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November 8, 2018
File No.: 253248.00188

Electronic Filing

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Mr. Patrick Wruck, Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Inc. Annual Review for 2019 Delivery Rates ~ Project No. 1598967

In accordance with the regulatory timetable for this proceeding set out in Order G-142-18, we enclose for filing the electronic version of the Reply Argument of FortisBC Inc.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by]

Christopher Bystrom
Professional Law Corporation
CRB/gvm

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 2019 DELIVERY RATES

REPLY SUBMISSION OF
FORTISBC INC.

November 8, 2018

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PART ONE: INTRODUCTION AND OVERVIEW

1. FortisBC Inc. (FBC or the Company) filed its Annual Review for 2019 Rates (the Application) on August 10, 2018[1] in compliance with British Columbia Utilities Commission (the BCUC) Order G-139-14, which approved a Performance Based Ratemaking Plan (the PBR Plan) for FBC for the years 2014 to 2019. On September 25, 2018 FBC filed an errata to its application making corrections to its Application.[2] On October 3, 2018, FBC filed an Evidentiary Update to the Application.[3]

2. FBC is proposing to maintain 2019 rates at the approved 2018 levels,[4] while maintaining a balance of approximately $3.533 million in its 2018 – 2019 Revenue Surplus Deferral Account to mitigate future rate pressures.[5] FBC is proposing to distribute $0.345 million in earnings sharing to customers in 2019,[6] and has continued to maintain a high level of service quality.[7]

3. As set out in the Application,[8] FBC requests BCUC approval of the following pursuant to sections 59 to 61 of the *Utilities Commission Act*:[9]

(a) to maintain 2019 rates at the approved 2018 levels, effective January 1, 2019;

(b) the following non-rate base deferral account requests:

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1 Exhibit B-2.

2 Exhibit B-2-1.

3 Exhibit B-2-2.

4 Exhibit B-2, Application

5 Exhibit B-2-2, Section 12, Schedule 12.1, Line 6.

6 Exhibit B-2, p. 1.

7 Exhibit B-2, Application, Section 13.

8 Exhibit B-2, B-2-1 and B-2-2.

9 R.S.B.C. 1996, c. 473.

- Creation of a deferral account for the 2018 DSM Expenditure Schedule application, to be financed at FBC's short term interest (STI) rate, with a one-year amortization period;

- Creation of a deferral account for the Rate Design and Rates for Electric Vehicle (EV) Direct Current Fast Charging Service Application, to be financed at FBC's weighted average cost of debt (WACD) rate, with disposition to be proposed in a future application;

- Creation of a deferral account for costs related to FBC's participation in British Columbia Hydro and Power Authority's (BC Hydro) Waneta 2017 Transaction application, to be financed at FBC's STI rate, with a one-year amortization period;

- The addition of the 2019 revenue surplus of $4.187 million after tax to the existing 2018 Revenue Deficiency Deferral Account, which will be renamed to the 2018 – 2019 Revenue Surplus Deferral Account, and the financing of this account at FBC's WACD rate;

- A four-year amortization period for the existing Multi-Year (2019-2022) Demand Side Management Expenditures deferral account, commencing in 2019;

- A five-year amortization period for the existing 2017 Cost of Service Analysis and Rate Design Application deferral account, commencing in 2019; and

- Amortization of the existing Castlegar Office Disposition deferral account in 2019.

(c) Z-factor treatment for the 2019 Employer Health Tax, 2018 and 2019 MSP premium reductions, and 2019[10] incremental operations and maintenance expenses and capital expenditures related to Mandatory Reliability Standards Assessment Reports No. 8 and 10, as described in Section 12.2 of the Application.

