This increase has occurred despite the continuation of certified safety programs within the Company.
- Since employees returned to work 'the Company has had a clear focus on safety, from initial communications with all employees and regularly through monthly safety meetings.'
- In 2015, FBC will continue to focus on fundamentals in safe work planning, hazard identification and proper body positioning through detailed crew observations of all field employees.
- FBC has a number of effective safety management programs in place and for the last three years maintained a Certificate of Recognition (COR) through audits performed annually, providing validation of the effectiveness of the Company's safety programs.[89]

---

[86] FEI Reply Submission, p. 52.
[87] Ibid., p. 53.
[88] Ibid., pp. 52–53.
[89] 2015 FBC Annual PBR Review, FBC Reply Submission, pp. 26–27.

Intervener submissions

CEC accepts that FBC is undertaking appropriate measures to improve the AIFR and recommends that the Commission approve this SQI as being acceptable to avoid any penalty.[90]

BCSEA is of the view is that FBC(stated as FEI in its submission) should be commended for its 2015 efforts and encouraged to be in a position to report improved AIFR results in the 2016 annual review… [91]
BCOAPO observes:

> FBC stated in the Application that the lost time due to injuries did not have an impact on service to customers. BCOAPO notes that that is not the point. There are two concerns with PBR: that utilities may seek to increase earnings at the expense of service to customers or by taking shortcuts in work practices which would be at the expense of the employees – the latter necessitating the use of an Employee Safety indicator. Its deterioration should be of significant concern, and merits careful monitoring.[92]

COPE urges the Commission to consider the following facts in its Decision regarding FBC's 2016 rates:

1. The 2014 results were not, in fact, short lived. The AIFR results through most of this calendar year were tracking at levels worse than the Threshold set by the BCUC;
2. The AIFR results were achieved entirely under this PBR;
3. Consequences are a means to hold utilities accountable for their failure to achieve certain Thresholds and/or Benchmarks; and finally,
4. It is difficult, if not impossible, to imagine a situation whereby employee injuries, however widespread, could have a significant enough impact on customer service that they would negatively affect direct customer service-related SQIs.[93]

Commission determination

The Panel has segmented our discussion into three parts:

- The relationship between AIFR results and the delivery of safe, reliable and adequate service;
- The extent to which the AIFR results are considered transitory or sustained; and
- Whether a serious degradation of service has occurred, and if so, whether a financial penalty is in order.

<u>The relationship between AIFR results and the delivery of safe, reliable and adequate service</u>

The Panel finds that "safe, reliable and adequate service" equally sets expectations of safe and reliable outcomes for FBC's workforce as it does for FBC's customers.

---

[90] CEC Final Submission, p. 15.
[91] BCSEA-SCBC Final Submission, p. 5.
[92] BCOAPO Final Submission, p. 36.
[93] COPE Final Submission, p. 4.

The Panel draws two possible inferences from FBC's comments that emphasize the fact that the below-threshold AIFR performance has "not contributed to deterioration in the quality of service to customers:"

1. The comments merely emphasize the point that the results have not apparently precipitated impacts in other aspects of service; and/or
2. The comments can be construed to suggest that AIFR is distinct and separate from safe, reliable and adequate service.

The Panel considers the first item above to be an alternative way to note the fact that the other SQIs are performing within acceptable limits. The suite of SQIs were established to provide a complete and meaningful way of capturing the full spectrum of "service."

The Panel rejects the inference of the second item above. It is (implicitly if not explicitly) predicated on a definition of "safe, reliable and adequate service" that has nothing to do with worker safety. It assumes that only the direct touch-points to customers affect service: i.e. just so long as electricity flows uninterrupted and safely, bills go out on time, rates are just and reasonable, etc., then "service" is taken care of.

<u>The extent to which the AIFR results are considered transitory or sustained</u>

The Panel finds that the current evidence is not sufficiently complete to make a finding, and therefore directs FBC to file its 2015 actual AFIR results as soon as they are available. Further process will be initiated at that time.

