Diane Roy
Director, Regulatory Affairs

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Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

June 20, 2013

Via Email
Original via Mail

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: FortisBC Energy Inc. (FEI) Application for Approval of a Multi-Year Performance Based Ratemaking (PBR) Plan for 2014 through 2018 (the 2014-2018 PBR Plan)

PBR Workshop Materials

On June 19, 2013, FEI held a PBR workshop related to its 2014-2018 PBR Plan.

Attached please find the list of attendees present at the workshop, as well as the presentation materials from the workshop for the record of this proceeding.

If you require further information or have any questions regarding this submission, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (e-mail only): FEU 2012-2013 RRA Registered Parties

FortisBC

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Performance Based Ratemaking (PBR) Workshop

June 19, 2013

Attendee Sign-in

Last Name	First Name	Company / Representing	Signature
Fraser	Janet	BC Hydro	
Gamache	Janna	BC Hydro	
Hobkirk	Bryan	BC Hydro	
James	Fred	BC Hydro	
Sahota	Linda	BC Hydro	
Braithwaite	Tannis	BCPSO	
Pritchard	Erin	BCPSO	
Andrews	William	BCSEA	
Hackney	Thomas	BCSEA	
Cheng	Eileen	BCUC	
Domingo	Yolanda	BCUC	
Nakoneshny	Philip	BCUC	
Ross	Laura	BCUC	
Sue	Suzanne	BCUC	
Walsh	Sarah	BCUC	
Craig	David	CEC	
Weafer	Chris	CEC	
Greyson	Keith	City of Kelowna	(attended)
Quail	Jim	COPE 378	
Worth	Leigha	COPE 378	
Langley	Jim	Sentinel Energy Management Inc.	

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Performance Based Ratemaking (PBR) Workshop

June 19, 2013

Attendee Sign-in

Last Name	First Name	Company / Representing	Signature
Proctor	Bevin	BCUC	
Tran	Julie	BCUC	
Hill	SING	FortisBC	

FortisBC

Performance Based Ratemaking (PBR) Workshop
June 19, 2013
Attendee Sign-in

FortisBC Representatives and Employees:

Last Name	First Name	Company / Representing	Signature
Overcast	Ed	**Black & Veatch**	
Ghikas	Matt	**Fasken Martineau**	
Bevacqua	Ilva	**FortisBC**	
Dall'Antonia	Roger	**FortisBC**	
Gosselin	Rick	**FortisBC**	
Martin	Joyce	**FortisBC**	
Perttula	Dave	**FortisBC**	
Roy	Diane	**FortisBC**	
Swanson	Dennis	**FortisBC**	
Herbst	Ludmila	Farris (for FortisBC)	
Miller	Erica	Farris (for FortisBC)	

PBR Terms and Definitions

Item	Definition
Capital Rebasing	The process of adjusting a utility's rate base by adjusting the opening rate base to actual. This typically occurs outside of the PBR term.
Consumer Dividend	Similar in concept to the Stretch Factor.
Consumer Price Index (CPI)	One of the possible measures used to establish the I-Factor in the PBR Formula
Cost of Service (COS)	Determination of a utility's revenue requirement for a test year based on the sum of its cost of service including a rate of return on rate base.
Earnings Sharing Mechanism (ESM)	An ESM generally establishes a formula for sharing with the utility's customers earnings in excess of (or below) a designated amount.
Exogenous Factors (Y-Factors and Z-Factors)	Factors beyond utility management's control such as regulation or laws.
Going-in Rates/Costs	The starting rates or costs for the implementation of a PBR plan.
Hybrid PBR	Combines elements of PBR such as rate indexing with traditional cost of service elements such as capital trackers, deferral mechanisms, and other discrete adjustments outside the PBR formula.
I-Factor	Also referred to as an inflation factor or an input price index. The I-Factor is the component of a PBR plan that reflects the expected changes in the prices of inputs that the utility uses.
Incentive Regulation	Another term used for PBR.
K-Factor	Also known as a Capital factor. The K-Factor recognizes that there are circumstances in which a PBR plan would need to provide for revenues in addition to the revenues generated by the I-X formula in order to provide for some necessary utility capital expenditures.
Off-Ramps	Provisions that permit parties to request either the termination of the utility's PBR plan before the end of the regulatory control period or to modify the terms of the PBR plan.
PBR	Performance Based Regulation. A form of regulation designed to use rewards and penalties to induce the utility to achieve desired business goals, and the utility is afforded some discretion in achieving the goals.
Price Cap PBR	A PBR plan where an index value is used to adjust a utility's individual rate components by the change in the approved index value for the time period of the PBR plan.

PBR Terms and Definitions

Item	Definition
Productivity Improvement Factor (PIF)	See X-Factor.
Regulatory Control Period	The time period during which the PBR plan applies, with a typical regulatory control period of five years. Also called the PBR term or the PBR period.
Revenue Cap PBR	A PBR plan where an index value is used to adjust a utility's class revenues or components of class revenues by the change in the approved index value for the time period of the PBR plan.
Service Quality Indicator (SQI)	Specific performance measures designed to incent the utility to maintain its current level of service or reliability.
Stretch Factor	An additional percentage sometimes applied to the X-Factor, thereby increasing the overall value for X and thus slowing the growth determined by the I-X PBR formula. Also referred to as a Consumer Dividend.
Total Factor Productivity (TFP)	A method to determine the X-Factor which analyzes the total factor productivity (the ratio of the change in outputs to the change in inputs) of the utility industry.
X-Factor	Also known as the Productivity Improvement Factor. There are many ways to measure productivity including complex econometric measures of total or multi-factor productivity factors or simple measures of changes in outputs and inputs. An X-Factor may also include a Consumer Dividend designed to stretch the utility to be more efficient.
Y-Factor	In a PBR plan, the Y-Factor recognizes those costs that do not qualify for Z-Factor treatment but that should be directly recovered from or returned to customers.
Z-Factor	The Z-Factor (also called an exogenous factor) allowed for an adjustment to the formula to allow for costs or revenues that result from an event outside the control of the utility and for which it has no other reasonable opportunity to recover the costs within the PBR formula.

