Fasken Martineau DuMoulin LLP *
Barristers and Solicitors
Patent and Trade-mark Agents

2900 – 550 Burrard Street
Vancouver, British Columbia, Canada V6C 0A3

604 631 3131 Telephone
604 631 3232 Facsimile
1 866 635 3131 Toll free

www.fasken.com

Christopher R. Bystrom
Direct +1 604 631 4715
Facsimile +1 604 632 4715
cbystrom@fasken.com

November 23, 2015
File No.: 253248.00152/15275

By Electronic Filing

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Erica M. Hamilton
Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Inc. (FBC)
Annual Review of 2016 Rates

In accordance with the Regulatory Timetable set for this proceeding, we enclose for filing the electronic version of the Reply Submission of FortisBC Inc.

Ten hard copies of the enclosed will follow by courier.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[original signed by Christopher R. Bystrom]

Christopher R. Bystrom

CB/ta
Enclosure

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF THE UTILITIES COMMISSION ACT,
R.S.B.C. 1996, CHAPTER 473

and

FORTISBC INC. MULTI-YEAR PERFORMANCE BASED RATEMAKING

PLAN APPROVED

FOR 2014 THROUGH 2019

ANNUAL REVIEW OF 2016 RATES

REPLY SUBMISSION OF
FORTISBC INC.

November 23, 2015

TABLE OF CONTENTS

PART ONE: INTRODUCTION AND OVERVIEW **1**

PART TWO: REPLY SUBMISSIONS **3**

A. Evaluation of PBR 3

(a) FBC's Operations and Maintenance Savings Are Appropriately Shared under PBR 3

(b) FBC Is Appropriately Managing its Capital Plan 5

(c) Inclusion of Exogenous Factors in the PBR Plan is Just and Reasonable 7

(d) Treatment of Generation Unit Inspection Costs Remains Appropriate 10

(e) Service Quality Indicators are a Valuable Tool 11

B. Load Forecast 13

C. Power Supply 14

(a) The WAX CAPA Should Remain Confidential 14

D. O&M Expense 15

(a) COPE Submissions regarding Training and Use of CSRs to answer FBC Calls Are without Merit and Should Be Rejected 16

E. Deferral Accounts 24

(a) The Approved Use of Deferral Accounts Should Be Maintained 24

(b) Capacity and Energy Purchase and Sale Agreement (CEPSA) Deferral Account 28

(c) 2017 Rate Design Application (RDA) Deferral Account 30

(d) Celgar Interim Period Billing Adjustment Account 31

(e) Celgar Rate Adjustment 31

(f) Radio-Off Cost Recovery Should Not Be Recovered in a Deferral Account 31

F. Financing and Return on Equity 32

(a) Determination of how the ROE for FBC is Set is Outside the Scope of this Proceeding 32

(b) Rate Changes as a Result of Cost of Capital Proceeding 32

(c) Not Necessary to Update Interest Expense 33

G. Taxes 34

H. Earnings Sharing 35

I. Accounting Matters 35

(a) Reconciliation of Summary of Revenue Deficiency to Schedule 1 35

(b) Reconciliation of Pension and OPEB Expense in the Earnings Sharing Calculation 37

(c) Net Salvage 37

J. Exogenous Factors 39

(a) Z-Factor Wildfire 39

(b) Z-Factor Mandatory Reliability Standards 45

K. Service Quality Indicators 46

(a) All Injury Frequency Rate (AIFR) 46

(b) First Contact Resolution (FCR) 54

PART THREE: CONCLUSION 55

PART ONE: INTRODUCTION AND OVERVIEW

1. FortisBC Inc. (FBC or the Company) filed its Annual Review for 2016 Rates (the Application) on September 11, 2015 in compliance with British Columbia Utilities Commission (the Commission) Order G-139-14, which approved a Performance Based Ratemaking Plan for FBC for the years 2014 to 2019 (the PBR Plan). On October 21, 2015, FBC filed an Evidentiary Update to the Application.[1]

2. As set out in the Application and as updated in the Evidentiary Update[2] and FBC's letter of November 4, 2015,[3] FBC requests Commission approval for the following pursuant to sections 59 to 61 of the *Utilities Commission Act*:

(a) 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. Rates will remain interim pending the outcome of the FortisBC Energy Inc. (FEI) current cost of capital proceeding.

(b) The creation of two deferral accounts for the following regulatory proceedings as described in Section 12.4.1 of the Application:

- Application for approval of the Capacity and Energy Purchase and Sales Agreement (CEPSA) with Powerex Corp financed at FBC's short term interest rate;
- 2017 Rate Design Application, financed at FBC's weighted average cost of debt;

(c) Amortization of $5.000 million of the 2015 closing balance of the 2014 Interim Rate Variance deferral account, with the remainder to be amortized in 2017, as

---

1 Exhibit B-1-2.

2 Exhibit B-1-2.

3 Exhibit B-13.

set out in Section 12.4.2.1 of the Application and page 2 and Schedule 12 of the Evidentiary Update.

(d) Depreciation rates in the amounts set out in Table 12-2 in Section 12 of the Application.

(e) Net salvage rates in the amounts set out in Table 12-3 in Section 12 of the Application.

3. FBC filed a updated draft of the order sought in its letter of November 4, 2014.[4]

4. Following the filing of the Application, the Commission approved a regulatory timetable for the proceeding, which included a round of information requests and a workshop.[5] On October 13, 2015, FBC responded to information request (IRs) from the Commission and interveners, including the British Columbia Pensioners' and Seniors' Organization et al. (BCOAPO), the B.C. Sustainable Energy Association and the Sierra Club of British Columbia (BCSEA) and the Commercial Energy Consumers Association of British Columbia (CEC), the Canadian Office and Professional Employees Union Local 378 (COPE), Mr. Norman Gabana, the Industrial Consumers Group (IGC) and Mr. Alan Wait. The workshop was held on October 26, 2015, and FBC's presentation materials and the transcript of the workshop were placed on the record in the proceeding.[6] FBC filed responses to undertakings given at the workshop on November 4, 2015.[7]

5. In support of its approval sought, FBC relies on the evidence filed in its updated Application, IR responses, the Workshop and Undertaking Reponses.

---

4 Exhibit B-13.

5 Exhibit A-2.

6 Exhibit B-12. The Transcript is available on the Commission's website at http://www.bcuc.com/ApplicationView.aspx?ApplicationId=508.

7 Exhibit B-13 and Confidential Exhibit B-13-1.

6. On November 12, 2015, the British Columbia Municipal Electric Utilities (BCMEU), BCOAPO, BCSEA COPE, CEC, ICG and Mr. Gabana filed final arguments in accordance with the regulatory timetable approved by the Commission. In the remainder of this Reply Submission, FBC will limit its comments to responding to the issues raised by interveners in their final arguments. While FBC has sought to respond to all material issues raised, silence on FBC's part should not be interpreted as agreement.

PART TWO: REPLY SUBMISSIONS

7. The following sections respond to the intervener submissions in the order of topics outlined in the Application.

A. Evaluation of PBR

8. FBC provides its evaluation of PBR in section 1.4 of the Application. In summary, FBC is projecting to realize savings in O&M expenditures, although FBC's capital expenditures continue to be above the formula. Overall, the savings achieved in 2015 are projected to result in $0.392 million of earnings sharing that will be returned to customers in 2016, serving to reduce overall rates for FBC's customers. FBC's performance with respect to SQIs demonstrates that FBC 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.[8]

(a) FBC's Operations and Maintenance Savings Are Appropriately Shared under PBR

9. The CEC incorrectly states in paragraph 86 of its submission that "delay in filling vacancies is not appropriately rewarded under PBR."[9] While FBC 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

[8] Exhibit B-1-1, p. 4.

[9] CEC Submission, para. 86.

extent that FBC can achieve costs below the formula amounts, the shareholder and customers share the benefits.

10. The CEC incorrectly states that "one time savings are equally rewarded under Cost of Service."[10] In fact, 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.

11. 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. The Commission determined that such topics are outside the scope of annual reviews in its Decision on FortisBC Energy Inc.'s Annual Review for 2015 Delivery Rates, where it stated:

> As outlined in Section 1.1 above, the Commission encourages ongoing evaluation of the PBR Plan and the identification of problems with the operation of the plan and recommendations for improvement. Those recommendations which do not require change to the terms of the PBR Plan may be dealt with within this PBR period. Others, 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. The Panel considers the concerns raised by FEI regarding the recommendations of CEC to fall in the latter category of requiring a material change to the terms of the existing PBR Plan and thus is not prepared to consider them at this time.[11] [Emphasis added.]

12. The CEC's comments are therefore out of scope and should be rejected.

13. Finally, FBC disagrees with the CEC's assessment 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."[12] FBC submits instead that the O&M savings to date show that there has been

---

[10] CEC Submission, para. 86.

[11] In the Matter of FortisBC Energy Inc. Annual Review of 2015 Delivery Rates, Decision, dated May 27, 2015, p. 4.

[12] CEC Submission, pp. 17.

some success from the PBR Plan which has resulted in appropriate rewards for both customers and the shareholder as noted above. The CEC does not appear to take into account that the formula O&M amount itself includes a productivity factor in excess of one percent; if FBC managed its O&M to the formula O&M, this in itself would be indicative of increased productivity.

14. Furthermore, as noted by Mr. Dall'Antonia at the workshop, it has only been 13 months since the PBR Plan was approved and the opportunity for savings in FBC is not expected to be large due the size of the company, the fact that FBC came out of PBR recently, and a one percent productivity factor is already built into the O&M formula.[13] Mr. Dall'Antonia also provided a review of some of the projects that FBC is investigating and explained that with the completion of the AMI project in the near future, FBC does hope to find larger savings initiatives over the remainder of the PBR term.[14]

15. In summary, FBC submits that the CEC's assessment is unduly negative and that the evidence shows that there has been some success to date with respect to O&M savings under the PBR Plan, the benefits of which have appropriately flowed to both the shareholder and customers.

(b) FBC Is Appropriately Managing its Capital Plan

16. The CEC submits that "PBR incentives are ineffective from a capital perspective" and "FBC may undertake to manage its capital plan to the detriment of ratepayers."[15] As noted in section 1.4 of the Application, FBC expects to continue to be challenged to meet its capital formula for the remainder of the PBR Plan. However, these challenges do not stem from the PBR incentives being ineffective, but instead are due to the growth and productivity factors in

---

[13] Workshop Transcript, pp. 134 to 136.

[14] Workshop Transcript, p. 136.

[15] CEC Submission, p. 18.

the PBR formula[16] and multiple pressures on FBC's capital budget.[17] Mr. Chernikhowsky explained one the pressures on the capital budget at the workshop, as follows:

> One of the pressures that we're also seeing next year is in our forced upgrades budget. So this is where we're forced to move our infrastructure due to third parties. So say, for example, if Ministry of Highways is widening the corridor, and we don't have a right-of-way. That's typical. We have -- we locate our infrastructure in a road allowance.
>
> And on the whole, that benefits ratepayers over the years, because they don't have to pay for rights-of-way. However, on the rare occasion when our infrastructure has to be moved, we do pay for that. And we're forecasting next year in the range of 6 to 6 and a half million dollars of forced upgrades. So between the customer growth that we've been seeing, the forced upgrades that we're projecting, all of those are driving us over.[18]

17. More broadly, Mr. Chernikhowsky described the competing pressures on FBC's capital budget, including growth, forced upgrades, sustainment and efficiency initiatives, as follows:

> …in this case it's a bit of a four-legged stool, because the initiatives that we're referring to there, essentially they're capital initiatives, right? So what are the four legs of the stool that I'm referring to?
>
> Well, we have our customer growth, right? When new customers request connections, we have to accommodate. We have the forced upgrades, which are putting a pressure on capital as well. At the same time, we want to sustain our system. We want to ensure that the assets are maintained and operable, safe condition. So those are three legs. And then of course there is efficiency initiatives that require a capital investment to result in an O&M savings.
>
> So now we're playing up against all four of those competing pressures, and together they're all combining again to force us into a situation where we're

---

[16] Workshop Transcript, pp. 132 and 139.