4. Appendix B of the Evidentiary Update includes an updated draft Order Sought.[11]

5. The BCUC-approved regulatory timetable for the proceeding included a round of information requests and a workshop, followed by written argument.[12] On September 25, 2018, FBC responded to information requests (IRs) from the BCUC and interveners, including the British Columbia Municipal Electrical Utilities (BCMEU), British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre et al. (BCOAPO), BC Sustainable Energy Association and Sierra Club (BCSEA), Commercial Energy Consumer Association of BC (CEC), Industrial Customers Group (ICG), the Irrigation Ratepayers Group (IRG), and Canadian Office and Professional Employees Union, Local 378 (known as Movement of United Professionals or MoveUP). The workshop was held on October 10, 2018, and FBC's presentation materials and the transcript of the workshop were placed on the record in the proceeding.[13] FBC filed responses to undertakings from the workshop on October 18, 2017.[14]

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[10] FEI inadvertently indicated "2018" in the approval sought and draft order of the Application. As set out in Section 12.2, the costs for which FEI is seeking Z-Factor treatment are for 2019.

[11] Exhibit B-2-2, Appendix B. As noted above, FEI is seeking Z-factor treatment for 2019 incremental operations and maintenance expenses and capital expenditures related to Mandatory Reliability Standards Assessment Reports No. 8 and 10.

[12] Exhibit A-2.

[13] Exhibit B-11. The Workshop Transcript is available on the Commission's website at: https://www.bcuc.com/ApplicationView.aspx?ApplicationId=638.

[14] Exhibit B-12.

6. The submissions of interveners show a broad level of support for FBC's Application. BCMEU supports the orders being sought by FBC.[15] BCSEA supports BCUC approval of FBC's approvals sought.[16] MoveUP submits that FBC has justified the remedies sought in its Application and that they should be granted.[17] BCOAPO supports FBC's Application.[18] The CEC recommends that the BCUC approve FBC's application as filed, subject to its comments on the two-year cumulative dead band calculation, and its recommendation for amortization periods for FBC's proposed 2017 Waneta Transaction and Multi-Year (2019-2022) Demand Side Management Expenditures deferral accounts.[19] ICG objects to FBC's request for a deferral account for FBC's participation in BC Hydro's Waneta 2017 Transaction application, and request for Z-factor treatment of Mandatory Reliability Standards (MRS) Assessment Reports No. 8 and No. 10.[20]

7. In the remainder of this Reply Submission, FEI responds to various comments and recommendations of interveners related to 2019 rate issues and the evaluation of PBR.

PART TWO: REPLY SUBMISSION ON 2019 RATES ISSUES

A. Load Forecast

8. The CEC recommends that the BCUC approve the load forecast,[21] but submits that research on changes in residential UPC[22] and alternative forecasting techniques[23] would be useful to improve FBC's forecasting. As researching and testing alternate forecast methods is both complex and time consuming,[24] FBC submits that there should be a demonstrated need

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15 BCMEU Argument, p. 2.
16 BCSEA Argument, p. 6.
17 MoveUP Argument, p. 2.
18 BCOAPO Argument, p. 29.
19 CEC Argument, p. 25.
20 ICG Argument, p. 1.
21 CEC Argument, p. 12.
22 CEC Argument, p. 9.
23 CEC Argument, p. 11.
24 Exhibit B-3, BCUC IR 1.16.3.

for further research before it is undertaken. Because FBC's forecast accuracy is reasonable in comparison to FBC's industry peers, FBC sees no need to conduct further research on other forecast methods at this time.[25]

B. Energy Forecast and Loss Recovery

9. ICG requests that the BCUC direct FBC to forecast Loss Recovery for 2019, and record actual flows on the transmission system, because ICG expects that losses are less than assumed in FBC's Rate Schedule 109.[26] For context, Loss Recovery is an ancillary service charge by FBC to transmission customers under Rate Schedule 109. Rate Schedule 109 includes a postage stamp transmission loss rate, and transmission customers are required to physically deliver energy to FBC to compensate for the losses that are incurred on FBC's system.[27] FBC is proposing to update its Rate Schedule 109 ancillary service charges, including the percentage of losses for the purpose of Loss Recovery, in its Cost of Service Analysis and Rate Design Application.[28] The BCUC proceeding considering that application is currently in the argument phase.