FortisBC Energy Inc. and FortisBC Inc. 2014 – 2018 Performance Based Ratemaking Plan

Workshop

June 19th, 2013

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Workshop Agenda

Topic	Presenter
Introduction and Overview	**Roger Dall'Antonia** *Vice President Strategic Planning, Corporate Development & Regulatory Affairs*
Overview of PBR, B&V's PBR and Total Factor Productivity Reports	**Ed Overcast, Ph.D.** *Director, Management Consulting Division Black & Veatch Corporation*
Break	
Proposed PBR Framework for FEI and FBC	**Dennis Swanson** *Director, Regulatory Affairs – Electric*
FEI Proposals	**Diane Roy** *Director, Regulatory Affairs – Gas*
Closing Comments and Proposed Regulatory Process	**Ed Overcast and Roger Dall'Antonia**

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Status of Rate Setting for 2014

FortisBC Energy Inc. (FEI)

- Filed June 10th
- Evidentiary update in July to reflect 2013 permanent rates and any adjustments related to the Rate Schedule 16 Decision

FortisBC Inc. (FBC)

- Target filing last week of June
- GCOC Phase 1 impacts will be incorporated into a proposed rate smoothing mechanism

FortisBC Energy (Vancouver Island) Inc., FortisBC Energy (Whistler) Inc., FortisBC Energy Fort Nelson Division

- Will file rate-setting applications in Q3/Q4 of 2013

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From the Commission's Decision in FEI's 2012-2013 RRA

"In British Columbia, PBR, combined with the Negotiated Settlement Process has played a role within the rate setting process of FEI. Starting in 2004 and lasting through 2009 FEI operated in a PBR environment. During this period FEI was very successful as targets were met and the Companies note that shared earnings benefits flowing to customers and shareholders totalled $67.5 million each over the six years.

***The Commission Panel is satisfied that there were positive results experienced by both ratepayers and the shareholder over the PBR period**. In addition, the Panel finds there is sufficient evidence to suggest that introducing a PBR environment has the potential to act as an incentive to create productivity improvements."*

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PBR Review

- PBR incents utilities to invest in efficiencies, provided a long enough term and a balanced plan is in place
- BC has a solid record of successful PBR
- The success of our PBR plans provides a strong basis for going forward with a similar model for this PBR

- The opportunities and potential results may be different now than then; but the incentive framework in the proposed PBR plan will lead to a similar response from the utilities as in the past

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Our PBR Objectives

1. To reinforce our productivity improvement culture while ensuring safety and customer service requirements continue to be met;

2. To create an efficient regulatory process for the upcoming years, allowing the companies to focus on effectively managing business priorities and minimizing costs for customers.

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Overview of PBR, B&V's PBR and Total Factor Productivity Reports

Ed Overcast, Ph.D.

Director, Management Consulting Division

Black & Veatch Corporation

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BUILDING A WORLD OF DIFFERENCE

19 June 2013

FORTISBC UTILITIES
PERFORMANCE-BASED REGULATION

PBR Workshop 19 June 2013

BLACK & VEATCH
Building a world of difference.®

TODAY'S DISCUSSION

- Introduction to Performance-Based Regulation (PBR)
- Comparison of Cost of Service (COS) Regulation and PBR
- Key Elements of a PBR Plan
- Recently Approved PBR Plans in Alberta and Ontario
- PBR Plan and X-Factor

INTRODUCTION TO PERFORMANCE-BASED REGULATION (PBR)

INTRODUCTION TO PBR

- PBR is a form of incentive regulation designed to induce the utility to achieve desired business goals, and the utility is afforded some discretion in achieving the goals.
- The most common theoretical starting points of PBR are Price Cap and Revenue Cap.
- Almost all PBR Plans are some form of Hybrid Plans.
- The overall PBR Plan should reflect the circumstances of the utility.

CONCEPTS AND OBJECTIVES OF PBR

- **A Utility's PBR Plan:**
  - Encourages efficiency and productivity
  - Encourages innovation (new products, new services, new technologies)
  - Maintains service quality
  - Places more emphasis on managing the business and less on the regulatory process

GENERAL PRINCIPLES OF PBR

- The PBR plan should, to the greatest extent possible, align the interests of customers and the utility; customers and the utility should share in the benefits of the PBR plan.
- The PBR plan must provide the utility with a reasonable opportunity to recover its prudently incurred costs including a fair rate of return.
- The PBR plan should recognize the unique circumstances of the company that are relevant to the PBR design.
- The PBR plan should maintain the utility's focus on maintaining safe, reliable utility service and customer service quality while creating the efficiency incentives to continue to invest in productivity initiatives.
- The PBR plan should be easy to understand, implement and administer and should reduce the regulatory burden over time.

THE STARTING POINT FOR PBR

- The PBR plan must have a base year or “going-in” prices or revenue requirement from a test year
- Traditional COS forms the basis for the starting point
- COS is used to determine class rates or class revenue requirements for the initial starting point

BASIC PBR CONCEPTS

- **Price Caps and Revenue Caps**
- **The same basic formula applies:**

  PCI = I-X + Z or RCI=I-X + Z

  - PCI is the Price Cap Index
  - RCI is the Revenue Cap Index
- **I is a measure of inflation (CPI, Producer Price Index (PPI), etc.)**
- **X is a measure of productivity**
  - Total Factor Productivity (TFP)
  - Productivity Improvement Factor (PIF)
  - May include a value for the consumer dividend (stretch factor or customer benefit)
- **Z is a factor for exogenous impacts such as tax changes or other government-mandated costs or other uncontrollable costs**

COMPARISON OF COST OF SERVICE AND PBR

COS, "PURE" PBR, AND "HYBRID" PBR

- Traditional Cost of Service (COS) – Regulator approves all elements of the utility's cost of service including determining a return on equity and an overall rate of return
- "Pure" PBR – In determining the price or revenue cap, the regulator does not review the utility's costs or profits, but instead establishes an adjustment to its prices for each year of the regulatory control period
- "Hybrid" PBR – Price or revenue caps are determined in conjunction with COS for the initial price. There are multiple provisions to share the Plan's risks and to permit cost recovery outside of the basic PBR formula in subsequent years
- Virtually all utility PBR plans are hybrid in structure

COMPARING COS AND PBR – EXAMPLES OF COMBINING THE BEST OF EACH

- Hybrid PBR Plans exist where elements of both COS and PBR are applied to a utility's rates
- The PBR formula is applied to the utility's operating expenses and its capital is adjusted based on actual rate base
- The PBR formula is applied and Rate of Return is adjusted on an annual basis
- The PBR formula is applied and various adjustments are used such as a capital tracker and earnings sharing.