The Panel reviewed FBC's comments in the 2015 Annual Review and finds that the Company put much stock in the notion that the (then) current results were transitory in the context of the strong connection between the job action and the injury rates. The Company at the time made it clear that, looking forward they considered the matter to be behind them. In conjunction with the safety programs and initiatives note for 2015, the inference was that one could well expect results in 2015 to improve.

FBC asserts that the AIFR results for 2015 did in fact show improvement, based on both the year-to-date (YTD) annual numbers and the YTD three-year average. With regard to the annual values, the Panel notes that FBC's choice of comparatives appear selective:

- The June YTD results are better than the year-end annual results for the prior two years, but do not compare favourably to the 2014 June YTD result.
- Further, while the September YTD result is above Threshold, neither the June nor August YTD results meet that test, and the August result is worse than the June result.
- The Panel notes that the June YTD results for years 2013 and 2014 are significantly different than the year-end results for those same years, suggesting that the YTD 2015 results may not be an accurate indicator of what the year-end results will be.

Regarding FBC's assertion that the YTD three-year rolling average results compare favourably to the 2013 and 2014 results of 2.82 and 3.21 respectively, the Panel finds that FBC's assertion is in error. The 2013 and 2014 values quoted in Reply Submission are in fact the annual values for those years and not the three-year rolling averages for those years (as reported by FBC in the Application). If the YTD three-year rolling average results for 2015 are compared to the correct data for prior years' 3-year rolling average results:

- Each of the June, August and September 2015 YTD results are below threshold; and
- Each of the June, August and September 2015 YTD results are worse than the result for either 2013 or 2014.

<u>Whether a serious degradation of service has occurred and if so whether a financial penalty is in order</u>

We make no finding on the question of serious degradation of service at this time. The Commission will make further determinations after the actual results are filed. In addition to providing the full 2015 AIFR results when immediately available, FBC must also provide:

- A discussion of the results in the context of the evidence and arguments put forward by FBC in both the 2015 and 2016 annual review applications.
- Comments on the possible merit of future annual reviews using a July-to-June year for the computation and comparison of all SQI results in order to avoid future situations where the applicant or interveners might wish to argue that mid-year results may not be indicative of expected year-end results.

3.7 Use of FEI employees to perform FBC work

COPE has raised a number of questions with respect to a program initiated by Fortis Energy Inc. (FEI) and FBC to utilize FEI employees to answer FBC customer calls during peak call volume periods. COPE submits that the evidence on record raises three questions:

1. How this program can be characterized as a success when there is no individual tracking of service quality provided by FEI employees?
2. Why are the utilities using per interaction/transaction cost as opposed to tracking FEI staff hours?
3. Why the existence of this new cross-utility service was not communicated to the Commission and Interveners.[94]

The Panel notes that the second question related to the methodology for tracking costs was addressed in the 2016 FEI Annual Review Decision and relates specifically to FEI. The determination made regarding the cost methodology is also applicable to the parties in this proceeding and therefore will not be further addressed.

<u>Individual tracking of service quality</u>

COPE notes that FEI employees taking part in this program received the same training as new FBC customer service representatives (CSRs) shortened to account for common skills and knowledge common to both operations. Of concern to COPE is that the service quality of the FEI employees performing FBC CSR work is not being specifically tracked. Service quality for these employees is being tracked only as a part of FBC's company-wide SQI metrics in spite of having "…the necessary information needed to track service quality for these specific FEI workers in order to assess the adequacy of their training is readily available…"

COPE seems to be most concerned that FEI and FBC are characterizing the pilot project as successful when the Companies were making no effort to track the quality of service provided by FEI employees taking FBC calls. It

[94] COPE Final Submission, p. 5.