10. FBC does not object to providing a forecast of Loss Recovery for 2019 in the compliance filing if the BCUC determines that is reasonable. However, IGG's request that FBC record actual flows on the transmission system should be denied. ICG has not established that it is feasible to calculate actual losses associated with an individual customer given the complexity of the interconnected transmission system, or that the actual flow data that ICG requests will allow the impact of any one customer on losses to be determined. The ICG has also not established its assumption that counter flow would decrease losses, or whether it could in fact increase losses in locations where FBC has more local generation than is needed to supply local load, such as in the Kootenays. Moreover, the issue of fair and reasonable Loss

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25 Exhibit B-3, BCUC IR 1.16.3.

26 ICG Argument, p. 4.

27 Exhibit B-9, ICG IR 1.3.1.

28 See page 103 of FBC's Cost of Service Analysis and Rate Design Application. BCUC Project No. 1598938. Online: https://www.bcuc.com/Documents/Proceedings/2018/DOC_50507_B-1_FBC-2017-Rate-Design-Application.pdf.

Recovery is not an issue for FBC's Annual Review; rather, it is a rate design issue appropriately addressed in a Rate Design proceeding.

C. Forecasting Late Payment Charges

11. In reply to the CEC's comment that FBC should flag changes compared to past years,[29] FBC did in fact flag in its Application that "FBC has historically not forecast late payment charges as part of its revenue requirement" and that "beginning with 2019, FBC is forecasting late payment charges as part of Other Revenue..."[30] FBC also already reports on accounting changes in section 12 of its Annual Review materials.

D. Amortization Periods for Deferral Accounts for Waneta 2017 Transaction Application and Demand Side Management Applications

12. The CEC proposes lengthy amortization periods for two (or three) deferral accounts that are unwarranted given the small amounts in the accounts. The CEC suggests an amortization period for the $124 thousand in FBC's proposed Waneta 2017 Transaction Application deferral account that matches the life of the access to the transmission line which was acquired.[31] CEC similarly suggests an amortization period for the $275 thousand in FBC's proposed Multi-Year (2019-2022) Demand Side Management Expenditures Application deferral account that matches the length of benefits of DSM expenditures.[32] It is unclear if CEC is also proposing a lengthier amortization period for the $73 thousand in FBC's 2018 DSM Expenditures Schedule Application.[33] When determining an amortization period for deferral accounts, FBC takes into account the relationship between the recovery period and the benefits of the expenditure, the impact on rate stability, and the goal of disposing of the deferral account expeditiously.[34] While there are long-term benefits to FBC's participation in the

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[29] CEC Argument, p. 15.

[30] Exhibit B-2, P. 41, lines 17-19.

[31] CEC Argument, p. 25.

[32] CEC Argument, p. 26-27.

[33] CEC Argument, p. 24

[34] Exhibit B-3, BCUC IR 1.33.3.

Waneta 2017 Transaction Application and FBC's DSM expenditures, spreading the small amounts in these deferral accounts over the long periods suggested (e.g. 10 to 20 years) would result in small annual amounts and unnecessary financing costs.[35] In addition, as FBC files DSM applications regularly, amortizing the costs of the DSM applications over long periods would result in overlapping amortization of multiple DSM application regulatory costs and unnecessary financing costs. Therefore, given the small size of these deferral accounts, fully amortizing the accounts in one year is the most reasonable option.[36]

E. Use of Deferral Accounts

13. ICG has not established any basis for its stated concern with respect to FBC's use of deferral accounts and, in particular, with respect to deferral accounts for regulatory proceedings.[37] All of FBC's deferral accounts are subject to review and approval by the BCUC, are consistent with many years of past practice, and are supported by all the interveners in this proceeding other than ICG, who itself only opposes one account. Further, since the BCUC's Decision in FBC's 2015 Annual Review noted by ICG, the BCUC has issued its Regulatory Account Filing Checklist,[38] which provides guidance regarding the information a regulated entity is expected to provide when applying for regulatory account treatment. FBC's Application is consistent with and provides the information expected by the Regulatory Account Filing Checklist.[39] In summary, as the costs of regulatory proceeding are difficult to forecast and outside of the control of the utility, use of deferral accounts is warranted to prevent windfall gains or losses to the shareholder or customers as actual costs are likely to materially vary from forecast. FBC's use of deferral accounts is reasonable and appropriate, and there is no need any further review at this time beyond the scrutiny applied by the BCUC to each of FBC's requested deferral accounts.