KEY ELEMENTS OF A UTILITY'S PBR PLAN

KEY ELEMENTS OF A UTILITY'S PBR PLAN

- Provide appropriate incentives to encourage superior performance
- Easy to implement, avoid excessive administrative costs
- Readily understandable, acceptable to stakeholders
- Reduce regulatory process

KEY ELEMENTS OF A UTILITY'S PBR PLAN

- The Regulatory Control Period (Term of Plan)
- The PBR formula for an adjustment mechanism- Inflation Factor minus Productivity Factor (X-Factor) and Z-Factor
- Flow through Expenses and Revenues
- Exogenous Factors/"Off-Ramps"
- Earnings sharing mechanisms (including dead-bands)
- Efficiency Carryover Mechanisms
- Inclusion of SQIs
- Frequency and methods of reporting

KEY ELEMENTS OF A UTILITY'S PBR PLAN

- **Measure of inflation**
  - Single measure such as CPI, GDP-PI Local, or national measure
  - Combined measure such as CPI and Wage based measure, Local or national
  - Firm specific measure
- **Measure of productivity: Total Factor Productivity (TFP), Multi-Factor Productivity (MFP), consensus of research, negotiated, include a stretch factor**
- **Elements for inclusion in the Z-Factor**
- **Efficiency carry over mechanism**

RECENTLY APPROVED PBR PLANS IN ALBERTA AND ONTARIO

STRUCTURE OF ALBERTA PBR PLANS

- AUC adopts PBR for Gas and Electric Utilities
- Five (5) Year Term of Plan
- Gas Utility Mechanism- Revenue per customer cap
- Electric Utility Mechanism- Price cap
- I- Factor Determination: Weighted CPI and AWE (Average Weekly Earnings) both for Alberta
- X-Factor Determination: TFP=0.96, Consumer Dividend= 0.2 for a total X=1.16
- All Alberta utilities proposed a negative X-Factor

STRUCTURE OF ALBERTA PBR PLANS

- Z-Factor included in the index subject to materiality measured as 40 basis points on ROE
- K-Factor to reflect major capital requirements included
- Y-Factor to recover pass-through costs not included in the Z-Factor or K-Factor such as AESO costs or Commission-approved costs.
- PBR Plan includes a re-opener provision based on two (2) consecutive years of +/- ROE of 300 basis points or a single year of +/- ROE of 500 basis points

ONTARIO 4TH GENERATION ELECTRIC PBR

- **The PBR Plan consists of three options based on the unique characteristics of the electric distributors (municipal distributors and a large number of different sized utilities)**
- **Terms of the plan differs under the three options with some common provisions and reflect the evolution of PBR Plans over time**
- **The three options are as follows:**

  The 4th Generation Incentive Regulation (IR)

  The Custom IR

  The Annual IR Index

Key Point: As plans evolve a one size fits all approach is not the best option

ONTARIO KEY FEATURES

4th Generation IR

- Term=5 years
- Price Cap Index
- I-Factor- Local Composite

Custom IR

- Term= 5 years
- OEB Review for increase
- Inflation only one factor to be considered in annual adjustment

Annual IR Index

- No Fixed Term
- Price Cap Index
- I-Factor – Local Composite

ONTARIO KEY FEATURES

4th Generation IR

- X-Factor Productivity plus a stretch factor- Zero proposed TFP
- Stretch factors customized ranging from 0.0 to 0.6

Custom IR

- OEB to consider multiple factors including productivity

Annual IR Index

- X-Factor Productivity plus a stretch factor
- Stretch factors customized

ONTARIO KEY FEATURES

- Z- Factor for unforeseen events subject to a materiality test based on size of distributor
- Y- Factor for deferral and variance accounts
- K-Factor for 4th Generation IR only the option to include incremental capital not otherwise included in the plan
- K-Factor not necessary for other two plans because of the nature of the plan

ONTARIO KEY FEATURES

- No earnings sharing
- Off-ramp with +/- 300 basis points on ROE triggering a review or utility initiated review
- Potential to add an Efficiency Carryover Mechanism (ECM)
- SQIs included with performance benchmarking among utilities

ONTARIO GAS PBR

Enbridge Gas Distribution

- Term- 5 years with option for a two year extension
- Revenue cap with average use adjustment
- I- factor- GDP IPI FDD
- No X-factor - uses an inflation coefficient

Union Gas Ltd.

- Term – 5 years
- Price cap with an average use term that converts to essentially a revenue cap
- I-factor- GDP IPI FDD
- X-factor fixed at 1.82% based on agreement

ONTARIO GAS PBR

Enbridge

- Z-factor for non-routine events subject to tests and materiality
- Y-factor for deferral and variance accounts based on a list.
- K-factor none under plan

Union

- Z-factor for non-routine events subject to tests and materiality
- Y-factor for deferral and variance accounts based on a list
- K-factor none under plan

ONTARIO GAS PBR

Enbridge

- Earnings Sharing- asymmetric outside a dead band of 100 basis points above ROE
- Off ramp at +/- 300 basis points on ROE
- No efficiency carryover
- SQRs outside plan

Union

- Earnings sharing- symmetric based on graduated sharing
- No off-ramp based on modified sharing plan
- No efficiency carryover
- SQRs outside plan

THE X-FACTOR AND PBR

THE X-FACTOR IN PBR

- The X-Factor determines the rate of change in prices or revenues relative to inflation (positive X means changes slower than inflation and negative means changes faster than inflation)
- Elements of X-Factor are Total Factor Productivity (TFP) - TFP measures the rate of change in inputs and outputs. Also may include a stretch factor
- TFP study considerations differ for gas and electric

DETERMINATION OF X-FACTORS FOR FORTISBC UTILITIES

- X-Factor determined based on a variety of data
- Analysis included a TFP study for each of gas and electric utility, recently approved X-Factors and the Companies desire to have customers benefit from the plan with rates below inflation

GAS TFP STUDY

- **Based on 95 US LDCs**
  - US data is the only complete data source
  - Companies are comparable for a variety of reasons
- **TFP measures the rate of change in inputs and outputs.**
  - If inputs change faster than outputs TFP is negative.
  - If inputs change slower than outputs TFP is positive.
  - TFP is not a measure of efficiency.
- **Several options for TFP analysis, we chose a straight forward and transparent analysis**

DETERMINING TFP-OUTPUT

- Output Measure: For a gas LDC we know from cost of service analysis that distribution costs are caused by customers and design day capacity
- The correct output measure is a combination of customers and capacity or either customers or capacity

DETERMINING TFP: INPUTS

- Three basic categories of inputs: capital, labor and materials and supplies
- As with output the inputs need to be combined in a composite factor
- To combine the inputs we used the Kahn Method as it is called and accepted at the FERC (US Federal Energy Regulatory Commission)
- This method uses an ex-post measure of capital and a combined measure of labor and materials and supplies

DIRECTIONAL INDICATORS FOR TFP RESULTS

- The logic of TFP results is driven by circumstances of the gas LDCs that are in the process of replacing infrastructure
- Infrastructure replacement increases cost to provide the same output pointing to a negative value for TFP
- The TFP study produces negative values for each measure of output