[17] Workshop Transcript, pp. 132-133.

[18] Workshop Transcript, p. 133.

> likely going to be overspending fairly significantly, potentially next year and potentially for years going beyond that.[19]

18. Ms. Martin also noted that the PBR formula amount is not reduced by customer contributions. Thus, if a large commercial customer is funding its own extension, then the capital cost of the extension is included in the formula, but the contribution is not.[20]

19. 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.

20. FBC also submits that the CEC's concerns that FBC may manage its capital plan to the detriment of customers is speculative and not based on any evidence. FBC is committed to prudently managing its capital expenditures. FBC continues to ensure that the system assets are properly maintained and FBC continues to provide a high level of service as measured by the SQIs. FBC therefore submits that there is no basis for the CEC's concerns.

(c) Inclusion of Exogenous Factors in the PBR Plan is Just and Reasonable

21. The CEC submits 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 that "this could result in some costs being removed that would otherwise be incurred under formula".[21] 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 Decision), the Commission set out five criteria for evaluating whether the impact of an event qualifies for exogenous factor treatment. As listed on page 94 of FBC's Application, one of these criteria is that the cost/savings must be directly related to the exogenous event and clearly outside the base upon

---

[19] Workshop Transcript, p. 137.

[20] Workshop Transcript, p. 131.

[21] CEC Submission, para. 90.

which the rates were originally derived. FBC has satisfied this criterion for both exogenous factors for which it is seeking approval. In summary:

- Wildfires: 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.[22] If the wider category of Urgent Repairs is considered, FBC's response to the Undertaking No. 2 shows that FBC's 2015 capital expenditures on Urgent Repairs (excluding the 2015 wildfire expenditures) already exceed FBC's Urgent Repairs budget due to expenditures on repairs related to storms, slides and other events that occur on a regular basis. At over $3 million, the damage caused by the wildfires exceeds FBC's entire annual Urgent Repairs budget. This demonstrates that the wildfire damage expenditures are of a nature and magnitude that was never intended to be included in the Urgent Repairs budget and is clearly outside the base upon which the rates were originally derived.[23] (This topic in discussed in more detail below.)

- Mandatory Reliability Standards (MRS): The 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 used to determine the O&M expense included in the PBR formula. The amount included in the 2013 Base O&M for MRS was $2.150 million. These are the ongoing O&M costs required to maintain compliance with the MRS that were applicable to FBC in 2013 and continue to be applicable today. The costs for which FBC requests exogenous factor treatment are incremental costs required to achieve and maintain compliance with the MRS newly adopted by Order R-38-15.[24] As indicated in the Application, the

[22] Exhibit B-2, BCUC IR 1.14.4; Transcript, pp. 41-42.

[23] Exhibit B-13, Undertaking No. 2.

[24] Exhibit B-1-1, pp. 95-96; Exhibit B-2, BCUC IR 1.13.7 and 1.13.8.

2016 estimate is primarily labour with approximately $0.040 million of miscellaneous/other expenses. The labour cost is estimated to be approximately 40% internal and 60% external, with the internal labour comprised of resources typically focused on capital work (i.e. not the internal labour within the Base O&M that is focussed on MRS).[25]

22. In summary, the Commission's criteria for exogenous factors already addresses the CEC's concern and FEI has demonstrated that the exogenous factors it is seeking would not otherwise be incurred under the formulaic base.

23. The CEC also states that responses to exogenous events "can result in reduced rehabilitation costs and future O&M".[26] FBC has demonstrated, however, that there is an immaterial impact on capital and no impact on O&M during the term of the PBR due to the expenditures related to the exogenous events:

- Wildfires: The replacement of assets following the wildfires will not reduce costs associated with O&M activities such as annual line patrols. The replacement of the assets may reduce future asset rehabilitation costs. Based on the 8 year cycle on which each pole is visited and assessed for condition, FBC estimates that there will be a potential deferral of $40,750 after 16 years (2 cycles), most of which will occur beyond the PBR term.[27]

- MRS: FBC is not expecting to experience any savings either immediately or in the future as a result of either the operating or capital expenditures being made to comply with the new MRS. The activities are specific to the newly adopted MRS and do not affect capital or O&M expenditures in other business areas of the Company.[28]

---

[25] Exhibit B-1-1, p. 41.

[26] CEC Submission, para. 90.

[27] Exhibit B-5, CEC IR 1.22.6 and 1.22.6.1.

[28] Exhibit B-5, CEC IR 1.23.2.

24. FBC therefore submits that the 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.

(d) Treatment of Generation Unit Inspection Costs Remains Appropriate

25. The 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."[29] While FBC is obligated to maintain its generation units, FBC has never indicated that the costs of the generation unit inspections are not within its control. For example, FBC can choose the most cost-effective use of resources (contractors or internal) and can find more efficient ways of doing the work. As stated on page 43 of the Application regarding the 2015-unit inspection costs, from a mechanical perspective efficiencies were gained throughout the project, primarily on the unit assembly resulting in approximately 350 hours of savings for the project. FBC therefore submits that it has some control over its generation unit inspection costs and that it is appropriate that these costs be subject to the incentives provided by including them within the formulaic O&M.

26. CEC also asserts that FBC "would have an incentive to inspect those elements with the lowest anticipated costs early under PBR, and defer those with likely damage".[30] Contrary to the CEC's assertion, the unit inspection schedule is primarily determined by unit run time hours (approximately 80,000 hours since the ULE for the unit was completed). FBC continues to schedule unit inspections on this basis.[31]

[29] CEC Submission, p. 18.

[30] CEC Submission, p. 18.

[31] Exhibit B-5, CEC IR 1.21.2.

(e) Service Quality Indicators are a Valuable Tool

27. The CEC comments that the Service Quality Indicators (SQIs) are not a valuable tool in ensuring that the utility does not achieve savings at the expense of service quality and argues that "reducing service levels from that being provided under Cost of Service is not appropriately awarded under PBR".[32] 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. The current set of SQIs was subject to a rigorous examination and was approved by the Commission in the PBR Decision as appropriate measures to ensure that the utility is encouraged to pursue efficiencies that do not jeopardize service quality. Moreover, benchmarks and performance ranges were the subject of a Consensus Recommendation, which included the CEC and which was approved by Commission Order G-14-15. The PBR Plan includes mechanisms for monitoring FBC's service quality and issuing penalties if there is a serious degradation of service.

28. The 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. FBC notes that historical performance was considered when setting the benchmarks and thresholds for the SQIs. For example, as stated on page 150 of the PBR Decision:

> FEI proposes that Emergency Response Time be reduced from its average performance level over the 2010 to 2012 period of 97.7 percent to a slightly reduced performance benchmark of 95 percent. The Commission Panel considers the performance benchmark of 97.7 percent (FEI Exhibit B-1-1, Appendix D7, p.6) to be appropriate as it reflects current performance and directs Fortis to set the SQI benchmark at this level for the purposes of the PBR. The Panel further direct that the FBC Emergency Response benchmark be set at 93 percent, which reflects the average Emergency Response achieved over the 2010 to 2012 period.[33]

---

[32] CEC Submission, pp. 18-19.

[33] PBR Decision, p. 150.

29. To the extent that benchmarks or performance ranges were agreed to and/or approved that were lower or higher than the service quality under cost of service, these issues have already been examined and debated, agreed to by the signatories to the Consensus Recommendation and/or approved by the Commission. The CEC's criticisms are therefore either misplaced or amount to a request for a material change of the SQIs approved by the Commission, which is outside the scope of this proceeding.

30. The CEC's argument that "reducing service levels from that being provided under Cost of Service is not appropriately awarded under PBR" is also incorrect and outside the scope of this proceeding. First, FBC is focused on maintaining the service levels agreed to as part of the PBR Plan while pursuing efficiencies and not, as CEC claims, on reducing service levels from that agreed to in order to achieve savings. There is no evidence to suggest that FBC is realizing any savings due to reduced service quality. To the contrary, FBC is increasing its expenditures with respect to safety.[34] There is therefore no basis for the CEC's concerns. Second, there is no evidence to support the CEC's claim that there was excess expense under Cost of Service and embedded within the base formula amounts. Contrary to the CEC's assertions, FBC's Base O&M was the subject of a rigorous review and was approved by the Commission. Third, the PBR Plan includes earning sharing on savings compared the formulaic O&M and capital amounts, with potential penalties to FBC for not maintaining service quality. The changes to these aspects of the PBR Plan that the CEC would appear to be advocating for would amount to a material change to the PBR Plan and would undermine the incentives under PBR and are therefore outside the scope of this proceeding. FEI submits that there is no foundation for the CEC's concerns, which should therefore be rejected.

---

[34] Workshop Transcript, p. 75.

B. Load Forecast

31. ICG requests that there be a technical review of the load forecast in the next annual review.[35] FBC submits that the ICG has not established any need for such a technical review. As stated by Ms. Martin at the workshop:

> Well, it's our view that we haven't seen any evidence that we need to have a load forecast committee review. The last load forecast committee was struck for the 2012-2013 revenue requirements, and that really was the result of some deficiencies that were clearly identified in the 2011 load forecast. And the technical committee reviewed the forecasts. We think that those deficiencies were corrected and the methodology that we're currently using is, first of all, consistent with the corrections that were made to the methodology, and secondly, we're not really seeing any indication of any issues that we think the methodology needs to be changed for.
>
> And in addition, the load forecast, as you know, has you know, has two impacts on revenue requirements. One is the sales load impacting revenue and the second is the power purchase expense, both of which are flow through. We see flow through treatment under the PBR plan. So to the extent that there are variances in a load forecast, they are always trued-up in the following year.[36]

32. FBC's load forecast methodology is well-understood and continues to produce reasonable results. None of the interveners, including ICG, took issue with the results of FBC's demand forecast in their final submissions. Notably, overall, the gross forecasting accuracy for the past four years has been in the range of 0.65 percent to 2.6 percent. This is on par with the current industry benchmark of 1.5 percent on average.[37] Given these factors, FBC does not see any need for a technical review of the load forecast at this time. FBC submits that the existing annual review process, including an opportunity for information requests, discussion at the workshop and undertakings, provides a sufficient process for the review of the load forecast and that the ICG's request should be denied.

---

[35] ICG Submission, p. 4.

[36] Workshop Transcript, p. 103.

[37] Exhibit B-1-1, p. 13.

C. Power Supply

(a) The WAX CAPA Should Remain Confidential

33. ICG submits that customers should be given an opportunity to review WAX CAPA costs.[38] FBC submits that the ICG's request should be denied. The Commission has consistently upheld the confidentiality of the WAX CAPA and related analysis and costs as disclosure to the public or potential competitors could harm FBC's financial interests.[39] Specifically, the release of the WAX CAPA information to the public and, in particular, to potential competitors, could harm the competitive negotiating position of FBC with regard to the sale of surplus capacity, and therefore, cause adverse effects for customers. ICG has not provided any basis on which the Commission should change its consistent position on this matter.