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[35] Exhibit B-6, BCUC IR 1.33.3.

[36] Exhibit B-3, BCUC IR 1.33.3.

[37] ICG Argument, p. 1.

[38] Exhibit B-2, p. 111-113.

[39] Exhibit B-2, p. 111-113.

F. Waneta 2017 Transaction Application Deferral Account

14. ICG claims that utilities do not participate in the proceedings of other utilities and the Waneta 2017 Transaction Application deferral account should be denied because ICG is not aware of the BCUC approving a deferral account for one utility to participate in another utility's proceedings.[40] The BCUC can take notice of the fact that utilities are often registered as interveners in the proceeding of other utilities and that active involvement does occur from time to time.[41] The BCUC regularly approves the costs of the participation of FortisBC Energy Inc. (FEI) in the regulatory proceedings of upstream pipelines, which costs are recovered through FEI's Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA).[42] FBC's participation in the Waneta 2017 Transaction Application is similar: FBC's customers have an interest in the rights and costs of FBC's access to the No. 71 transmission line, just as FEI has an interest on behalf of its customers in the tolls it pays to upstream pipelines. Based on the factors in the BCUC's Regulatory Account Checklist as outlined in FBC's Application, the rationale for deferring FBC's cost of participation in BC Hydro's Waneta 2017 Transaction Application is based on sound regulatory principles.[43]

15. FBC proposes to defer only its external legal costs of participating in the Waneta 2017 Transaction Application for the benefit of customers.[44] FBC's internal labour costs to negotiate the agreements with Teck and BC Hydro are included in Base O&M and not included in the deferral account. FBC therefore submits that its proposed Waneta 2017 Transaction Application deferral account is reasonable and should be approved.

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[40] ICG Argument, p. 2.

[41] E.g., BC Hydro filed argument in the BCUC proceeding regarding FBC's 2017 Cost of Service Analysis and Rate Design Application.

[42] BCUC Letter dated January 26, 2018 and Order G-26-18, dated January 25, 2018.

[43] Exhibit B-2, Application, pp. 111-113.

[44] Exhibit B-2, Application, p. 114.

G. Cloud Computing Software

16. ICG supports FBC's approach to capitalizing cloud computing costs, but "submits that the Commission should not make determinations relevant to such costs to be incurred in 2019."[45] To be clear, FBC's approach to capitalizing cloud computing costs is compliant with GAAP,[46] and FEI is not requesting any determination with respect to these costs as they are included in FBC's formula capital.

H. Z-Factor Treatment for MRS Assessment Reports No. 8 and No. 10

17. ICG states that it does not believe that FBC's costs related to Assessment Reports No. 8 and No. 10 comply with the requirements for Z-factor treatment.[47] In Orders G-202-15, G-8-17, and G-38-18, the BCUC has repeatedly determined that FBC's costs to comply with changes to the MRS program qualify for Z-factor treatment.[48] FBC has explained in the Application how its costs related to Assessment Reports No. 8 and No. 10 comply with the criteria for Z-Factor treatment.[49] ICG has not provided any rationale for why the criteria are not met in this case, why the BCUC's past decisions are incorrect, or what has changed since the BCUC's past three determinations of this issue. ICG's belief that FBC should be forecasting the MRS costs and be accountable for variances from forecast is simply inconsistent with FBC's approved PBR Plan.