DETERMINING THE X-FACTOR BASED ON TFP STUDIES

- Determination of the X-Factor is more than just a negative TFP value
- The X-Factor must be determined as part of the whole PBR Plan
- Under the FortisBC PBR Plan, not all capital expenditures are included in the formula because CPCN projects are discrete, lumpy and subject to regulatory review

DETERMINING THE X-FACTOR BASED ON TFP STUDIES

- Since the TFP study uses ex-post capital costs, projects like CPCN are in the input measure for the study but not subject to the revenue cap in the PBR Plan
- The X-Factor of 0.5% includes a very significant and challenging stretch factor
- There are trade-offs in the plan that make the proposed X-Factor too high without an earnings sharing mechanism which protects financial integrity for the utility and provides immediate benefits from cost savings to customers

KEY CONCLUSIONS ON THE X-FACTOR

- The X-Factor determination used inputs that were theoretically sound in the TFP analysis
- It recognized the interrelationships between the X-Factor and other elements of the plan
- It provides immediate benefits to customers in terms of rates below the rate of cost inflation
- It will require the commitment of the Company to a culture of continuous improvement

QUESTIONS AND DISCUSSION

Proposed PBR Framework for FEI and FBC

Dennis Swanson

Director, Regulatory Affairs – Electric

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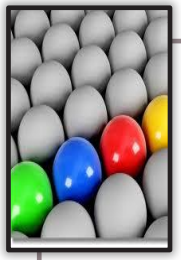
PBR Principles

In No Particular Order

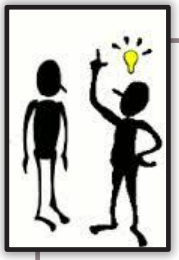
The PBR Plan should align interests of the customer and utility

The PBR Plan should provide an opportunity for utility to recover costs and earn a fair return



The PBR Plan should recognize unique circumstances of the utility and tailor an appropriate PBR

The PBR Plan should maintain safety and quality metrics while providing incentives to increase productivity



The PBR Plan should be simple to understand, easy to implement and minimize the regulatory process

These principles are generally accepted for PBR Plans across North America

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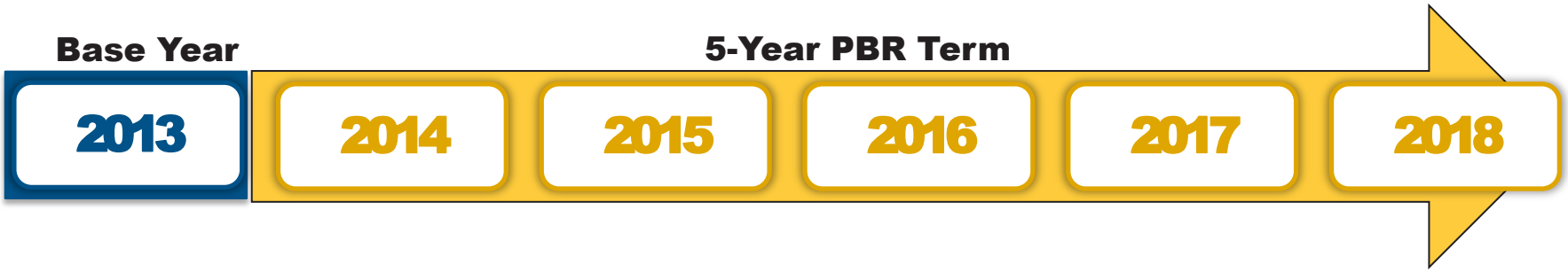
Proposed PBR Term



Benefits

- Provides stable rates for customers over the term of the PBR
- Reduces frequency of regulatory filings

Rationale

- Consistent with many prior BC PBRs
- Many North American PBRs are five years in length

A five-year term allows a utility to realize long-term cost savings that will benefit both customers and shareholders

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Proposed Inflation "I" Factor

PBR Formula Components

The utilities propose a Weighted Composite Inflation Factor that includes both a Labour And Non-labour Component

$$I - Factor = 55\%BC - AWE + 45\%BC - CPI$$

Weighting	Labour Component	Non-Labour Component
Reflective of Utility's Cost Structure	**Average Weekly Earnings Index**	**British Columbia Consumer Price Index**

The Companies will provide updated Inflation forecasts of AWE and BC CPI at each Annual Review

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Proposed Productivity Improvement Factor

PBR Formula Components

Proposed 0.5% X-Factor over PBR Period

Results of Black & Veatch's TFP Studies indicate negative productivity gains in recent years for the gas and electric utility industries

We are proposing a 0.5% X-Factor

This poses a significant challenge for the Companies

0.5% X-Factor includes a large stretch factor, and is significantly higher than the values produced by the TFP studies

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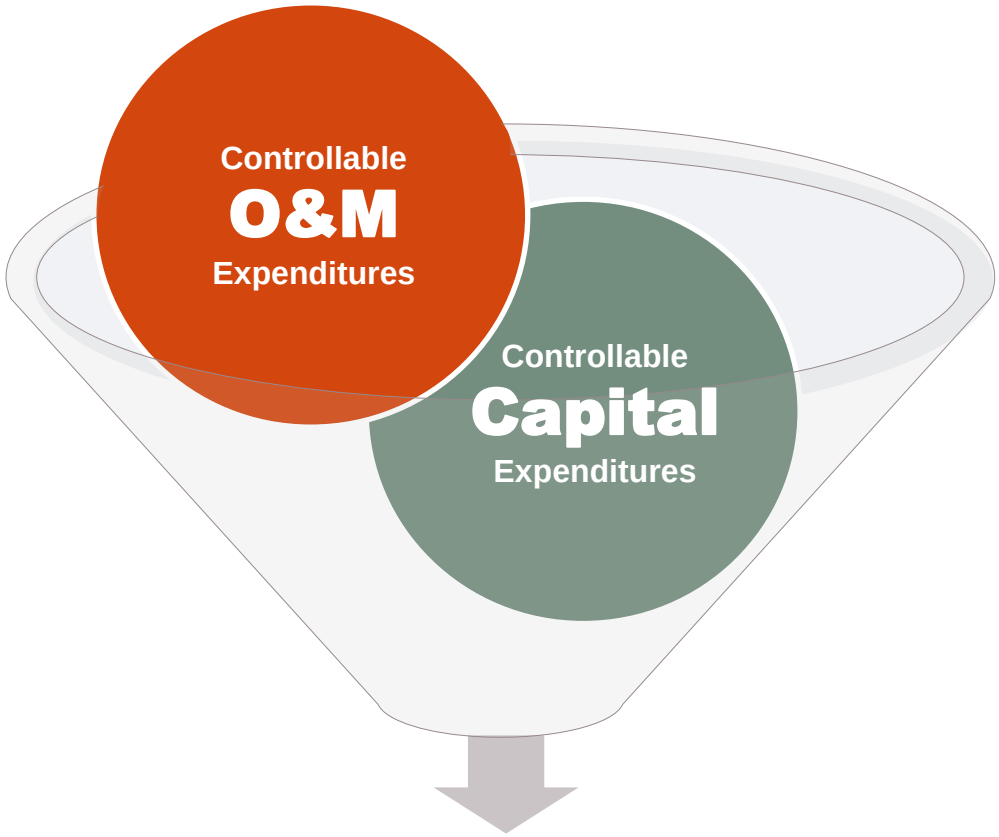
Expenditures Under PBR Formula