34. FBC's Application and responses to information requests provide an overview of the WAX CAPA costs for review by all participants.[40] However, FBC requested confidential treatment of more detailed information, including a detailed breakdown of the variances between the Waneta Expansion cost in the 2015 Approved and 2015 Projection. As stated in FBC's response to BCUC IR 1.9.1:

> The remainder of this response is being filed confidentially as it contains commercially sensitive information on the WAX CAPA, which was determined to remain confidential pursuant to Order E-15-12, and the Capacity and Energy Purchase and Sale Agreement (CEPSA) with Powerex, which was determined to remain confidential pursuant to Order E-10-15, and if disclosed, could harm the competitive negotiating position of FBC with regard to the sale of surplus capacity, and therefore, cause adverse effects for customers.

In short, since FBC operates within a competitive environment, disclosure of the confidential cost information related to the WAX CAPA would prejudice FBC's ability to obtain favourable commercial terms in future contract negotiations or renegotiation of subsequent contracts,

---

[38] ICG Submission, p. 3.

[39] E.g., Commission Orders E-29-10, E-13-12 (with Reasons for Decision), E-15-12 and G-161-14.

[40] Exhibit B-1-1, pp. 30-31; Exhibit B-2, BCUC IR 1.9.1, 1.9.1.1, 1.9.1.2, 1.9.2, 1.9.3 and 1.9.4, for example.

which, in turn, will harm the FBC's customers.[41] There was no objection to FBC's request for confidential treatment of the WAX CAPA information and the Commission granted FBC's request by treating the information as confidential in this proceeding.

35. The Commission has consistently upheld the confidentiality of the WAX CAPA and related analysis and costs and rejected ICGs attempts to review the information.[42] Moreover, the Commission has already heard and rejected extensive submissions from ICG that ratepayers should have the opportunity to review the WAX CAPA.[43] As the Commission has previously concluded, disclosure of the details of these costs to the public and, in particular, to potential competitors, could reasonably be expected to result in undue material financial loss and significant harm and prejudice to FBC's competitive and negotiating position which outweighs the public interest in its disclosure.[44] Nothing has changed which would warrant a change to this conclusion.

36. All details of the WAX CAPA costs have been provided to the Commission for full review in this proceeding, which FBC submits is sufficient for the review of the WAX CAPA costs. FBC therefore submits that the WAX CAPA cost information was properly granted confidential treatment and that ICG's request should be denied.

D. O&M Expense

37. In the section below, FBC replies to the submissions of COPE with respect to FEI's and FBC's initiative to use FEI contact centre employees to respond to FBC customer calls during times of peak demand. FBC notes that COPE has referenced evidence from the FEI proceeding liberally in supporting its argument. In light of COPE's heavy reliance upon the FEI workshop transcript in its submissions regarding FBC, FBC is required to make reference to the

---

[41] Exhibit B-2, BCUC IR 1.10.4.

[42] Commission Orders E-29-10, E-15-12 and G-161-14. FBC notes that in Appendix A of Order G-161-14, the Panel concluded that Celgar, a member of ICG, could reasonably be expected to be a potential competitor in regards to the Residual Capacity Agreement capacity.

[43] Commission Order E-13-12 and Reasons for Decision.

[44] Appendix A to Order G-161-14.

FEI workshop transcript and undertaking responses in order to properly respond to COPE's submissions.

(a) COPE Submissions regarding Training and Use of CSRs to answer FBC Calls Are without Merit and Should Be Rejected

38. COPE's submissions with respect to FEI's training and use of its customer service representatives (CSRs) to respond to FBC calls have no merit. FEI's efforts in this regard are an efficient and effective use of resources, reduce costs for both FEI and FBC, and increase service levels for FBC. Further, the costs are fairly and accurately accounted for and allocated between the utilities. FBC submits that this program is consistent with the incentives of PBR for FBC and FEI to reduce costs and beneficial to both FBC and FEI customers. FBC replies in detail to COPE's submissions below.

The Program was Described in FBC's Annual Review for 2015 Rates

39. COPE asks: "Why did neither of these utilities alert the Commission and Interveners to the existence of this new cross-utility service".[45] In fact, the program to use FEI contact centre employees to answer FBC calls was discussed in FBC's Annual Review for 2015 Rates. First, in response to CEC IR 1.38.2,[46] FBC stated:

> In addition, FBC has adjusted its resourcing strategy to handle larger peak volumes in the future if they occur unexpectedly. First, FBC has hired more temporary staff in December 2014. The hours of other part time and temporary staff were reduced so that overall FTE levels remain stable, but there now exists more capacity available to extend hours if more than expected call volumes occur. Second, a group of CSRs in the Prince George contact centre has been trained to answer electric calls, and may do so if required. This will be helpful in large outage situations or if FBC experiences high absence rates in the electric contact center. [Emphasis added.]

40. At FBC's workshop on April 1, 2015, FBC also discussed the plans as follows:

---

[45] COPE Submission, p. 9.

[46] FBC Annual Review for 2015 Delivery Rates: Exhibit B-3.

> In addition, we also made additional changes to our staffing model to create some more capacity in the future. An example of this is we trained some representatives in Prince George from our gas operations, to handle electric calls. Although these changes would not have been able to accommodate the doubling of volumes that we saw, it would create more capacity in the future to handle larger spikes than we could I the past.[47]

41. FBC notes that the cost of this program is between $500 and $3,000 per month.[48] FBC does not believe it has a duty to bring forward such small cost efficiencies for review in the context of PBR.

The FEI employees are Trained Appropriately

42. COPE makes various assertions about the training of the FEI employees, stating, e.g., that "the utilities are making no effort to determine whether this truncated training program is truly sufficient" and that FEI has "thrown the eighteen FEI employees currently in this program in to the deep end of the FBC pool without checking to see if they can swim."[49] COPE's comments are without any foundation in the evidence. As set out below, the evidence is clear that the FEI CSRs are trained appropriately.

43. FBC confirmed that each FEI CSR who is taking electric calls has received approximately 24 hours of training.[50] FBC described the training provided as follows:

> FEI provides its customer service staff the same training that FBC has been using for ten years to onboard new employees in order to prepare them to handle electric customer service calls. This training has been shortened to account for skills and knowledge common between the two operations and therefore already familiar to gas customer service representatives. This training takes four days (or 24 hours) to complete and is usually done with five to ten representatives at a time.[51]

---

[47] Transcript of Workshop for FBC Annual Review of 2015 Delivery Rates, at p. 119, ll. 2-10. Available on the Commission's website at: http://www.bcuc.com/ApplicationView.aspx?ApplicationId=482.

[48] FEI Workshop Transcript, p. 105.

[49] COPE Submission, p. 6-7.

[50] Exhibit B-6, COPE IR 1.12.13.

[51] Exhibit B-6, COPE IR 1.12.11.

44. Ms. Mehrer also explained that the FEI employees are in a dedicated training environment for several weeks.[52] As explained in FEI's response to undertaking #3 from the workshop, being in the dedicated training environment ensures that the FEI employees have easy access to the trainer if they require assistance:

> Of the 18 FEI customer service representatives who take calls for FBC, 11 currently take both gas and electric customer service calls at their regular desk without moving. The remaining 7 are still within a training period and are therefore relocated to a training room during times that they are scheduled to be available to take electric calls, to ensure that they have easy access to the trainer if they require it. Once the training period has passed, these 7 customer service representatives will be able to take both gas and electric service calls at their regular desks without moving.[53]

45. The evidence (in each and both of the respective FBC and FEI proceedings) is therefore clear that the 18 FEI employees, who are already trained FEI CSRs, are provided an appropriately modified version of the training that has been used to train FBC employees for the past ten years and are provided the support of being in a dedicated training environment with access to a trainer.

46. In short, all of the evidence on the record supports the conclusion that FEI's employees taking FBC calls have been appropriately trained. There is no evidence to support any of COPE's assertions to the contrary. FBC submits that COPE's submissions in this regard must be rejected.

The Program is a Success

47. COPE asks how FBC can characterize this program as a success, stating that there "is no concrete evidence that this in the best interest of FBC ratepayers."[54] Contrary to COPE's statements, FBC submits that all of the evidence supports the conclusion that the program is a success and in the best interest of both FBC and FEI ratepayers.

---

[52] FEI Workshop Transcript, p. 104, ll. 10-15 (Ms. Mehrer).

[53] FEI Exhibit B-13, Response to Workshop Undertaking #3.

[54] COPE Submission, p. 7.

48. As stated in FBC's response to a COPE IR, as of September 23, 2015, there are 18 FEI employees trained to take electric customer calls. These employees are called upon when the electric queues require additional support to reduce wait times for customers and when the gas queues are slow enough to support it. This initiative takes advantage of slower periods of call volume for the gas operations where previously there would have been idle time for FEI staff. That idle time is now being used to support the electric operations, which is then charged for the service, creating efficiencies in both operations.[55]

49. As also indicated by FBC in response to a COPE IR, it is significant that the FEI employees take FBC calls during FBC's peak volume times and therefore have had a positive impact on FBC service levels and have resulted in reduced wait times for FBC customers during those busy periods. Without this support during peak times, FBC would be required to carry a higher headcount of staff, scheduled for a minimum of four hour shifts and would therefore incur costs higher than those identified above. The result is that FEI can make use of idle time between busy periods and charge that service to FBC and FBC can utilize that service on an as needed basis, resulting in savings for both FEI and FBC customers.[56]

50. Ms. Mehrer described the success of the program to date as follows:

> The initial project was a pilot. We wanted to insure we could use the response in a way that wouldn't affect the quality or availability of staff for FEI customers, and we wanted to ensure that the skillsets that FEI had were a good match for the FBC calls and monitor our quality and first contact resolution.
>
> We tried it for about three months and it was very successful and was very useful in reacting to changes in customer need during outages or during high peak call volume times on our electric operations. So it's now part of normal operations, and something we intend to continue and grow as we go forward.[57]

---

[55] Exhibit B-6, COPE IR 1.12.6; Workshop Transcript, p. 111, ll. 1-9.

[56] Exhibit B-6, COPE IR 1.12.7.

[57] FEI Workshop Transcript, pp. 81, l.2 - p. 82, l. 7 (Ms. Mehrer).

51. Ms. Mehrer also explained that service levels are monitored and managed dynamically[58] and that there has been no reduction in service quality.[59]

52. COPE asserts that FEI cannot claim that the program is a success if it is not tracking the individual service quality of the 18 FEI employees.[60] While the particular measures that FEI takes to ensure that individual CSRs provide an appropriate level of customer service quality were not explored in this proceeding, there is no evidence that there have been any issues with individual CSR service quality. To the contrary, the 18 FEI CSRs are fully trained and there is no reason to believe or even suspect that their performance would be any worse than a CSR employed by FBC. In FBC's submission, COPE's submission that there should be concern about the service quality of the FEI CSRs should be rejected.

53. In summary, the program is an efficient and effective use of resources that results in lower costs for both FBC and FEI and higher service levels for FBC customers. In FBC's submission, the evidence is clear that the program is a success and in the interest of both FBC and FEI customers.

The Allocation of Costs by Interaction is Fair and Accurate

54. COPE argues that FEI's allocation of costs for the services provided to FBC results in an overcharge to FBC and cross-subsidization of FEI.[61] As discussed below, COPE's position is in error. Contrary to COPE's view, the evidence clearly demonstrates that FEI has adopted a fair and accurate cost allocation method that does not result in cross-subsidization.

---

[58] FEI Workshop Transcript, p. 84, ll. 14-17 and ll. 20-25 (Ms. Mehrer).

[59] FEI Workshop Transcript, p. 82, ll. 13-15 (Ms. Mehrer).

[60] COPE Submission, p. 7.

[61] COPE Submission, pp. 7-9.