asserts that characterizing the program as a success was based on the apparent lack of negative impact on FEI and FBC's overall service quality measurements noting that since only 0.3 percent of the calls FEI CSRs take are FBC related, it is not surprising FEI's customer service levels remain unchanged. COPE asserts that characterizing the program as successful is premature at best and there is no evidence this is in the best interest of FBC ratepayers.[95]

Notification of the Commission and interveners as to the existence of the program

COPE's position appears to be that under PBR, there is a requirement to notify the Commission and interveners of this new cross-utility service especially when it engages a new and untested billing model. It points out that the adoption of PBR "does not displace the Commission's jurisdiction nor its mandate to ensure that the statutory requirements imposed by the Utilities Commission Act and well-established regulatory principles are properly observed."[96]

FBC reply

FBC asserts that COPE's submissions concerning the use of FEI's CSRs to handle FBC calls have no merit and submits the program is consistent with PBR incentives to reduce costs and is mutually beneficial to both utilities. Overall, FBC describes the program as an "efficient and effective use of resources that results in lower costs for both FBC and FEI and higher service levels for FBC customers."[97]

In response to COPE's query as to why the Commission or interveners were not notified of the program, FBC provides two examples (one in response to CEC IR 1.38.2, the other from the Workshop) from the 2015 Annual Review outlining the potential for FEI CSRs to handle FBC calls in the future. In addition, FBC points out that the monthly program cost ranges between $500 and $3,000 and it has no duty to bring forward such small efficiencies as part of the PBR review.[98]

With regard to COPE's assertions that the program is being called a success, FBC makes a number of submissions. It points out that the calls being taken are during peak volume times and have resulted in reduced wait times during such periods and without this support FBC would be required to carry a higher staff headcount. Further, FBC notes that its representative spoke to service levels within the FEI Workshop and explained that service levels are monitored and managed with no reduction in service quality. The Company also notes that there is no evidence that there have been any issues with individual service quality and COPE's concern about service quality should be rejected.[99]

Commission determination

The Panel accepts the explanation provided by FBC with respect to the notification of the Commission and interveners as to the existence of the program to utilize FEI CSRs to backup FBC contact centre employees during peak periods. However, we caution FBC to exercise good judgement in those instances where it chooses to not specifically address cost saving initiatives that are small. This program, while small at this time, has the potential

---

[95] COPE Final Submission, pp. 5–7.
[96] Ibid., p. 9.
[97] FBC Reply Submission, pp. 16, 20.
[98] ibid., pp. 16–17.
[99] FBC Reply Submission, p. 18.

to be much larger in the future. The Commission in its PBR Decision stressed the need for greater transparency and it may have been appropriate in this instance to address this program within the Application.

The Panel has examined the evidence presented and is persuaded that the program to backup FBC CSRs with FEI CSRs appears to be successful on many counts. As submitted by FBC, it has resulted in lower wait times during peak periods and has reduced the need for staffing levels. In addition, there is no evidence to suggest that there has been a reduction in service quality, indicators of which is intended to provide objective and measureable targets in this PBR plan. While it may be premature to declare the program a complete success, the results as presented are certainly encouraging.

The primary concern raised by COPE was that success was being claimed in spite of the lack of individual tracking of service quality. The Panel notes that this issue was not specifically addressed by FBC in its Reply Submission in spite of COPE's claims that FEI/FBC has the necessary information needed to track the service quality of FBC employees. The Panel considers it useful if this issue were explored more thoroughly in the 2017 Annual Review. **Accordingly, the Panel directs FBC to work with FEI to provide information on their capabilities for the individual tracking of service quality of FEI employees and an outline of additional costs if individual tracking was put in place in the future.**

3.8 Evaluation of the PBR Plan

FBC submits that "[i]n summary, 2014 and 2015 provide a preliminary basis which to evaluate the PBR Plan, and have shown the potential for earnings sharing and for limiting rate increases. The first two years of PBR have also shown the challenges of the growth capital formula."[100]

However, CEC is critical of the PBR Plan and provide specific comments in five areas:

1. O&M spending
2. Capital spending
3. Generation inspection expenses
4. Exogenous factors
5. SQIs[101]

No other intervener provided general comment on, or an evaluation of, the PBR Plan.