Subject to PBR Formulas

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Controllable O&M Expense Under PBR

Escalated annually by the Inflation Factor and forecasted Customer Growth; reduced by the Productivity Improvement Factor

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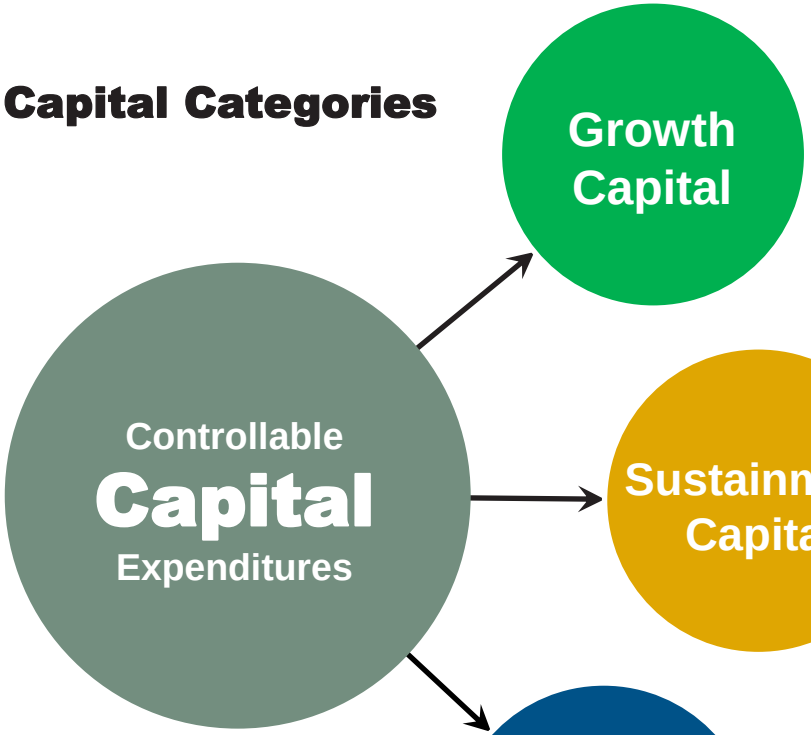
Controllable Capital Expenditures Under PBR

Three Capital Categories



- **Driven by Costs Associated with Providing New Service to Customers**
- **Driven by Number of Customers Served on the System**
- **Driven by Number of Customers Served on the System**

2013 Approved, including Adjustments, becomes 2013 Base

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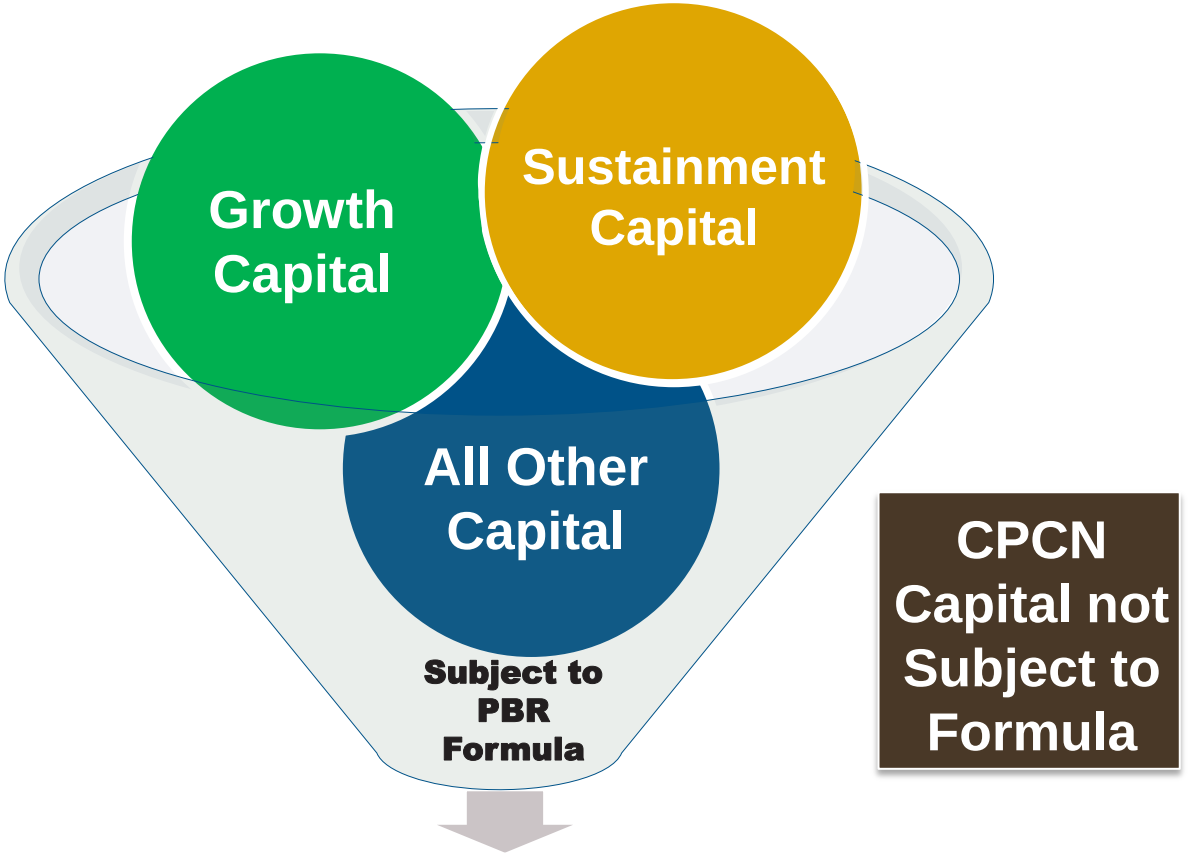
Controllable Capital Expenses Under PBR