55. To recover the costs of training time and calls answered for FBC, FEI tracks both training hours and call volumes answered, and charges FBC for the costs of these services through the Company's intercompany allocation process.[62]

56. FEI uses a cost per interaction to charge FBC for the FBC calls that its CSRs answer.[63] As explained by Ms. Mehrer in the FEI Workshop, the cost per interaction is calculated using the total costs for the contact centre, divided by the total number of calls that were handled:

> So the cost per interaction is calculated using all of the contact centre costs, the labour costs, the phone costs, everything that goes into the contact centre, and divided it by the total number of calls that were handled. So because we didn't have people working in isolation to track hours to, when they're taking these calls, we decided to use the cost per interaction. And it changes month by month depending on the volumes that we see, depending on how much overtime we might have, and all of those things. So the cost per interaction does fluctuate seasonally, and so we've charged it based on the monthly average. We feel like it's a more accurate representation of their portion of the contact centre costs for that month.[64]

57. Ms. Mehrer explained the calculation again at the FBC workshop:

> So, what we are attempting to do in the cost per interaction charge that we are giving to FortisBC is determine what portion of the overall costs of the FEI contact centre were used for the benefit of FortisBC customers. And those costs vary from month to month, in any given month for the contact centre. It's not a static cost. So, and so do the volumes that we are doing for FortisBC.
>
> So, the cost per interaction is meant to be a calculation of FortisBC's allocation of the overall cost.[65]

58. FBC submits that there are many acceptable methods to allocate costs, including using timesheets or the well-known Massachusetts method.[66] Generally, the appropriate

---

[62] Exhibit B-6, COPE IR 1.12.8.

[63] Exhibit B-6, COPE IR 1.12.7. FBC provides the monthly volumes (number of calls) and cross charges for the period of January to August 2015

[64] FEI Workshop Transcript, p. 102, l. 19 to p. 103, l. 7 (Ms. Mehrer).

[65] Workshop Transcript, p. 109, l. 23 - p. 110, l. 7 (Ms. Mehrer).

method depends on the cost driver that is most relevant to the particular cost being allocated. In the case of the contact centre, FEI has identified the number of interactions as the relevant cost driver and has allocated costs accordingly. FBC submits that this is a reasonable and accurate method of allocating costs in this case.

59. COPE states that this is an "unacceptable billing model" and "these cross-service charges to FBC load in many costs that have nothing to do with providing FBC customers with service but rather costs incurred in the service of FEI customers."[67] Contrary to COPE's position, FEI would be cross-subsidizing FBC if it did not charge FBC an appropriate allocation of the costs of the contact centre. FBC is not only receiving the benefit of the time of the individual employees, but the benefit of FEI's contact centre facilities and equipment and all the other costs of the contact centre employees. It is reasonable and appropriate that FBC bear a proportionate share of these costs. The number of interactions is clearly a cost driver of the contact centre costs and therefore an appropriate basis on which to allocate those costs. FBC submits that FEI is employing a reasonable method which allocates the appropriate share of contact centre costs to FBC.

60. COPE states that Ms. Mehrer admitted at the FEI workshop that time sheet tracking is "more accurate"'.[68] Mr. Mehrer in fact stated that time sheet tracking was more accurate for training costs:

> ...now, with the training, because they're in a dedicated training environment for several weeks, for that we use time sheets because it's practical to track it that way and it's more accurate.[69]

61. Ms. Mehrer clearly indicated her belief that cost per interaction is accurate: "I believe that the way we've tracked it is an accurate representation of the costs and a fair representation for both FEI and FBC customers."[70]

---

[66] E.g., see Workshop Transcript, p. 107, ll. 7-15.

[67] COPE Submission, p. 8.

[68] COPE Submission, p. 8.

[69] FEI Workshop Transcript, p. 104, ll. 11-15 (Ms. Mehrer).

62. COPE also states that at the FEI workshop Ms. Mehrer "attempted to justify the impact of this inaccurate costing by characterizing it as *de minimis*".[71] First, Ms. Mehrer never stated that cross charges were inaccurate, but stated the opposite, namely that they were fair and accurate.[72] Second, Ms. Mehrer was reasonably pointing out that the costs of the program are immaterial such that changing the allocation methodology would not have a significant impact:

> And keeping in mind that for the number of calls for FEI, about 99.7 percent of the calls are for FEI customers and .3 that we're taking are for electric. So, using a different allocation methodology wouldn't have any significant impact on whatever FEI is incurring. With the costs being between, you know, 500 and 3,000 dollars a month.[73]

63. FBC notes in this regard that if tracking by the minute were used, as suggested by COPE, the rate charged for that time would have to reflect the total costs of the contact centre. There is no evidence or compelling reason to believe that changing the allocator to time spent on the phone would be a more accurate allocation of costs or even result in a different allocation than FEI's chosen allocator of interactions. However, as noted by Ms. Mehrer, tracking by the minute would cost significantly more than the actual value of the costs themselves.[74] There can be no reasonable basis to adopt an allocation method that would cost more to employ than the costs being allocated, and that would not provide a more accurate or materially different allocation of costs than the alternative.

64. Contrary to COPE's submission, the evidence shows that the costs of the FEI program to train and use its contact centre employees to assist in responding to FBC calls during peak times are fairly and accurately allocated between the utilities.

---

[70] FEI Workshop Transcript, p. 106, ll. 4-7 (Ms. Mehrer).

[71] COPE Submission, p. 5.

[72] FEI Workshop Transcript, p. 106, ll. 4-7 and 19-23 (Ms. Mehrer).

[73] FEI Workshop Transcript, p. 105, ll. 18-22 (Ms. Mehrer).

[74] FEI Workshop Transcript, p. 103, ll. 4-10 (Ms. Mehrer).

E. Deferral Accounts

(a) The Approved Use of Deferral Accounts Should Be Maintained

65. ICG requests that the Commission establish a process to further consider the use of deferral accounts in BC[75] and proposes that, instead of recovering external costs of regulatory proceedings in deferral accounts, FBC should have to forecast these costs and manage them to a budget with no true-up. FBC submits that ICG's 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. Furthermore, the treatment of variances for costs outside the formula has already been determined under the PBR Plan and a change in deferral account treatment would not be appropriate while FBC is under PBR.

66. As ICG acknowledges, the topic of the use of deferral accounts for regulatory proceedings was considered in FBC's Annual Review for 2015 Rates and the Commission confirmed its consistent practice of approving deferral accounts for external costs related to regulatory proceedings. The Commission stated in the Reasons for Decision for Order G-107-15:

> The Panel approves the establishment of the Residual Capacity Agreement Tariff 1 Supplement 10 & Rate Schedule 111 deferral account and the 2015 – 2016 DSM Plan Application deferral account. Both deferral accounts must be financed at FBC's short term interest rate, amortized in 2015, and subsequently closed. These deferral accounts are to recognize costs, which are external to FBC, such as legal fees, Commission expenses and intervener funding. Therefore, the Panel finds it reasonable to recover these costs through the deferral mechanism.
>
> …
>
> The Panel agrees with FBC that the preparation of an LTERP precipitates incremental expenditures that may fall outside of Base O&M. The Panel further

[75] ICG Submission, pp. 2-3.

> agrees that establishment of a deferral account as requested by FBC is a reasonable treatment for these types of expenditures.[76]

67. FBC's request for deferral accounts in the current Application is consistent with approvals granted by the Commission above and in previous proceedings. The approval of deferral accounts for external costs of regulatory proceedings is a long-standing practice which has recently been considered and approved again by the Commission. Nothing has changed since Order G-107-15 was issued earlier this year that would necessitate the need for the Commission to further review or change this practice.

68. Further, the Commission's long-standing practice is based on a sound rationale, as the types of costs in regulatory deferral accounts are appropriately subject to deferral treatment. As FBC has noted in response to information requests, the costs associated with regulatory proceedings, which include Commission costs and PACA funding, legal and consulting fees and miscellaneous external costs such as facility rentals, supplies and postage, are dependent on the nature of the application, the process determined by the Commission for its review, and the degree of participation by interveners. The costs of regulatory proceedings are therefore outside of the Company's control, vary from year to year and cannot be accurately forecast for rate setting purposes. For these reasons, the consistent practice of recovering these costs through the amortization of deferral accounts is appropriate.[77]

69. FBC therefore disagrees with ICG's assertion that FBC has "considerable influence" over external regulatory cost. The ICG provides no support for its position. FBC's lack of control of these costs is apparent, for instance, from the fact that the scope of regulatory processes is determined by the Commission and the level of involvement of interveners is controlled by interveners. Regardless of the level of FBC control over these costs, these external costs vary from year to year and cannot be accurately forecast for rate setting

---

[76] Appendix A to Order G-107-15, pp. 8-9.

[77] Exhibit B-2, BCUC IR 1.21.1.

purposes. Deferral account treatment is therefore appropriate for external costs of regulatory proceedings.

70. The ICG's position also appears to be made in ignorance of the treatment of O&M outside the formula under the PBR Plan. ICG's states that "a determination of whether an expenditure falls within or outside the PBR formula, (ie Base O&M), is not relevant to the determination of whether the expenditure should fall inside or outside a deferral account"[78] and that under its proposal 'there would be no "true up" to actuals'.[79] In fact, the PBR Plan dictates that all costs outside of the formulaic O&M and Capital are subject to deferral treatment through the operation of the Flow-through deferral account.[80] Thus, if FBC were to forecast its external regulatory proceeding costs outside of the formulaic O&M and Capital, these costs would be captured in the Flow-through deferral account and trued-up to actuals in the following year. If ICG is requesting a change to this treatment, then the ICG is requesting a material change to the PBR Plan which is a request for reconsideration of the PBR Decision and outside the scope of this proceeding.

71. Further, given the existence of the Flow-through deferral account as approved in the PBR Decision, there is no benefit to forecasting external costs of regulatory proceedings outside of the formulaic base. Rather, capturing the costs in a deferral account allows for more transparency as the history of the costs is simpler to track and report on. Including costs in the larger O&M and Flow-through accounts would reduce visibility and introduce a source of variability into the Company's O&M costs. Further, since the Flow-through deferral account is only in existence for the term of the PBR, it is more straight forward to continue with a regulatory practice that works whether it is in PBR or not.[81]

---

[78] ICG Submission, p. 2.

[79] ICG Submission, p. 3.

[80] Exhibit B-1-1, p. 105; Commission Order G-163-14.

[81] Exhibit B-2, BCUC IR 1.21.5.

72. In addition to the fact that ICG's proposal is inconsistent with the long-standing and well-reasoned practice of FBC and the Commission as well as the terms of the PBR Plan, FBC notes the following disadvantages of ICG's proposal to forecast external costs of regulatory proceedings outside the formulaic O&M and Capital without any true-up:

- The existing practice allows the external cost of regulatory proceeding to be amortized over the period over which the regulatory applications relate, thus supporting the accounting matching principle between cost and benefit. The ICG's proposal would not allow this to occur and therefore the costs would no longer be aligned with the timing of the associated benefits.

- Requiring FBC to forecast these costs would increase regulatory costs and burden as the forecasts would be extremely uncertain and difficult to verify, leading to continual disputes in regulatory proceedings about forecast methodology and amounts. As the forecasts of these costs would be uncertain, the continual debate over forecasts is unlikely to improve the forecast or achieve any benefits.

- As FBC does not have control over the costs, there would no benefits in terms of increased incentive on FBC to attempt reduce costs.

- As external regulatory proceeding costs could not be forecast accurately, attempting to account for the incremental costs of regulatory proceedings in O&M Expense would expose customers and shareholder to considerable variability against forecasts. This would be undesirable from the perspective of customers as large variances below forecast may be recovered in rates. From the perspective of the utility it would also be unfair. The external costs of regulatory proceedings are a necessary component of the regulatory process that ensure a sufficient review of applications by the Commission and interested parties; FBC's recovery of prudent costs of this nature should not be limited to a forecast which cannot be made accurately.