I. Calculation of the Cumulative Two-Year Dead Band

18. CEC submits that the calculation of the cumulative two-year dead band is "mathematically flawed" and should be corrected in this and any future PBRs.[50] As discussed in FBC's previous Annual Reviews, FBC has calculated a cumulative two-year variance as directed

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45 ICG Argument, p. 3.

46 Exhibit B-3, BCUC IR 1.31.1.

47 ICG Argument, p.3.

48 Exhibit B-2, Application, p. 106.

49 Exhibit B-2, Application, pp. 106-107.

50 CEC Argument, pp. 6-7.

by the PBR Decision which approved the use of "a two year cumulative 15 percent dead-band for all Fortis' formulaic capital spending".[51] The alternative calculations suggested by CEC using the same base figure would result in an average variance, not a cumulative variance. FBC sees no value in adjusting the calculation in the final year of the PBR Plan. FBC did not propose the two-year dead band, and will not be proposing a two-year dead band as part of its next PBR plan.[52]

J. Service Quality Indicators

19. ICG submissions on FBC's SAIDI results are inaccurate and should be rejected. In its Application,[53] responses to IRs,[54] and at the Workshop,[55] FBC provided a detailed account of the reasons for the decline in its SAIDI performance. In short, the increase in SAIDI results in 2017 is due in part to the introduction of the outage management system (OMS), but also due to the increase in adverse weather, foreign interference (e.g. vehicle accidents), and forest fires compared to 2015 and 2016.[56] ICG's submissions ignore these additional impacts, which were significant. As Mr. Ernst explained at the Workshop:[57]

> Severe weather and wildfires both had a significant influence on our 2017 SAIDI results. There were ten days in 2017 that exceeded 20,000 customer hours interrupted. This is compared to an average of four days for the period from 2014 through 2016. As you can see, nine out of the ten events were due to snow, wind or wildfires. Three of these days qualified for normalization as major events, while the remaining seven counted towards our normalized SAIDI statistics. These seven events that did not meet the threshold for normalization contributed approximately one third of the total SAIDI for 2017.
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> What this chart is showing is that 2017 saw a significant increase in medium and large scale events. For the period 2014 through 2016, FortisBC had seen on

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[51] Exhibit B-7, CEC IR 1.7.3.

[52] FEI's Annual Review for 2019 Rates, Workshop Transcript, p. 23.

[53] Exhibit B-2, Application, pp. 130-131.

[54] E.g. Exhibit B-3, BCUC IR 1.40.

[55] Exhibit B-11, Workshop Presentation Slides 34-45; Transcript, pp. 57-64.

[56] Exhibit B-2, Application, p. 130.

[57] Transcript, pp. 64-65. Exhibit B-11, Workshop Presentation Slides 42-43.

> average 13 days that accumulated over 5,000 customer hours. For 2017 that number has nearly tripled as there were 33 days that accounted for over 5,000 customer hours.

20. The impact of these environmental and other factors independent of the OMS is evident from the fact that FBC's transmission system, which was not impacted by the OMS, also saw an increase in SAIDI.[58]

21. The impact of the new OMS was not simply due to 'internal communications' as claimed by ICG.[59] FBC explained the impact in its Application as follows:

> The OMS replaced a manual system and has automated the tracking and reporting of outage data through integration with the FBC AMI system. With the previous system, the Outage Start Time was recorded as the time that the outage was confirmed in the field. With the OMS, the Outage Start Time is based on the earliest AMI or customer call-in for the outage. With the change to the OMS and a different definition to the Outage Start Time, the reported outage times have increased, causing the SAIDI values reported to increase, even though there has been no change in the company's operating practices.[60]

22. FBC explained that the impact of the OMS is significant in cases of wide-spread outages, as follows:

> One area where the OMS likely had a significant impact is in the identification of and accounting for major adverse weather-related outages. Prior to OMS, FBC relied on individual customers to notify the utility of a power outage. During these widespread events impacting both the transmission and distribution systems, call handling and field resources could quickly become backlogged. This led to challenges in fully understanding the scope and scale of system damage and the extent of all the outages on the system. Given the limitations of the previous systems, it would take significantly longer to fully and accurately account for all outages.[61]

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[58] Exhibit B-11, Workshop Presentation Slides 34-35. Transcript, p. 58.