Growth Capital Escalated annually by the Inflation Factor and Customer Additions; reduced by the Productivity Improvement Factor

Sustainment and **Other Capital** Escalated annually by the Inflation Factor and forecasted Customer Growth; reduced by the Productivity Improvement Factor

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Non-Controllable Expenses and Revenues

Revenues and Expenses Outside of the Company's Control

Items Are:

- Treated outside of the PBR formula
- Non-controllable items flowed through to customer rates through annual rate setting
- Exogenous factor treatment requested as required

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Non-controllable Items

- Non-controllable items are outside of the Company's control, and therefore not subject to the PBR formula
- These items include expenditures as well as certain revenue items
- The impact from these items are flowed through to customer rates
- These items will be re-forecast each year at the Annual Review
- Examples of flow through items may include:
  - Interest Expense
  - Taxes
  - Revenues
  - Power Purchases (electric)

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Exogenous Factors

- Certain factors cannot be foreseen and are beyond the control of the Company
- Impacts will be reflected outside of the formula-driven rates
- Exogenous factors same as prior plans and include:
  - Judicial, legislative or administrative changes, orders or directions
  - Catastrophic events
  - Bypass or similar events
  - Major seismic events
  - Acts of war, terrorism or violence
  - Changes in accounting standards or policies
  - Changes in revenue requirements due to Commission decisions

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Service Quality Indicators

Metrics:

- Safety
- Customer service
- Reliability

Monitored and reported at Annual Reviews

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Earnings Sharing Mechanism (ESM)

50/50 Sharing with Customers	**50% of earnings above or below the allowed level will be shared with customers each year**
	Same mechanism as prior PBRs
	Each year, the customers' share of the difference between actual and allowed earnings for the previous year will be forecast; trued up to actual in the following year

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Efficiency Carryover Mechanism (ECM)

Purpose

A rolling five-year period is proposed for phase-out of the incremental capital and O&M benefits

Provides the same incentive to pursue efficiencies in each year of the PBR term

O&M and capital savings are included in the calculation

ECM Provides An Incentive For The Company To Maintain A Continuous Improvement Culture

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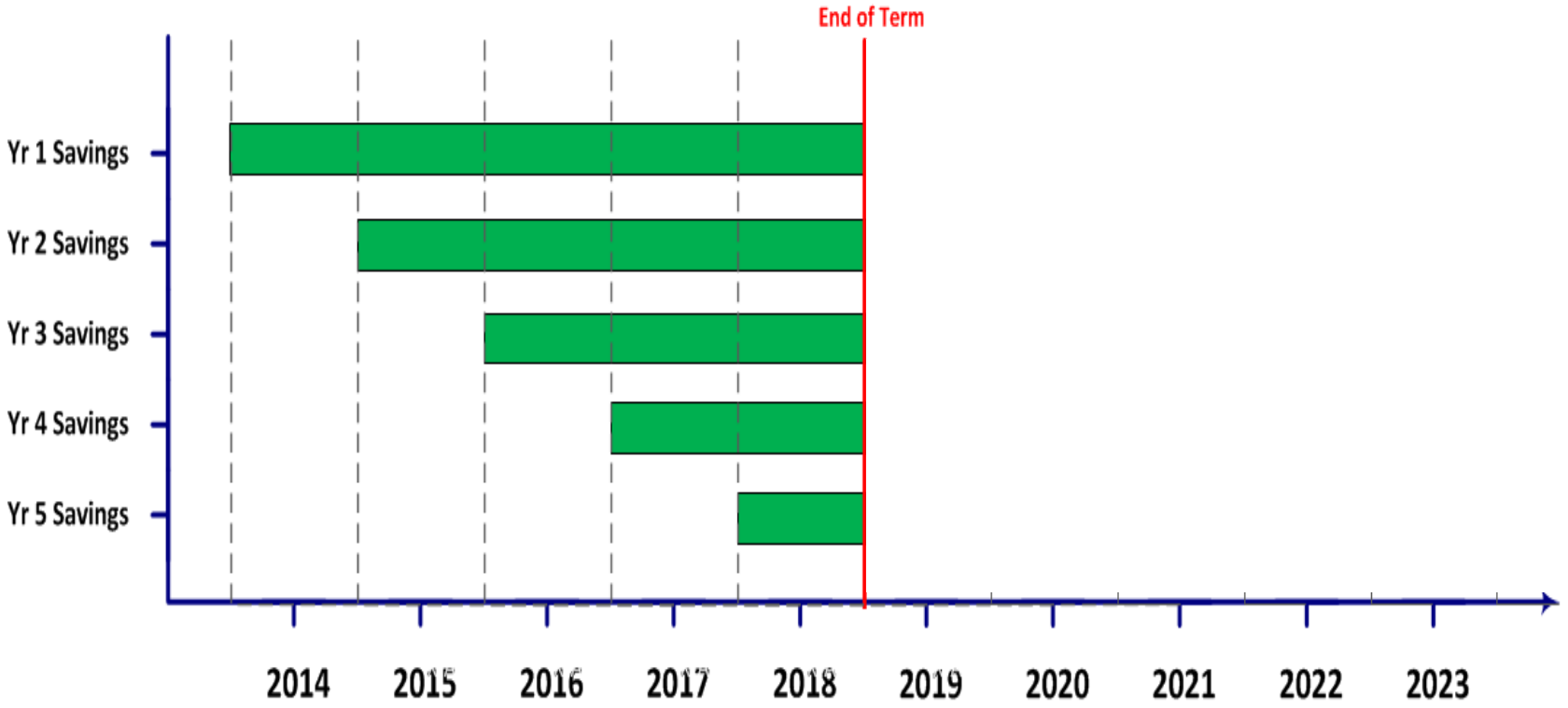
Efficiency Carry Over Mechanism

PBR With Efficiency Carry Over Mechanism Scenario



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Off-Ramp Mechanism

Financial and Non-Financial Triggers	**Designed to protect customers and shareholders from unintended unfair outcomes of the PBR plan**
	Off-ramps include both financial and non-financial components
	Financial Off Ramp triggered if the difference between the achieved and allowed ROE is greater than 200 basis points in a single year of the plan
	Non-Financial Off Ramp may be triggered if there is serious, sustained and unjustified degradation of the SQI metrics within the Company's control

The impact to customers and the shareholder must be considered and balanced against the effect of triggering an off-ramp