3.8.1 <u>O&M expenditures</u>

FBC states that it is "projecting O&M expenses in 2015 excluding items forecast outside of the PBR formula to be approximately $0.983 million lower than formula amounts, representing approximately a two percent variance." It submits that "[t]he expected savings are a result of the Company applying a broad 13 based focus on productivity. While some of the savings are one-time in nature (such as delays in filling vacancies), some of the savings are the result of efficiencies which are expected to continue into the future, recognizing that cost pressures in the future may offset such savings."[102]

---

[100] Exhibit B-1-1, p. 4.
[101] CEC Final Submission, paras. 86–92.
[102] Exhibit B-1-1, p. 4.

CEC submits that "a delay in filling vacancies is not appropriately rewarded under PBR as the staff are either necessary or not necessary and prudent management should address this issue independently of PBR. Further, one time savings are equally rewarded under Cost of Service." It also submits that "one time savings, possible future savings that are likely to be eroded and the creation of no major initiatives is not indicative of a successful PBR plan that is appropriately rewarding the ratepayer and the shareholder."[103]

FBC submits that while it is "committed to seeking sustainable savings for the benefit of its customers, the CEC is incorrect that savings of a temporary nature are not appropriately rewarded under PBR. The PBR Plan sets formulaic O&M and capital amounts within which FBC is given an incentive to manage its costs. To the extent that FBC can achieve costs below the formula amounts, the shareholder and customers share the benefits."[104]

FBC also submits that the CEC "incorrectly states that 'one time savings are equally rewarded under Cost of Service.'" It points out that "under a cost of service regime, the shareholder would retain 100% of the benefit of such one-time savings, whereas under the PBR Plan the benefit is shared equally between the shareholder and customers."[105]

FBC also argues that "it appears that the CEC is advocating for material changes to the terms of the existing PBR Plan, which are more appropriately the subject of a reconsideration request and are therefore outside the scope of this proceeding."[106]

Commission determination

The Panel finds CEC's submissions regarding the savings achieved due to FTE reductions to be similar in nature to its statements made in the previous annual review proceeding. While not explicitly stated by CEC in its Final Submission, the Panel interprets CEC's submissions as suggesting that FBC's O&M should be rebased, which would be a significant adjustment to the approved PBR Plan. The Panel therefore re-iterates the statements made by the Commission in the 2015 Annual Review Decision: "Those recommendations … which require material change to the PBR Plan's fundamental provisions, will require a reconsideration application or at least the agreement of all parties prior to the Commission considering a change."[107] This issue will not be considered further in this decision.

3.8.2 Capital expenditures

FBC submits that it:

> is not projecting any savings in capital relative to the formula in 2015. Projected 2015 26 capital expenditures excluding items forecast outside of the PBR formula are $3.213 million higher than the formula amount, attributable to growth capital which is projected to be above the formula by this amount. New customer extensions driven by large commercial customers contribute to

[103] CEC Final Submission, paras. 86–87.
[104] FBC Reply Submission, para. 9.
[105] Ibid., para. 10.
[106] Ibid, para. 11.
[107] FBC 2015 Annual Review Decision, p. 4.