73. In summary, the PBR Plan approved by the Commission, combined with the accepted and long-standing practice of using deferral accounts for external cost of regulatory proceedings, provide for a comprehensive treatment of variances and deferrals. As such, any change to the use of deferral accounts would likely require a material change to the PBR Plan which is outside the scope of this proceeding. It is submitted that the ICG has not identified any compelling reason to make such a material change and ICG's alternative proposal for treatment of external costs of regulatory proceedings is inferior to the current practice for numerous reasons as explained above. The ICG's proposals should therefore be denied.

(b) Capacity and Energy Purchase and Sale Agreement (CEPSA) Deferral Account

74. BCOAPO submits that the CEPSA deferral account should not be approved on the basis that FBC did not apply for this account as part of the CEPSA application and instead after it was approved.[82] ICG submits that the CEPSA deferral account should not be approved in part on the basis that it is "after the fact".[83] FBC submits that its request for the CEPSA deferral account is reasonable, consistent with past practice and should be approved as filed.

75. As discussed above, it is a long-standing practice to recover the external costs of regulatory applications in deferral accounts. It is therefore well known to all participants that the external costs of regulatory proceedings are not included in FBC's forecasts, but instead captured in deferral accounts. It is also FBC's general practice is to seek approval of deferral accounts for all non-CPCN regulatory applications in its revenue requirement proceedings. The practice is beneficial and appropriate as it provides transparency to all parties as deferrals are considered in a single application and can be reviewed and approved on a consistent basis. FBC's practice allows the rate impacts of all deferral accounts and components of the revenue requirement to be reviewed together and also provides the opportunity for a consistent group of interveners to participate in that review.

---

[82] BCOAPO Submission, paras. 120-121.

[83] ICG Submission, pp. 2-3.

76. FBC's practice may mean that from time to time FBC applies for a deferral account to recover some costs that have already been incurred earlier in the year. The timing of the application for approval of the deferral account does not impact the recovery of costs or have any negative impacts to customers. As the use of a deferral account ensures that only the actual costs are recovered through rates, the timing of the request for approval of the account is not a factor in the quantum and nature of the costs captured in the deferral account or the timing of when those amounts are recovered from customers.[84] Specifically, whether applied for before or after costs begin to be incurred, the recovery of the costs in the deferral account only affects rates prospectively as the costs will be recovered in future rates once the balance in the account is finalized and approved by the Commission for recovery in rates.

77. The Commission has consistently approved deferral accounts that FBC has applied for after costs began to be incurred. Most recently, FBC's Residual Capacity Agreement Tariff Supplement 10 and Rate Schedule 11 and 2015-2016 DSM Plan Application deferral accounts were applied for in FBC's Annual Review for 2015 Rates after costs were incurred.[85] Both deferral accounts were approved in Order G-107-15 and no issue was raised with respect to the timing of the application for the accounts.

78. In summary, FBC submits that the existing practice of from time to time applying for and approving deferral accounts after costs have begun to be incurred is a reasonable approach as it does not have any impact on the recovery of costs in the accounts and also facilitates the transparent and consistent review of deferral accounts in FBC's revenue requirement proceedings. Whether the application for the deferral account is made before or after costs begin to be incurred, only the actual costs are recovered from customers on a prospective basis. FBC therefore submits that the CEPSA deferral account should be approved as filed.

---

[84] Exhibit B-2, BCUC IR 1.21.1.

[85] FBC 2014 Annual Review for 2015 Rates, p. 86.

(c) 2017 Rate Design Application (RDA) Deferral Account

79. ICG asserts that if deferral account treatment is given for the 2017 RDA then "there is an incentive for FBC to do more work with external consultants especially during the PBR Plan."[86] FBC denies that there is any such incentive or opportunity for FBC to shift costs from its Base O&M to the 2017 RDA deferral account. The external costs to be recorded in this account in 2016 will primarily be related to consultant costs and participant funding associated with stakeholder workshops, but will also include other items such as public notification, facility rental, and miscellaneous incremental expenses. The 2017 costs will also include external legal fees, Commission fees and participant funding.[87] These categories of costs are not included in FBC's Base O&M, but are incremental costs required for the 2017 RDA. Actual costs will be recorded in the deferral account and will be subject to review prior to disposition of the account.

80. ICG also states that it believes that the 2017 RDA Deferral Account should be based on FBC's short-term interest rate.[88] FBC proposed to finance this account based on its weighted average cost of debt (WACD) based on the account financing principles set out in Commission Order G-110-12 regarding FBC's 2012-2013 RRA, which were upheld recently PBR Decision. As stated on page 105 of the 2012-2013 RRA Decision:

> For expenditures which are amortized beyond one year, the Panel finds that the appropriate return is FortisBC's WACD. The Panel further finds that for true-up deferral accounts which are, by their very nature, a short term deferral, the appropriate interest return is FortisBC's short term interest cost.

81. ICG provides no support for its request that the 2017 RDA Deferral Account be financed based on FBC's short-term interest rate, or why the principles set out in the Commission's previous orders should not be followed. FBC submits that the ICG's request is without any foundation in evidence or analysis and must be rejected.

---

[86] ICG Submission, p. 3.

[87] Exhibit B-2, BCUC IR 1.22.2 and 1.22.3.

[88] ICG Submission, p. 2.

(d) Celgar Interim Period Billing Adjustment Account

82. BCOAPO notes that, in the Evidentiary Update, FBC requested a new Celgar Interim Period Billing Adjustment deferral account to capture the interim billing adjustment to Celgar.[89] As explained in the cover letter to FBC's response to the undertaking from the workshop, after discussion with Commission staff regarding the appropriate proceeding in which to request approval of the Celgar Interim Period Billing Adjustment deferral account, FBC has withdrawn its request for approval of the deferral account from this proceeding.[90]

(e) Celgar Rate Adjustment

83. BCMEU submits that it is concerned with the manner in which the rate adjustment due to the settlement with Celgar has been resolved between Celgar and FBC through negotiation.[91] The manner in which the settlement was obtained is consistent with the Commission's direction in Order G-149-15.[92] Further, as the BCMEU notes, there will be further process which will allow customers to understand and comment on the resolution of the dispute.

(f) Radio-Off Cost Recovery Should Not Be Recovered in a Deferral Account

84. In BCUC IR 1.12.4, the question was raised as to whether the shortfall in Radio-off cost recovery should continue to be recovered from all customers or captured in a deferral account for recovery from radio-off customers alone. As FBC explained in response to the IR, the amounts that would be deferred in 2015 and 2016 are estimated at $0.168 million and $0.392 million, respectively, for a total of $0.560 million which could be recovered through future meter read fees from radio-off customers. The 2016 tariff revenue for radio-off meter reading for a forecast 1,965 customers is estimated to be $0.212 million.[93] The implication is

---

[89] BCOAPO Submission, pp. 33-34; Exhibit B-1-2, p. 2.

[90] Exhibit B-13.

[91] BCMEU Submission, p. 1.

[92] Exhibit B-1-2, p. 2.

[93] Exhibit B-2, BCUC IR 12.5.

that recovery of these deferred amounts from future radio-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.[94]

85. BCOAPO submits that it does not support such a proposal.[95] 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.

F. Financing and Return on Equity

(a) Determination of how the ROE for FBC is Set is Outside the Scope of this Proceeding

86. The CEC submits that it is satisfied with the calculations relating to financing and return on equity and recommends that the Commission approve Financing and Return on Equity as presented in the Application and Evidentiary Update. However, the CEC "recommends that when the Commission determines the appropriate ROE for FEI that it not necessarily update the ROE for FBC, but instead apply its judgment as to how any risk adjustments are reflected in FBC's overall risk."[96] As the CEC appears to acknowledge in the above quoted passage, determining FBC's ROE is beyond the scope of this proceeding. 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 affected by an adjustment to the benchmark ROE.

(b) Rate Changes as a Result of Cost of Capital Proceeding

87. BCMEU's submission states its desire that all rate changes that occur during the year be dealt with at the annual review such that one rate increase is passed through, if

---

[94] Exhibit B-2, BCUC IR 12.4.

[95] BCOAPO Submission, para. 37.

[96] CEC Submission, paras. 48 and 49.

needed.[97] BCMEU asks that any rate change as a result of the cost of capital proceeding be deferred to 2017 to avoid further midyear rate changes.[98] ICG similarly requests that the rates be made permanent as of January 1, 2016 and that any increase in the FBC cost of capital effective January 1, 2016 be the subject of recovery in future rates. As set out below, FBC supports these requests subject to a deferral account being approved to capture the impact of the cost of capital decision on FBC's rates from January 1, 2016 forward.

88. FBC proposed interim rates effective January 1, 2016, pending the outcome of FEI's current cost of capital proceeding.[99] The approval of interim rates will allow the Commission to adjust FBC's return on equity back to January 1, 2016. An alternative approach would be to approve permanent rates effective January 1, 2016, and also approve a deferral account to capture the impact of the 2016 cost of capital decision. FBC supports this alternative approach, which would be consistent with the requests of BCMEU and ICG set out above, and also consistent with the approach taken for the last change to FBC's ROE. Specifically, to capture the financial effect of the last change to the ROE, the Commission approved in the PBR Decision a GCOC Revenue Requirements Impact deferral account.[100] FBC supports a similar account being approved in this proceeding.

(c) Not Necessary to Update Interest Expense

89. BCOAPO submitted that updated interest expense should be incorporated into future compliance filings.[101] In FBC's view the requested adjustment is not necessary for the reasons explained in the response to BCOAPO IR 1.16.3, which is reproduced below for ease of reference:[102]

---

[97] BCMEU Submission, p. 2.

[98] BCMEU Submission, p. 2.

[99] Exhibit B-1-1, p. 2.

[100] PBR Decision, p. 227.

[101] BCOAPO Submission, para. 89.

[102] Exhibit B-3, BCOAPO 1.16.3.

> Using the latest forecasts from Canadian Banks would result in an estimated 30 year new issue rate of 4.0% for 2015, and 4.3% for 2016. This results in a decrease in expected issuance rate of 0.10% for 2015, and 0.30% in 2016 from the previous forecast. These changes are within the typical range of 30-year yield variance in a given month, and do not represent a significant change in market outlook. This change in the underlying Government of Canada yield would result in a decrease to the forecast 2016 interest on long-term debt of approximately $63 thousand from the forecast of $36.587 million, as shown on line 1, page 93, Schedule 26, Section 11 of the 2016 Rate Filing, to an updated 2016 long-term debt interest forecast of $36.524 million.
>
> Based on the latest 3-month T-bill forecasts, short term interest rates in 2015 would remain unchanged while 2016 rates would decrease by 0.20%. This change is also within the range of expected variance in a given month, and does not represent a significant change in market outlook. This change in the underlying 3-month T-bill forecasts would result in a decrease to the forecast 2016 interest on short-term debt of approximately $176 thousand from the forecast of $2.331 million, as shown on line 2, page 93, Schedule 26, Section 11 of the 2016 Rate Filing, to an updated 2016 short-term debt interest forecast of $2.155 million.
>
> Combined, the decrease in interest expense of $239 thousand would reduce the rate increase by less than 0.1 percent. Given the rate impact, the fact that any variances will be captured in the Flow-through deferral account, and that the forecasts will continue to change, FBC does not propose to update its financial schedules.

90. FBC therefore submits that no change is required.

G. Taxes

91. While CEC recommends that the Commission approve the forecast Taxes as presented in the Application and Evidentiary Update,[103] it submits that the Commission should seek clarification from FBC as to the consistency between the Revenue Deficiency Summary and the Workshop materials.[104] The requested clarification is addressed below under Accounting Matters.