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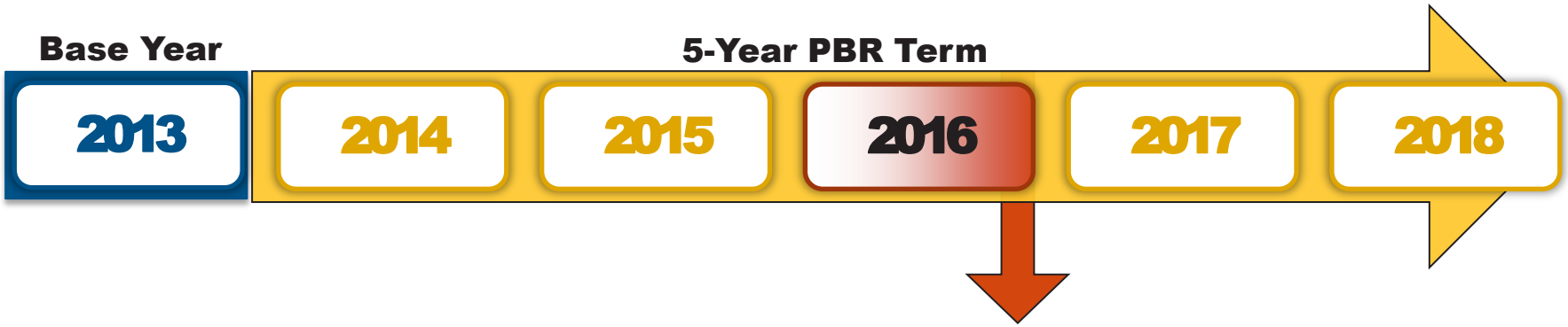
Mid-Term Review



Mid-Term Review: End of 2016

- ☐ To provide an opportunity for parties to review the status of the PBR
- ☐ To address specific, discrete elements of PBR Plan
- ☐ To adjust PBR if certain circumstances occur

Plan only adjusted to address material unintended consequences or material changes in service quality

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Annual Review

Purpose:

- Monitor performance
- Update projections for the current year
- Provide key forecasts for the following year
  (i.e. demand/load, customer additions, deferrals)
- Provide rate proposals for the following year
- Identify anticipated challenges and issues

The Annual Reviews will be held in the fall, and will consist of a Workshop, one round of IRs, Letters of Comment and a Commission determination on Rates

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FEI Proposals

Diane Roy

Director, Regulatory Affairs – Gas

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FEI 2004 – 2009 PBR Results

Productivity Improvement Factor (PIF)	+ O&M Savings	+ Capital Savings
• 7.5 percent decrease in gross O&M • Cumulative O&M benefit of ~$45 million during the PBR term • PIF savings all to customers during the PBR term and rebased after the term	• Cumulative ~$87 million above PIF • Half to customers during PBR term • Savings are rebased into opening O&M after the term	• Benefit ~$50 million above PIF • Half to customers during PBR term • Savings are rebased into opening rate base after the term for ongoing customer benefit

Efficiencies attained to meet and to exceed the productivity improvement targets were achieved without degradation in the quality of service

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Base O&M for FEI

		($ thousands)
2013 Decision		**236,003**
Sustainable Savings		(14,670)
2013 Deferrals:		
PST (full year impact)	762	
BCUC Fees & Insurance	1,016	
Pension (O&M portion)	10,605	12,383
Accounting Changes:		
Allocation of retiree pension/OPEBs	(930)	
Capitalization of annual software costs	(1,800)	(2,731)
2013 Base		**230,985**

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Base Capital for FEI

		($ thousands)
2013 Decision		**117,298**
2013 Deferrals:		
PST (capital portion)	1,999	
Pension (capital portion)	1,311	3,310
Accounting Changes:		
Allocation of retiree pension/OPEBs	930	
Capitalization of annual software costs	1,800	
Vehicles purchased instead of leased	2,860	5,589
2013 Base		**126,197**

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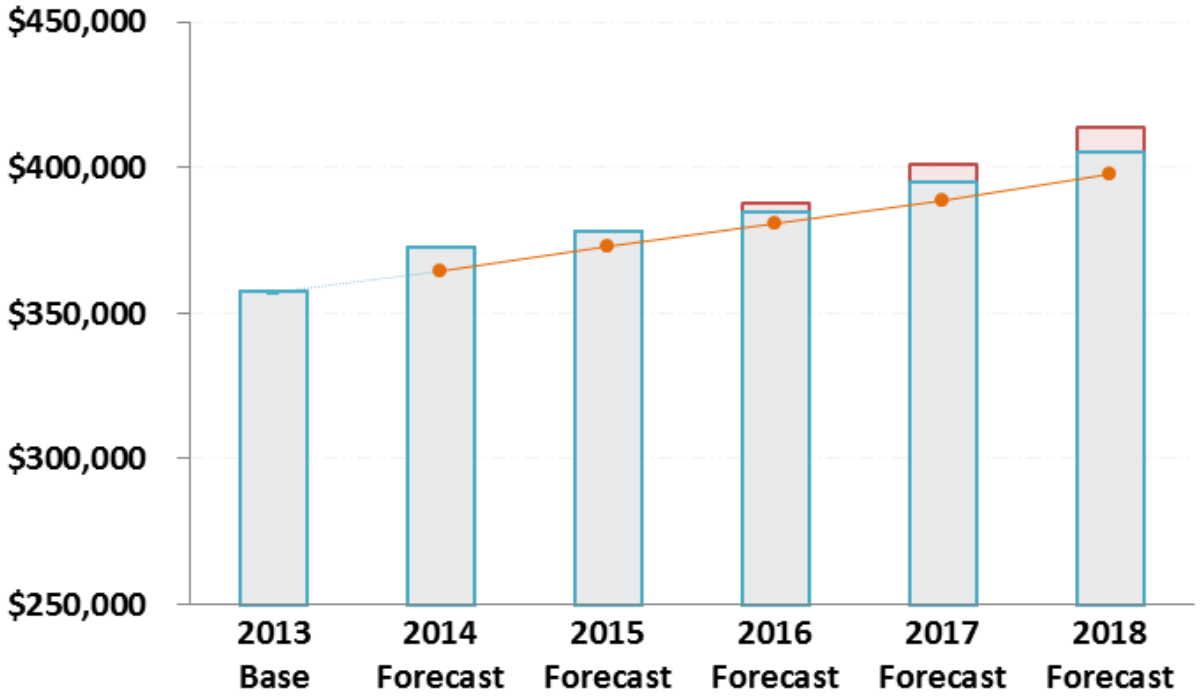
Formula O&M and Capital vs. Cost of Service