> the forecast variance. FBC will continue to be challenged to meets its capital formula for the remainder of the term of the PBR Plan.[108]

In the Workshop, FBC was asked which part of the PBR formula was responsible for the challenges facing FBC in meeting its capital spending envelope. FBC replied that there are "two main drivers." In the PBR proceeding, it had recommended a hundred percent of the growth factor be included in the formula. It also recommended a productivity improvement factor or an X-factor, of 0.5 percent. The X-factor is set at 1.03 and the growth factor halved.[109]

FBC testified that the modifications to the growth term and the X-factor are "a challenge, but it isn't, I would necessarily say, the largest part of the challenge on the capital." In the PBR proceeding, the Commission also halved the growth term in the O&M formula. FBC states "we are able to accommodate it on the O&M side by finding other efficiencies to offset it. But on the capital side we haven't been able to do that yet."[110]

CEC submits "the evidence also shows that PBR incentives are ineffective from a capital perspective" and that the challenges described by FBC "can create a situation in which FBC may undertake to manage its capital plan to the detriment of ratepayers."[111]

In reply, FBC states "these challenges do not stem from the PBR incentives being ineffective, but instead are due to the growth and productivity factors in the PBR formula and multiple pressures on FBC's capital budget." The ongoing challenges with respect to managing capital within the formula are therefore more indicative of the particular capital requirements faced by FBC and do not necessarily indicate that PBR incentives are ineffective for capital.[112]

Commission determination

The Panel is satisfied that FBC can continue to manage its capital budget in a way that is not detrimental to ratepayers. Further, there is no evidence to support CEC's assertion that there is a risk to ratepayers at this time.

3.8.3 Generation inspection

In the PBR Decision, the Commission indicated that the actual expenditures related to generation unit inspections should be monitored through the Annual Review process: "Given the background and assurances provided by FBC, the Commission Panel finds that the proposal to include the $350,000 within the Base O&M is reasonable and is not persuaded there is a need to make it a flow through item at this time. However, in consideration of the concerns raised and the magnitude of the estimate, actual expenditures should be monitored through the Annual Review process."[113]

---

[108] Exhibit B-1-1, p. 4.
[109] Transcript Volume 1, p. 132.
[110] Ibid., p. 139.
[111] CEC Final Submission, paras. 88–89.
[112] FBC Final Submission, paras. 16, 19.
[113] FBC PBR Decision, p. 197.

FBC stated that it completed a major unit inspection on Corra Linn Unit 3 (P4U3) on June 2, 2015 and that the project was successful. FBC submits that the actual project costs of $265,000 were approximately two 2 percent lower than the pre-contingency estimated amount of $271,000 and that by performing this inspection, the unit should continue to provide a dependable source of power.[114]

CEC submits that

> it would be preferable for generation unit inspections to be a flow through item and removed from Base, as they are not controllable by FBC and can result in shareholder earnings that have no relation to PBR. The inspection of the Corra Linn unit was found to be in 'better condition' than originally anticipated which resulted in a reduction of $85,000 relative to the 'average' estimated unit cost, and it is likely that the unit inspected in 2016 will have a similar status. The CEC submits that there is a misalignment with customer interests to the extent that the utility is able to manage its inspections. The utility would have the incentive to inspect those elements with the lowest anticipated costs early under PBR. and defer those with likely damage, while the ratepayer would prefer to have the units with the highest likely requirements inspected immediately in order to conduct repairs as quickly as possible.[115]

FBC replies that it has never indicated that the costs of the generation unit inspections are not within its control and submits that it "can choose the most cost-effective use of resources (contractors or internal) and can find more efficient ways of doing the work".[116]

Commission determination

The Panel denies CEC's request to reclassify generation inspection costs as flow-through items. The Panel accepts FBC's explanation of the controllable nature of these costs. CEC has not provided evidence that is sufficiently persuasive to the Panel for us to reconsider a rebasing of the original allocation of these costs from base capital to controllable costs and treated outside of base capital. Simply because FBC has been able to reduce generation inspection costs in this one instance is not sufficient justification.

3.8.4 Exogenous factors

CEC states that "the exclusion of Exogenous factors is a difficulty under PBR in that once an item reaches the materiality threshold, the entire cost is removed, without deducting the materiality threshold from the total cost," and submits that "[t]his could result in some costs being removed that would otherwise be incurred under formula." CEC also submits that the difficulty with exogenous factor treatment should be considered by the Commission in its assessment of PBR.[117]

FBC replies that:

> The CEC's description of the impact of exogenous factors is incorrect and its concerns are misplaced. In Order G-139-14 and Reasons for Decision which approved the PBR Plan (the PBR

[114] Exhibit B-1-1, pp. 42–43.
[115] CEC Final Submission, p. 91.
[116] FBC Reply Submission, para. 25.
[117] CEC Final Submission, para, 90.