[59] ICG Argument, p. 4.

[60] Exhibit B-2, Application, p. 130.

[61] Exhibit B-3, BCUC IR 1.40.2.

23. There is no basis for ICG's assertion that the new OMS only contributed "minutes" to the SAIDI performance.[62] Experience from other utilities is that the introduction of an OMS is responsible for an impact to SAIDI of approximately 15 to 30 percent.[63] FBC has no reason to believe that is own experience would fall outside this range.[64]

24. ICG states: "Given the unaccounted for decline in SAIDI performance, the ICG recommends that FortisBC be denied incentives under the PBR Plan for 2018."[65] As set out above, there is no "unaccounted for" decline in SAIDI performance, and the ICG's submissions on SAIDI are inaccurate. As previously determined by the BCUC: "The imposition of financial consequences is dependent on two conditions being true: that a serious degradation of service has occurred; and that the performance results are attributable to the actions or inactions of the Company."[66] Based on the evidence and relevant considerations as previously determined by the BCUC, there is no basis for a financial penalty to FBC:

(a) The increase in SAIDI due to the new OMS does not represent a degradation of service but a change in the reporting of the length of outages using the OMS.[67] Although FBC's SAIDI's performance in 2017 is higher than the approved threshold, the approved SAIDI benchmark and threshold were calculated based on a three-year rolling average of the 2010 – 2012 annual SAIDI results, which did not incorporate the impact of the OMS which was implemented in January 2017.[68] A more comparable benchmark and threshold would consider the impact of an OMS on the SAIDI results. For example, for the potential start of

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62 ICG Argument, p. 4.

63 Exhibit B-3, BCUC IR 1.40.2.

64 Exhibit B-3, BCUC IR 1.40.2.

65 ICG Argument, p. 4.

66 See BCUC Order G-107-15, Appendix A, pages 21-22, which sets out comments and guidelines for the determination of financial consequences in Annual Reviews. The BCUC also identified other factors that it may have regard to including any economic gain made by the utility by allowing service levels to deteriorate, the impact on the delivery of safe, reliable and adequate service, whether the impact is transitory or sustained and whether the utility has taken measures to ameliorate the deterioration in service. See BCUC Order G-14-15, dated February 4, 2015, Appendix A, page 6 of 10.

67 Transcript, p. 61-62.

68 Exhibit B-9, ICG IR 1.15.2. BCUC Order G-14-15, dated February 4, 2015, Appendix A, page 7 of 10.

the next PBR in 2020, FBC would have three full years of SAIDI results incorporating the impact of the OMS, providing a more comparable basis to set a benchmark and threshold for SAIDI performance.[69]

(b) The increase in SAIDI is due to the increase in adverse weather, foreign interference (e.g. vehicle accidents), and forest fires compared to 2015 and 2016[70] cannot be attributed to the actions or inactions of FBC.

(c) Despite these events, there has been no significant impact on the delivery of safe, reliable and adequate service to customers as FBC's SAIDI results remain relatively low[71] and is appropriate given the circumstances and should not be considered a degradation of service quality.[72]

(d) There has been no economic gain to FBC resulting from the decline in SAIDI performance.

(e) FBC has and is continuing to take efforts to maintain and improve the level of reliable service it provides. FBC has recently undertaken the advanced distribution management system (ADMS) project,[73] and will continue to use the ADMS to improve its operational response and restoration during outages.[74] FBC is also undertaking a number of other initiatives to ensure continued reliable service to customers. As explained by Mr. Ernst, these include "detailed review of monthly reliability statistics to identify trends and opportunities, such as managing the impact of scheduled outages on our customers, performing

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[69] Exhibit B-3, BCUC IR 1.40.3.