---

[103] CEC Submission, para. 53.

[104] CEC Submission, paras. 5 and 50.

H. Earnings Sharing

92. CEC submits that it sought to identify the cost components of the $10.649 million in Capital Expenditures tracked Outside of Formula and was not able to reconcile the figure with other figures in the Application. The CEC sought a reconciliation of this figure from FBC.[105] The requested clarification is addressed below under Accounting Matters.

I. Accounting Matters

(a) Reconciliation of Summary of Revenue Deficiency to Schedule 1

93. The CEC indicates that it could not reconcile the impact of the revenue deficiency due to the depreciation and amortization expense and tax expense as shown in the Summary of Revenue Deficiency slide of the Workshop Presentation with Schedule 1 of Section 11 of the Evidentiary Update and notes other discrepancies in Schedule 1.[106] The CEC recommends that the Commission require FBC in the future to "provide improved clarity and matching of key information in future application to facilitate efficient review by interveners and others."[107] FBC provides a reconciliation below and will also provide a reconciliation in future annual reviews.

94. As shown in the table below, the numbers in the Application and workshop slides can be reconciled. The source of the CEC's confusion would appear to be that in order to show the earnings sharing separately on the Summary of Revenue Deficiency slide, the amortization and the tax related to the earnings sharing were taken out of the applicable lines on Schedule 1. Furthermore, FBC has discovered two offsetting errors in Schedule 1 related to CIAC, which are noted in the table below. The following table provides a reconciliation between Schedule 1 and the Summary of Revenue Deficiency slide, noting corrections to Schedule 1:

---

[105] CEC Submission, paras. 6 and 56.

[106] CEC Submission, paras. 3 to 8, 50, 56 and 65-72.

[107] CEC Submission, para. 8.

Table 1: Reconciliation between Schedule 1 and the Summary of Revenue Deficiency Slide

Depreciation Study Reconciliation	**($ millions**
Amount per Summary of Revenue Deficiency (Exhibit B-12, FBC Workshop Presentation)	**$ (3.0)**
Schedule 1, Line 15: Depreciation Rate Change (Depr Study)	$ (3.7)
Schedule 1, Line 19: CIAC Rate Change (Depr Study)[1]	0.8
Total per Schedule 1 of Evidentiary Update Financial Schedules	**$ (3.0)**

Depreciation and Amortization - Other Reconciliation	**($ millions**
Amount per Summary of Revenue Deficiency (Exhibit B-12, FBC Workshop Presentation)	**$ 2.3**
Schedule 1, Line 16: Depreciation from Net Additions	$ 2.7
Schedule 1, Line 20: CIAC Amortization from Net Additions[1]	(0.6)
Schedule 1, Line 21: Amortization of 2005 Rate Stabilization Adjustment	(0.3)
Schedule 1, Line 22: Deferral Amortization	0.1
Amortization of Earnings Sharing Account (embedded in Schedule 1, Line 22)[2]	0.3
Total per Schedule 1 of Evidentiary Update Financial Schedules	**$ 2.3**

Taxes Reconciliation	**($ millions**
Amount per Summary of Revenue Deficiency (Exhibit B-12, FBC Workshop Presentation)	**$ 1.8**
Schedule 1, Line 30: Property and Other Taxes	$ 0.1
Schedule 1, Line 31: Other Income Tax Changes	1.6
Tax Expense Impact of Amortization of Earnings Sharing Account (embedded in Schedule 1, Line 31)[3]	0.1
Total per Schedule 1 of Evidentiary Update Financial Schedules	**$ 1.8**

2015 Earnings Sharing Reconciliation	**($ millions**
Amount per Summary of Revenue Deficiency (Exhibit B-12, FBC Workshop Presentation)	**$ (0.4)**
Amortization of Earnings Sharing Account (from Depreciation and Amortization - Other Reconciliation)[2]	$ (0.3)
Tax Expense Impact of Amortization of Earnings Sharing Account (from Taxes Reconciliation)[3]	(0.1)
Total per Schedule 1 of Evidentiary Update Financial Schedules	**$ (0.4)**

Notes:

[1] - Schedule 1 incorrectly shows $(0.8) for CIAC rate change when the amount should have been $0.8. Schedule 1 also incorrectly shows $1.0 for CIAC from Net Additions when the amount should have been $(0.6). In total these two Schedule 1 amounts equal $0.2, which is the same as the total of these two lines as shown above.

[2] - $0.3 million amortization of Earnings Sharing Account shown on Schedule 12, Line 21, Column 6

[3] - $0.3 million amortization / (1 - 26%) x 26% = $0.1 million

95. FBC will file updated and corrected schedules in its compliance filing in this proceeding. As requested by the CEC, in its future annual review applications, FBC will provide a reconciliation between the contributors to the revenue deficiency and the financial schedules for ease of reference by the Commission and interveners.

(b) Reconciliation of Pension and OPEB Expense in the Earnings Sharing Calculation

96. In paragraphs 6 and 56 of its submission, the CEC requests a reconciliation of "$10.649 of capital expenditures tracked outside the formula" to the calculation of the Earnings Sharing amount. CEC is not able to do the reconciliation it desires because the $10.649 million figure identified by the CEC is not the capital expenditures tracked outside the formula. Instead, as identified in line 23 of the Earnings Sharing calculation,[108] $10.649 million is the cumulative pension and OPEB amounts related to the formula capital, but tracked outside the formula and therefore not subject to earnings sharing. FBC provided the breakdown of the cumulative pension and OPEB amount by year ($4.253 million in 2015 and $6.396 million in 2014) in its response to BCUC IR 1.18.2.[109] The calculation of the earning sharing amount is shown in Table 10-2 of the Application. As indicated in FBC's response to BCUC IR 1.18.3, FBC will show annual and cumulative expenditures and calculations in future applications.

(c) Net Salvage

97. BCOAPO submits that the proposed change in FBC's practice of recovering net salvage should not be approved, or should at least be held off to the end of the PBR period and the resolution of the Celgar issue and associated bill impacts.[110] FBC's submits that the implementation of the method proposed by FBC should not be postponed. The bill impacts associated with the Celgar issue are unrelated to depreciation rates and net salvage. Regardless of the impacts of the Celgar issue, the decrease in depreciation rates still offsets the effects of the change to net salvage going forward. As discussed below, FBC submits that the proposed approach to net salvage remains the preferable approach.

98. FBC is proposing to implement the traditional method of recovering net salvage over the useful lives of the applicable assets starting in 2016. This traditional method more appropriately recovers net salvage costs from customers over the useful lives of the assets to

---

[108] Exhibit B-1-1, p. 60; restated in Exhibit B-2, BCUC IR 1.18.2.

[109] Exhibit B-2.

[110] BCOAPO Submission, para. 117.

which they relate, matching the cost of the asset to the service it provides and preserving intergenerational equity.[111] In contrast, the existing method pushes the recovery of net salvage costs out to future periods and theoretically results in tomorrow's customers paying for part of the cost of service of the asset being used to serve today's customers.[112] The way net salvage costs are being proposed to be collected in the Application is better suited to matching the cost of service for existing customers, where the costs of building an asset as well as the cost of removing that asset are collected over its estimated useful life from the customers who receive the benefit of that asset.[113]

99. Overall, Gannett Fleming's study results in a recommended combined depreciation and net salvage rates of 3.06 percent (depreciation of 2.41 percent plus negative salvage of 0.65 percent), which is less than the existing composite depreciation only rate of 3.16 percent. As a result, there will be no increase in rates from the implementation of the recommended changes in depreciation and net salvage.

100. While FBC recognizes that there are other pressures on rates, from the perspective of the costs of depreciation, 2016 is an appropriate time to transition to recovering net salvage over the lives of the associated assets[114] since the net salvage expense of approximately $10.1 million will be offset by lower depreciation rates recommended by Gannett Fleming and proposed by FBC.[115]

101. FBC submits that its proposed net salvage rates and expense should be approved as filed.

---

[111] Exhibit B-1-1, Application, p. 101.

[112] Exhibit B-2, BCUC IR 1.19.2.

[113] Exhibit B-2, BCUC IR 1.19.2, 1.19.4.

[114] Exhibit B-1-1, pp. 102-103.

[115] Exhibit B-1-1, p. 103.

J. Exogenous Factors

102. In the PBR Decision, the Commission approved the adjustment for "Exogenous Factors" under the PBR Plan. The Commission established the following criteria for evaluating whether the impact of an event qualifies for exogenous factor treatment:

(a) The costs/savings must be attributable entirely to events outside the control of a prudently operated utility;

(b) The costs/savings must be directly related to the exogenous event and clearly outside the base upon which the rates were originally derived;

(c) The impact of the event was unforeseen;

(d) The costs must be prudently incurred; and

(e) The costs/savings related to each exogenous event must exceed the Commission defined materiality threshold.

103. The materiality threshold for FBC has been established at $0.301 million, as approved by Commission Order G-184-14.

104. As set out in FBC's Application, FBC is applying for approval of two exogenous factors: one for the capital expenditures related to the damage caused by wildfires and a second for the costs to implement new MRS approved by the Commission.[116] FBC replies to intervener submissions on the exogenous factor treatment of these costs below.

(a) Z-Factor Wildfire

105. In August 2015 FBC experienced significant damage to its facilities as a result of wildfires which occurred in a widespread portion of its service area. FBC incurred an estimated $3.043 million in capital expenditures to repair the damage from these wildfires. For the

---

[116] Exhibit B-1-1, pp. 94-96.

reasons explained in Sections 7.2.2 and 12.2.1 of the Application and further explained in responses to information requests[117] and testimony at the workshop,[118] FBC submits that this event meets the Exogenous Factor criteria under the PBR Plan and should be flowed through to rates outside of the PBR formula.[119]

106. CEC recommends that the Commission approve exogenous factor treatment for the expenses related to the 2015 wildfires.[120] BCOAPO does not take issue with wildfire damage being a Z-factor.[121] BCSEA submits that it is satisfied that the wildfires are outside the control of a prudently operated utility, the impact of the event was unforeseen, and the costs exceed the threshold. BCSEA also submits that it is satisfied that FBC's costs of dealing with the 2015 wildfires were clearly outside the base upon which the rates were originally derived.[122] Only ICG submits that the wildfires should not be considered for Z-factor adjustment.[123] FBC replies to ICG's submission below.

The Wildfires should be Considered as a Single Exogenous Factor

107. ICG argues that the three wildfires that caused damage to FBC's system in August 2015 should be considered separately for the purpose of the exogenous factor treatment.[124] FBC submits that ICG's position is not a reasonable interpretation of the facts or of how exogenous factors should be analyzed or applied and must be rejected. The wildfire damage should be treated as one event because the wildfire damage is all of the same kind (wildfire damage to distribution and transmission poles), is of an unprecedented magnitude, has occurred due to the same unusually dry conditions and within the space of two consecutive days. If one wishes to divide the events by a more granular analysis of the cause, the Rock

[117] Exhibit B-2, BCUC IR 1.14; Exhibit B-3, BCOAPO IR 1.13, 1.18; Exhibit B-4, BCSEA IR 1.4; Exhibit B-5, CEC IR 1.22.
[118] Workshop Transcript, pp. 34-46.
[119] Exhibit B-1-1, p. 47.
[120] CEC Submission, para. 59.
[121] BCOAPO Submission, para. 108.
[122] BCSEA Submission, p. 3.
[123] ICG Submission, p. 4.
[124] ICG Submission, p. 4.