> Decision), the Commission set out five criteria for evaluating whether the impact of an event qualifies for exogenous factor treatment … one of these criteria is that the cost/savings must be directly related to the exogenous event and clearly outside the base upon which the rates were originally derived.[118]

With regard to exogenous treatment for wildfires, FBC replies that "The evidence is clear that there is no fire-related capital within FBC's Base Capital amount as FBC has not had any fire-related capital expenditures in the past 10 years, including in 2013 which was the year on which FBC's Base Capital was set". It also submits that "[t]he MRS costs for which exogenous factor treatment is sought have not been previously incurred and were not known at the time the 2013 Base O&M was determined and therefore were not included in the 2013 Base O&M".[119]

In FBC's view, it has demonstrated that the exogenous factors it is seeking would not otherwise be incurred under the formulaic base and submits therefore that CEC's concerns have been addressed. With respect to exogenous factors that may occur in future years, FBC submits that any similar concerns are best addressed on a case by case basis.[120]

Commission determination

The Panel agrees with FBC that the exogenous factor criteria addresses CEC's concerns in the case of the two exogenous events before the Panel in this proceeding. **Therefore, no further determinations will be made on this issue at this time.**

The Panel also agrees with FBC that any similar concerns that may occur in future years are best addressed on a case-by-case basis.

3.8.5 SQIs

When asked to confirm that the intention of the service quality indicators and directional indicators is to ensure that PBR does not diminish the service levels that were originally being provided to customers under cost of service, FBC replied "[t]he intention of the service quality and directional indicators is to ensure that during the term of the PBR Plan, FBC maintains adequate service levels."[121]

CEC submits that the Service Quality Indicators are not an especially valuable tool in ensuring that the utility docs not achieve savings at the expense of service quality. The CEC submits that while the SQls are somewhat indicative of performance in certain areas, it does not reflect the reality of the utility circumstances that may arise due to certain events such as wildfires or others.[122]

CEC agrees with FBC regarding the intention of SQIs, and submits that

> [w]hile an argument could be made that the intention of PBR is to incent the utility to find 'efficiencies' which could potentially arise from reducing unnecessary service levels … reducing

[118] FBC Reply Submission, para. 21.
[119] FBC Final Submission, para. 21.
[120] Ibid., paras. 22 , 24.
[121] Exhibit B-5, CEC IR 1.30.2.
[122] CEC Final Submission, para. 92.

> service levels from that being provided under Cost of Service is not appropriately rewarded under PBR, but rather illustrative of excess expense under the Cost of Service and embedded within the base formula.[123]

FBC submits that "the CEC's submission are without merit and are out of scope as they amount to a request for a material change to the PBR Plan." In its view, "CEC's arguments essentially call into question the past Commission approvals of the SQIs, suggesting instead that FBC should simply be held to the same service levels it provided under cost of service."[124]

Commission discussion

The Panel notes FBC's comment that the CEC's arguments amount to a request for a material change to the PBR Plan. However, CEC makes no specific request. Accordingly, the Panel makes no determination regarding CEC's comments. Should CEC request a material change to the PBR, it will require a reconsideration application or at least the agreement of all parties prior to the Commission considering a change.

[123] Ibid.
[124] FBC Reply Submission, paras. 27–28.

Dated at the City of Vancouver, in the Province of British Columbia, this 7th day of January 2016.

Original signed by:

____

D. M. Morton
Panel Chair / Commissioner

Original signed by:

____

H. G. Harowitz
Commissioner

Original signed by:

____

D. A. Cote
Commissioner