[70] Exhibit B-2, Application, p. 130; Transcript, pp. 64-65. Exhibit B-11, Workshop Presentation Slides 42-43.

[71] Exhibit B-2, Application, p. 131.

[72] Exhibit B-3, BCUC IR 1.40.2.

[73] Exhibit B-2, Application, p. 6.

[74] Transcript p. 64.

engineering studies on problem areas of our system, and identifying opportunities for further distribution automation to help improve restoration."[75]

25. In summary, there is no basis to conclude that the higher SAIDI results in 2017 are due to the incentives under the PBR Plan and no basis for any reduction in FBC's share of financial incentives due to the SAIDI results.

PART THREE: REPLY SUBMISSION ON EVALUATION OF PBR

26. While the evaluation of PBR is one of the topics that the BCUC requires to be addressed in each Annual Review, this is not a topic that impacts rates in 2019 and no decision is required by the BCUC in this proceeding. In last year's Annual Review, the BCUC agreed with FBC's assessment of the scope of the Annual Review proceeding, as follows:[76]

> The Panel acknowledges the parties' comments on the current PBR Plan and the expectations and concerns regarding future PBR plans. However, it is the Panel's view that decisions regarding the form of regulation following the current PBR term, including the type of PBR plan, should appropriately be made in a proceeding designed for that purpose. Accordingly, the Panel does not make any comments or determinations at this time on how the various components of the PBR Plan should be treated. Similarly, this Panel makes no comments or determinations on what future form of regulation should take place at the conclusion of the present PBR Plan term.

27. FBC's comments below therefore remain at a high level. Silence on any particular intervener submission does not indicate FBC's agreement.

28. BCOAPO misconstrues FBC responses to information requests to say that formula O&M savings are not attributable to PBR.[77] In fact, FBC stated that it believes that the savings are attributable to PBR, but that it cannot speculate on what would have been realized under a hypothetical cost of service regime. FBC states:

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[75] Transcript p. 64.

[76] Appendix A to Order G-38-118, p. 21. Online: https://www.bcuc.com/Documents/Other/2018/DOC_50789_G-38-18_FBC-2018-Annual-Rate-Review_Final-Order-Reasons.pdf.

[77] BCOAPO Argument, p. 6.

> FBC believes that the savings and efficiencies achieved to date have been driven in full or in part by the incentive mechanisms and other features of the PBR Plan, including the six-year test period. However, FBC cannot know what it would have done in the hypothetical situation in which FBC was under forecast cost of service ratemaking over the same time period. As such, FBC cannot identify the portion of savings and efficiencies achieved to date that would not have been achieved in the absence of the incentive mechanisms and other features of the PBR Plan.
>
> The current PBR Plan has generated benefits to both customers and the Company. The two most common cited benefits of a PBR Plan are its effectiveness in incenting a utility to capture efficiencies and in promoting regulatory efficiency. FBC believes it has delivered both these benefits to date in its current PBR Plan while maintaining service quality. For example, annual increases to O&M funding have been limited to inflation and customer growth factors, and also met or exceeded the productivity improvement factor that represents a minimum level of efficiency benefits that flow to customers. The PBR Plan has fostered a productivity focused culture throughout the Company and amongst its employees, creating savings for the benefit of customers and freeing up valuable resources to enhance the customer experience. Additionally, the certainty in the funding levels provided by the PBR Plan enables the Company to adopt a longer term focus.
>
> Another benefit to customers of the PBR Plan is that customer rates did not increase the past year and FBC is proposing no increase in rates for 2019.[78]

29. CEC's position is that "it is necessary for a successful PBR to be able to demonstrate savings that would not otherwise be achievable under prudent management under regulation by Cost of Service over 2 years."[79] This is not a reasonable or even logical measure of success. The *Utilities Commission Act* does not make cost of service the default mode of regulation, and there is no legal or other requirement for a utility to demonstrate that the results under PBR could not be achieved under a different form of regulation. If PBR is producing good results, that is a reason for it to continue; the burden should be on the party advocating for a change to demonstrate that the change would produce better results.