Creek Fire was started by human causes whereas the two Oliver Area fires were caused by the same storm. However, in FBC's view, to divide the two Oliver fires by the lightning strikes that caused them is unreasonable level of granularity. In FBC's view the unusual nature and magnitude of this event, which has not been experienced to any degree in the past 10 years and exceeds the $2.4 million in damage due the Okanagan Mountain Fire 2003,[125] is a prototypical exogenous event – a true act of nature beyond the Company's control that caused a magnitude of damage to FBC's system that could not have been foreseen or budgeted for.

108. As described in the Application, in August 2015, wildfires within the FBC service territory caused an estimated $3.043 million in damage to the Company's transmission and distribution facilities.[126] This damage was precipitated by the unusually dry conditions in the Province. As described by Mr. Maschek:

> As you recall, as everybody is aware, 2015 we saw unusually dry conditions throughout British Columbia and Washington State. Odd thing is, the number of fires were within yearly averages, but the burnt area was higher than normal. Ten-year average through B.C. wildfires, 1847 fires, with an area burnt of 115,000 hectares. And in 2015 we saw 1842 fires with an area burnt of 303,000 hectares.[127]

109. The vast area burnt by the wildfires demonstrates the unusual conditions that existed in the summer of 2015. The unusually dry conditions also explains the magnitude of the damage that occurred (over $3 million), which exceeds the cost of the last wildfire damage, which was in 2003.[128] Ultimately, it is these unusually dry conditions that likely led to the high magnitude of wildfire damage experienced by FBC.

110. 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:

---

[125] Exhibit B-2, BCUC IR 1.14.4.

[126] Exhibit B-1-1, pp. 47-48, 94; Workshop Transcript p. 39, ll. 8-18 (Mr. Maschek).

[127] Workshop Transcript, p. 34.

[128] Exhibit B-2, BCUC IR 1.14.4.

> On August 13, 2015 a large wildfire caused significant damage in the Rock Creek/Westbridge area of the Boundary region. 30 customers lost their homes and due to the nature of the damage, approximately 700 additional customers were left without power. FBC operations staff activated a level 2 emergency in accordance with the corporate emergency response plan and worked at finding a solution to restore power to the affected customers and make repairs to the sections destroyed in the fire. A back-up generator was brought in on August 15, restoring power to approximately 550 customers and contractors and FBC crews worked around the clock, restoring the main section of the line on August 21, allowing for the back-up generator to be decommissioned. All remaining taps were completed by August 28.
>
> During the course of the Rock Creek Wildfire, two other fires in the Oliver region caused damage to electric distribution and transmission infrastructure. On August 14, the Wilson Mountain Wildfire and the Testalinden Wildfire damaged two distribution lines and a section of transmission line (43L). 55 customers lost power and the transmission line was isolated and back-fed through an alternate source. Power was restored to these customers on August 16 by way of a temporary line and contractors were able to rebuild the transmission line by August 22. The distribution line feeding repeaters at the peak of Kobau Mountain is yet to be rebuilt as of September 8, 2015, as crews have not been allowed to access the line.[129] [Emphasis added.]

111. Therefore, although three fires occurred, they constitute a "specific event" in the words of the PBR Decision as cited by ICG.[130] 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.

112. 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.[131] However, in FBC's submission, a more granular division of the fires is not warranted. A single storm in the

---

129 Exhibit B-1-1, p. 47.

130 ICG Submission, p. 4.

131 Workshop Transcript, p. 40.

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.

113. In FBC’s submission, the wildfire damage that occurred in August 2015 is clearly a “specific event” and should be treated as such for the purposes of exogenous factor treatment.

Capital Expenditures due to Wildfire Damage is not Included in FBC’s Base Capital

114. ICG also argues that the 2015 wildfires have been included in Base Capital because the cost of Urgent Repairs was included in the 2013 Base Capital.[132] FBC submits that ICG’s position is incorrect.

115. There were no fire-related capital expenditures in FBC’s 2013 capital expenditures, upon which the PBR formula amount is based. The last wildfire known to cause damage to FBC assets was in 2003, during which the Okanagan Mountain Fire caused $2.4 million in damages to the transmission and distribution systems.[133] The ICG points to FBC’s Urgent Repairs budget as evidence that wildfire damage was within the Base Capital. However, as shown in FBC’s response to Undertaking No. 2 from the workshop, there have been no fire-related capital expenditures in the past 10 years. Significantly, there were no fire-related capital expenditures in 2013 which was the year on which FBC’s Base Capital was set. This demonstrates that there was no fire-related capital within FBC’s Base Capital amount.[134]

[132] ICG Submission, p. 5.

[133] Exhibit B-2, BCUC IR 1.14.4; Workshop Transcript, pp. 41-42.

[134] Exhibit B-13, Undertaking No. 2.

116. ICG asserts that Z-factor treatment should not be afforded on the basis that "Major Events" for the purposes of reliability statistics include mudslides, windstorms and wildfires. However, the definition for "Major Events" for the purposes of reliability statistics is not related to interpreting the meaning of exogenous factors under PBR. Neither is the definition for the purpose of reliability statistics the same as the meaning of Urgent Repairs which captures capital expenditures caused by the failure or imminent failure of equipment, but does not include the typically large expenditures associated with extensive wildfire damage.[135]

117. Even if the wider category of Urgent Repairs is considered to be relevant, there is no amount in FBC's Base Capital for the wildfire damage. FBC's response to Undertaking No. 2 shows that FBC's 2015 capital expenditures on Urgent Repairs (excluding the 2015 wildfire expenditures) exceeds its Urgent Repairs budget as derived by escalating the 2013 base amount by the capital formula. The causes of the expenditures on Urgent Repairs in 2015 are consistent with past years, including expenditures for equipment failure, storm damage and trees/landslides. The expenditures on Urgent Repairs also exceed budget in 2013 and 2014 based on similar categories of costs. The conclusion that follows is that the Urgent Repairs budget was designed to and was in fact used to make urgent repairs due to equipment failure, storm damage and trees/landslides, not the type of extensive wildfire damage experienced in August 2015.[136]

118. The magnitude of the wildfire damage experienced in itself demonstrates that the expenditures are clearly outside the base upon which the rates were originally derived. At over $3 million, the damage caused by the wildfires exceeded FBC's entire Urgent Repairs budget. It simply cannot be maintained that FBC's Base Capital include amounts to cover damage of this nature.

---

[135] Exhibit B-5, CEC IR 1.22.2.

[136] Exhibit B-13, Undertaking No. 2.

(b) Z-Factor Mandatory Reliability Standards

119. As described in Section 6.3.6 of the Application, FBC will incur incremental O&M Expense in 2016 and future years (and incremental capital expenditures in 2017) related to MRS. By Order R-38-15 dated July 24, 2015, the Commission adopted 34 reliability standards recommended for adoption by BC Hydro in MRS Assessment Report No. 8. For the reasons described in Section 12.2.2 of the Application, and further supported by FBC's response to information requests[137] and the testimony of FBC's witnesses at the workshop,[138] FBC's incremental O&M expense for MRS compliance meets the Exogenous Factor criteria under the PBR Plan and FBC is therefore tracking the incremental O&M expense outside of the O&M formula.

120. There was generally no opposition to the approval of exogenous factor treatment for the expenses related to the MRS. CEC recommends that the Commission approve exogenous factor treatment for the expenses related to MRS.[139] BCSEA takes no position regarding exogenous treatment of the MRS costs.[140] BCOAPO, BCMEU and Gabana provide no comments on the topic.

121. ICG submits that it supports the effort to be compliant with the MRS, and states all such costs should be tracked in a separate account.[141] As described by FBC at the Workshop, all of the costs related to the new reliability standards will be captured and identified in a separate account.[142]

122. ICG also submits that the 2017 and 2018 forecast, after being refined by the 2016 effort, should not be subject to true-up.[143] FBC submits that this proposal is premature at

---

[137] Exhibit B-2, BCUC IR 1.13; Exhibit B-5, CEC IR 1.23, 1.24.

[138] Workshop Transcript, pp. 46-62.

[139] CEC Submission, para. 64.

[140] BCSEA Submission, p. 4.

[141] ICG Submission, p. 5.

[142] Workshop Transcript, p. 60, l. 26 - p. 61, l. 5 (Ms. Martin).

[143] ICG Submission, p. 5.

this time as it depends on further refinement following the effort in 2016. Moreover, ICG's proposal is inconsistent with the Flow-through deferral account approved as part of the PBR Plan and therefore should be rejected.

123. FBC submits that its proposed exogenous factor treatment of costs to implement new reliability standards should be approved as filed.

K. Service Quality Indicators

124. SQI results indicate that the Company's overall performance is representative of a high level of service quality. For the eight SQIs with benchmarks, five performed at or better than the approved benchmarks with two performing better than the threshold and one SQI, the All Injury Frequency Rate (AIFR), performing below the threshold. For the three SQIs that are informational only, performance is consistent with or better than recent years' performance.[144]

125. BCSEA asks the Commission to endorse presentation of the test year and historical SQI results in a single table. FBC agrees that providing the requested information in the format suggested allows for a more convenient way to compare the historical performance of the indicator and will provide the SQI performance data in such a format in future PBR annual reviews.[145]

126. FBC replies to intervener submissions on the SQIs below. As indicated at the outset of this submission, silence on FBC's behalf should not be considered agreement.

(a) All Injury Frequency Rate (AIFR)

127. The 2015 AIFR results are below the threshold for the second consecutive year and continue to be of concern for the Company. As outlined in the 2016 Annual Review

[144] Exhibit B-1-1, p. 109.

[145] Exhibit B-4, BCSEA IR 1.6.2.

application[146] and at the workshop,[147] 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. These efforts to improve the AIFR results are acknowledged by the BCSEA[148] and the CEC[149] in their written submissions, with both expressing no concerns about a serious degradation of overall service quality.

128. COPE comments on the Target Zero program, stating that FBC '…appears to be hanging its hat on a new and untested program called Target Zero, a program so preliminary in its development that Mr. Stevenson was unable to "speak to what it looks like"'. This is not correct. The comments of Mr. Stevenson referenced by COPE were specifically focused on the employee-based element of the program and not on the overall Target Zero program. He stated:

> Understanding that the employee-based safety program, I can't even speak to what that looks like today. We're going to launch it in 2016. But it will be built by the employees. And there is different programs out there. There is -- some folks that do workplace inspections. Employees do WorkSafe inspections on each -- workplace inspection on each other. And there is other programs that talk about -- one of them is called "The other 16". …[150]

129. Mr. Stevenson described the overall Target Zero program as part of his presentation, indicating the employee-based safety program is only one element of Target Zero.[151] The various elements were also set out in the description of the Target Zero program on page 112 of the Application, as follows:

> As a part of the Company's focus on continuous improvement, FBC has undertaken a comprehensive review of its Safety Management System including

---

146 Exhibit B-1-1, p. 112.

147 Exhibit B-12, Slide 34. Workshop Transcript, pp. 72-98.

148 BCSEA Submission, p. 5.

149 CEC Submission, p. 15.

150 Transcript, p. 81.

151 Workshop Transcript, pp. 79-81.

peer reviews with other utilities from the Fortis group of companies who have achieved overall improvement in safety. The results of this review recently completed confirmed that FBC has in place a robust Safety Management system that addresses the hazard and risk requirements of a safe workplace and identifies opportunities for improvement in the Company's safety culture. As a result of the review and to enhance the Company's existing Safety Management system and programs, FBC will be developing the "Target Zero" safety program with the official launch to take place in January 2016. This program will provide a structured format for employees at all levels to provide input into corporate safety enabling the Company to better understand the current state of the safety culture and prioritize and implement initiatives that are relevant to our employees.

Increased O&M funding is being reallocated to support this program. Aspects of the program include:

- Targeted and relevant safety communications to increase safety awareness with employees.

- Annual safety performance analysis developed for all departments.