	2013 Base	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
TC High Construction Cost Forecast	$357,182	$372,623	$378,175	$387,585	$400,953	$413,965
TC Low Construction Cost Forecast	$357,182	$372,623	$378,175	$384,477	$395,265	$405,386
TC Under PBR	$357,182	$364,272	$372,709	$380,610	$388,363	$397,516

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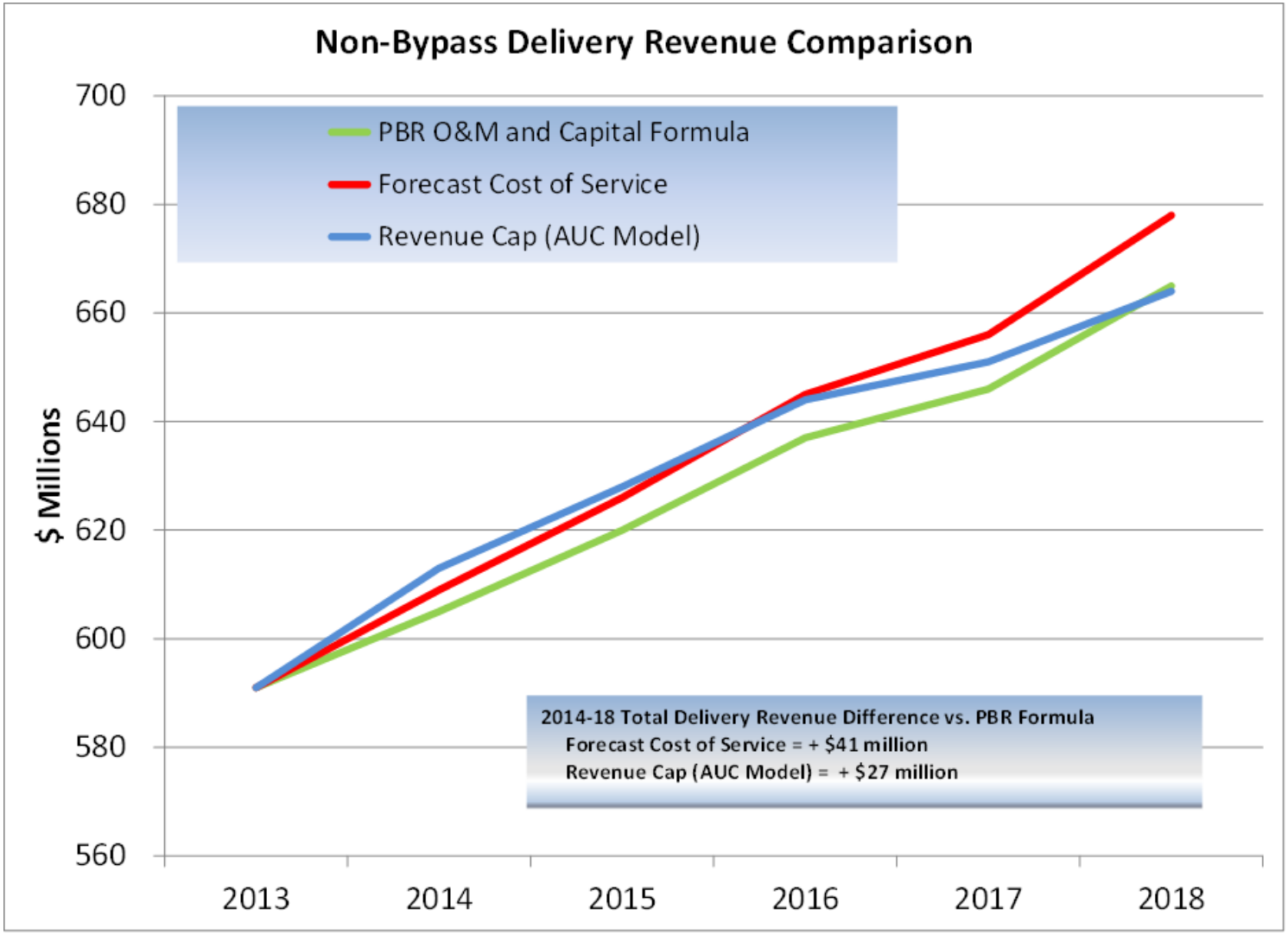
FEI Delivery Revenue Impacts



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FEI Requests in this Application

- Approval of the PBR mechanism for 2014-2018
- Delivery rate increase of 0.7% for 2014
- RSAM rate rider credit of $0.118/GJ
- Deferrals - 2 new, 11 changed, 16 discontinued
- 7 accounting related changes
- Shared services allocations to FEVI and FEW
- Corporate services fee from FortisBC Holdings Inc.
- EEC approvals for FEI, FEVI, FEW

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Closing Comments and Proposed Regulatory Process

Ed Overcast and Roger Dall'Antonia

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THE FORTISBC UTILITIES PBR PLAN

- Overall the plan is sound
- It uses an improved composite measure of inflation
- It includes a positive X-factor when logic suggests that even zero might be a stretch
- The plan correctly focuses on controllable costs and provides for reasonable recovery of uncontrollable, unforeseeable and unpredictable costs
- The inclusion of earnings sharing and efficiency carryover provide added benefits to stakeholders

THE FORTISBC UTILITIES PBR PLAN MEETS THE PRINCIPLES FOR PBR

- The PBR plan should, to the greatest extent possible, align the interests of customers and the Utility; customers and the utility should share in the benefits of the PBR plan.
- The PBR plan must provide the utility with a reasonable opportunity to recover its prudently incurred costs including a fair rate of return.
- The PBR plan should recognize the unique circumstances of the Company that are relevant to the PBR design.
- The PBR plan should maintain the utility's focus on maintaining, safe, reliable utility service and customer service quality while creating the efficiency incentives to continue with its productivity improvement culture.
- The PBR plan should be easy to understand, implement and administer and should reduce the regulatory burden over time.

Proposed Regulatory Process

ACTION	DATE (2013)
Workshop	June 19
Commission Information Request No. 1 to FEI	July 8
Intervener Information Request No. 1 to FEI	July 15
FEI Response to Information Requests No. 1	August 15
Commission Information Request No. 2 to FEI	August 30
Intervener Information Request No. 2 to FEI	August 30
FEI Response to Information Requests No. 2	September 20
Negotiated Settlement Process or Hearing if Required (proposed date range)	October 1 to October 21
FEI Final Argument Submissions (if required)	November 1
Intervener Final Argument Submissions (if required)	November 8
FEI Reply Argument Submissions (if required)	November 15
Anticipated Decision	December 4

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