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[78] Exhibit B-8, MoveUP IR 1.3.2.

[79] CEC Argument, p. 5.

30. While it will never be known what the results under cost of service regulation would have been, what is known is that PBR has fostered a productivity focused culture, created savings for the benefit of customers, freed up valuable resources to enhance the customer experience, and provided a longer-term focus for FBC.[80] Specifically, FBC has achieved the following under PBR:

(a) FBC has shared approximately $3.1 million in O&M savings with customers.[81]

(b) The PBR formula includes a 1.03 percent productivity factor, which FBC has met in all years. The productivity factor accounts for an additional $2.8 million in O&M savings, which are all to the benefit of customers.[82]

(c) FBC's total O&M has trended down over the PBR term.[83]

(d) On a per customer basis, FBC's total and formula O&M have trended down over the PBR term.[84]

(e) Although FBC has been challenged to maintain capital expenditures within the limits of the capital formula over the PBR term, FBC's shareholder does not earn on half of all capital expenditures within the dead band, and the shareholder's return on all capital above the dead band is delayed until the following year.[85]

(f) The PBR Plan has provided the benefit of a longer test period with more certainty and flexibility for FBC's capital planning. This has enabled FBC to achieve savings that it otherwise would not have, through economies of scope and scale, procurement, and coordination.[86]

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80 Exhibit B-8, MoveUP IR 1.3.2.

81 Exhibit B-2, Application, p. 5.

82 Exhibit B-2, Application, p. 5.

83 Exhibit B-11, Presentation Slide 4.

84 Exhibit B-11, Presentation Slide 4.

85 Exhibit B-2, Application, p. 8-10

86 Exhibit B-2, Application, p. 8.

(g) Overall, FBCs delivery rates have averaged 2.2 percent, and FBC is proposing no rate increase for the second consecutive year.[87] For context, there is no record of any other 0 percent rate increases for FBC between January 2006 and 2019.[88]

(h) FBC has maintained a high level of service quality as measured by the approved SQIs.[89]

(i) The BCUC stated in its Decision approving the PBR Plan: "The Panel notes that the purpose of implementing a PBR mechanism is to provide an environment where efficiencies are created through actions initiated by the utility."[90] The evidence shows that the PBR mechanism has successfully created this environment.[91]

31. Given the success of PBR, the burden falls to those who would oppose PBR to demonstrate that cost of service is likely to achieve a superior result.

32. FBC opposes the recommendation of the CEC that the BCUC have a separate proceeding to review the existing PBR before advancing to the next PBR.[92] FBC is unaware of any other regulator having such a proceeding separate from a rate application. Having a separate proceeding to evaluate PBR would be extremely inefficient from a regulatory perspective. The evaluation of PBR was a topic in the last PBR proceeding, has been an ongoing topic of discussion in each Annual Review under the PBR Plan, and will no doubt be discussed thoroughly again in FBC's upcoming application for a new PBR plan. There is no reason to believe that a separate proceeding to evaluate PBR would assist the BCUC in its decision on

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87 Exhibit B-11, Presentation Slide 6.

88 Exhibit 6, BCSEA IR 1.3.1.

89 Exhibit B-2, Section 13.

90 Decision on FEI's Multi-Year Performance Based Ratemaking Plan for 2014 through 2018, dated September 15, 2014, p. 124.

91 Exhibit B-8, MoveUP IR 1.3.2.

92 CEC Argument, p. 3.

whether to continue with PBR. That decision is best made in the context of a proposed PBR plan for future years.

33. FBC will be submitting its proposal for an updated PBR plan in due course. FBC looks forward to working with interveners and the BCUC in that process.

PART FOUR: CONCLUSION

34. FBC submits that its approvals sought are just and reasonable and should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: November 8, 2018 ***[original signed by Christopher Bystrom]***

Christopher Bystrom
Counsel for FortisBC Energy Inc.