- Safety action plans created by each department on an annual basis that will become the blueprint for each department's continual safety improvement. The results will be reviewed on a quarterly basis.

- Implementation of a new annual employee safety perception survey that will allow the Company to better understand the current state of our safety culture and prioritize and implement initiatives that are relevant to our employees.

- Development and implementation of a new voluntary employee based safety program. This program will be developed and administered by the employees for employees.

130. As explained by Mr. Stevenson, Target Zero does not replace FBC's existing safety management system, but brings in additional elements to bolster it.[152] Mr. Stevenson made it clear that FBC already has a mature safety management system:

[152] Workshop Transcript, p. 79.

> FortisBC, we have a very mature safety management system, that continues to make -- to meet the [COR] certification grade, and really what the [COR] certification is, it's a recognition program to WorkSafeBC that tells you the state of your safety management system. And we continually score in the 90 percentile range on that. So we have a robust system with all the required program elements.[153]

131. Therefore, FBC is not "hanging its hat" on a single component of Target Zero as COPE states. FBC continues to rely on its existing, robust safety management system and, in addition, is implementing a number of new program elements through Target Zero to increase safety awareness and improve the AIFR results.

132. COPE also incorrectly states that the "AIFR results through most of this calendar year were tracking at levels worse than the Threshold set by the BCUC". COPE's assessment is not representative of the improvement in AIFR annual performance observed in 2015. Based on the annual AIFR results over the last three years (2013 - 2.82; 2014 – 3.21; 2.60 for 2015 Aug YTD)[154], there is an improvement in the current year AIFR compared to the past two years' annual AIFR performance.

133. COPE's comments that "consequences are a means to hold utilities accountable for their failure to achieve certain Thresholds and/or Benchmarks".[155] FBC interprets the COPE comments as suggesting that the Commission should impose a penalty for the AIFR results. However, COPE offers no compelling reasons to support a view that the AIFR results represent a serious degradation of service other than that the AIFR performance has been below the threshold. As indicated in the Commission's Decision on FBC's Annual Review for 2015 Rates,

---

[153] Transcript, p. 75. "COR" refers to the Certificate of Recognition program administered by WorksafeBC (Exhibit B-1-1, p. 112).

[154] 2015 September year-to-date result was 2.02 – Exhibit B-12, Slide 31.

[155] COPE Submission, p. 4.

asking that FBC be held accountable without evidence of a serious degradation of service is not a reason to levy a penalty to FBC.[156]

134. COPE states: "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."[157] FBC understands this comment to be directed at FBC's observation that the AIFR results have not affected any other component of service to customers.[158] BCSEA has also expressed concern about this observation, submitting that utility performance on AIFR is itself a component of service.[159] To make FBC's position clear, as indicated in the response to BCSEA IR 1.3.1, FBC agrees with BCSEA that the AIFR is indicative of a component of quality of service. FBC's position is *not*, as BCSEA suggests, that AIFR performance below the threshold should be excluded from the process for the determination of serious degradation of service quality "unless it is shown that specific injuries contributed to a serious degradation of service".[160] Rather, FBC's view is that in considering whether there is a serious degradation of service it is relevant that the AIFR results are below the threshold *and* it is also relevant that the injuries impacting the AIFR result did not impact service to customers. FBC replies below to COPE's apparent position that the Commission should levy a penalty on FBC due to a serious degradation of service.

No Serious Degradation of Service

135. While 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

---

[156] In the Matter of FortisBC Inc. Application for Approval of 2015 Rates, Decision, Order G-107-15, dated June 23, 2015, Appendix A, p. 21.

[157] COPE Submission, p. 4.

[158] Exhibit B-4, BCSEA IR 1.3.1.

[159] BCSEA Submission, p. 5.

[160] BCSEA Submission, p. 5.

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.[161]

136. With respect to the first of the factors noted above, the impact to the delivery of safe, reliable and adequate service is limited to the AIFR results. Mr. Stevenson for FBC provided a description of what the AIFR results mean, as follows:

> So, we are going to talk about the all injury frequency rate. And just for everybody's information, the all injury frequency rate is actually a measurement of the number of injuries sustained over a 200,000 hour exposure time. And to give you some perspective on that. If you were a big orchardist, and you were an individual that was working in your orchard, and you worked 2,000 hours a year in your orchard, and you did that for 25 years, you would have 50,000 hours of exposure time at work. And, if you had a single sprain of an ankle, or you cut your finger and had a stitch in your finger or something like that, that would equate to an all injury frequency rate of 4.0. So, over a 25 year term, you would have an all injury frequency rate of 4.0.[162]

137. There is no indication that there has been any deterioration of the service quality to customers. As discussed in the Application, the SQI results to date, including informational indicators, are indicative of a high level of service quality being maintained by FBC. For those SQIs with benchmarks, five are performing better than the approved benchmarks, two performing better than the threshold, and only the AIFR SQI is performing inferior to the threshold. For the three SQIs that are informational only, performance is consistent with or better than recent years' performance.[163]

138. With respect to the second factor, the AIFR results have been below the threshold for two consecutive years. However, it is relevant to note that there is 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

---

[161] In the Matter of FortisBC Inc. Application for Approval of 2015 Rates, Decision, Order G-107-15, dated June 23, 2015, Appendix A, p. 18.

[162] Workshop Transcript, p. 73.

[163] Exhibit B-6, COPE IR 1. 6.3.

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.[164] As stated by Mr. Stevenson:

> All right, so FortisBC, our 2015 all injury rate through September 30th is 2.02, and that gives us a resulting three year rolling average of 2.68, which is outside of our threshold. So we are not meeting the threshold. There is good news in this story. Year-to-date, to September 30th of 2015, we are actually below where we were in 2014, at 2.44. So we have an improvement, year over year to date.[165]

139. As discussed below, FBC is also seeking to improve its AIFR performance in future year through its Target Zero safety program.[166]

140. In summary, FBC submits that the AIFR results are the only indicator of a degradation in service and that the AIFR results alone do not support a conclusion that there has been a serious degradation of service.

Not Due to Action or Inaction of the Company

141. 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.[167]

142. FBC has not received any economic gain due to the AIFR results. As indicated in the Application and the presentation of Mr. Stevenson, FBC has maintained its safety management system and continues to maintain its Certificate of Recognition ("COR") from

---

[164] Exhibit B-1-1, p. 113; Exhibit B-12, Slide 31.

[165] Workshop Transcript, p. 74.

[166] Workshop Transcript, p. 76.

[167] In the Matter of FortisBC Inc. Application for Approval of 2015 Rates, Decision, Order G-107-15, dated June 23, 2015, Appendix A, p. 18.

WorkSafeBC.[168] There is no evidence that the AIFR results are due to cost-cutting or efficiency measures put in place under PBR. FBC investigates all injury-resulting safety incidents and reviews all injuries to determine any trends[169] and "FBC has been unable to identify any atypical events that would explain the AIFR result in 2015 to date. Although prevention of injuries has been a key focus of FBC, tasks related to lifting, pulling, turning, rotating, etc. continue to result in recordable injuries."[170] Furthermore, there will be an increase in funding to FBC's safety program in 2016 with the launch of the Target Zero program.[171] FBC therefore has not experienced any economic gain as a result of the AIFR results.

143. FBC has and is taking measures to ameliorate the AIFR results. FBC provided substantial evidence regarding the measures it has and will be taking to seek to improve the AIFR results.[172] Specifically, FBC undertook a comprehensive review of its Safety Management System including peer reviews of other Fortis utilities who have achieved overall improvement in safety.[173] As an addition to FBC's existing safety management system, FBC will be initiating the Target Zero safety program. The Target Zero initiative provides a higher level of safety support to all business units to improve safety leadership and accountability and to improve employee knowledge and engagement. FBC anticipates an overall increase in the awareness of workplace hazards and the measures used to control those hazards.[174]

144. In summary, the AIFR results have not resulted in any economic gain to the Company, which has continued its existing safety management system and is taking actions to improve its overall safety program to seek to improve future AIFR results. FBC therefore submits that the AIFR results to date cannot be attributed to the action or inaction of the Company.

---

[168] Exhibit B-1-1, p. 112; Workshop Transcript, pp. 75, ll. 9-16 (Mr. Stevenson).

[169] Exhibit B-2, BCUC IR 1.23.2.

[170] Exhibit B-6, COPE IR 1.7.1.

[171] Exhibit B-6, COPE IR 1.9.2, 1.9.3, 1.9.4; Workshop Transcript, pp. 82-87.

[172] Exhibit B-1-1, pp. 11-113; Exhibit B-2, BCUC IR 1.23 series; Exhibit B-6, COPE IR 1.4 series to 1.10 series; Exhibit B-12, Slides 30-34; Workshop Transcript, pp. 72-98.

[173] Exhibit B-1-1, p. 112; Exhibit B-6, COPE IR 1.8.1 to 1.8.4.

[174] Exhibit B-4, CEC IR 1.3.2; Workshop Transcript pp. 72-81.

145. For the above reasons, FBC submits that a penalty should not be levied against FBC due to the AIFR results being below the benchmark.

(b) First Contact Resolution (FCR)

146. FBC's September 2015 year-to-date result for the FCR SQI is 77%, which is marginally below the benchmark of 78% and well above the threshold of 72%.[175] The September 2015 year-to-date result of 77% is also an improvement over 2013 and 2014 results of 73%.[176] Recent improvement reflects an increased focus on FCR in the Company's coaching and training programs. This focus will continue in an attempt to further raise the level of FCR to the benchmark level during the PBR term.[177]

147. CEC submits that FBC should be expected to achieve the benchmark in 2016 and average to the benchmark over the course of the PBR term.[178] While FBC is seeking to raise the level of the FCR to the benchmark during the term of the PBR Plan, FBC also recognizes that it may not reach the level of the benchmark in 2016.[179] FBC also disagrees with CEC's comment that FBC's performance over the course of the PBR term is expected to average to the benchmark. As indicated on page 149 of the PBR Decision, the approved performance benchmarks serve as a target only and achievement of performance metrics that fall within the range is considered acceptable. Therefore, CEC's expectation that FCR performance over the course of the PBR term is expected to average to the benchmark is inconsistent with the Commission's stated objective for benchmarks.

148. Imposing a requirement that FBC target an average of the benchmark over the term of PBR would also impose a significantly higher SQI benchmark which is inconsistent with

---

[175] Exhibit B-12, p. 27.

[176] Exhibit B-1-1, p. 114.

[177] Exhibit B-5, CEC IR 1.27.1.2.

[178] CEC Submission, para. 81. FBC notes that CEC incorrectly states that the benchmark is 77% and the FCR results achieved are 76%. As outlined on page 27 of the workshop presentation (Exhibit B-12, page 27), the FCR approved benchmark is 78% and the achieved result to September 2015 is 77%.

[179] Exhibit B-5, CEC IR 1.27.1 and 1.27.2.

the approved benchmark of 78%. From a mathematical perspective, given that FCR performance was 73% in 2014 (the first year of the PBR Plan), the Company would be required to achieve a very high and unrealistic performance level of 83% or better in a subsequent year to bring the average in line with the benchmark of 78%. Increasing FCR performance to above the benchmark in the short term to bring up the average would effectively impose a higher benchmark than approved and would add little value to customers or the Company.

149. FBC submits that it is appropriate for it to continue targeting the benchmark and that there is no requirement under the PBR Plan for it to seek to average the benchmark over the term of PBR.

PART THREE: CONCLUSION

150. FBC submits that based on the evidence in this proceeding, the approvals sought are just and reasonable and should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: November 23, 2015 ***[original signed by Christopher Bystrom]***

Christopher Bystrom
Counsel for FortisBC Inc.