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December 6, 2013

Via Email
Original via Mail

B.C. Sustainable Energy Association
c/o William J. Andrews, Barrister & Solicitor
1958 Parkside Lane
North Vancouver, B.C.
V7G 1X5

Attention: Mr. William J. Andrews

Dear Mr. Andrews:

Re: FortisBC Inc. (FBC)

Application for Approval of a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018 (the Application)

Response to the B.C. Sustainable Energy Association and the Sierra Club British Columbia (BCSEA) Information Request (IR) No. 2, Responses Related to the PBR Methodology

Filed as Response to FBC BCSEA IR No. 3a

On July 5, 2013, FBC filed the Application as referenced above. FBC submitted its response to BCSEA IR No. 2 on November 22, 2013, noting that the responses to BCSEA IR No. 2 questions 73.1, 73.2, 73.2.1, and 73.2.2 related to the PBR Methodology, and would be submitted with the PBR Methodology IR responses.

In an effort to differentiate the IR responses relating to the PBR Methodology which are the subject of the oral portion of the hearing jointly for FBC and FortisBC Energy Inc. (FEI) from those IR responses which relate to other matters for the written portion of the hearing individually for each of FEI and FBC, FBC will mark these IR responses as FBC BCSEA IR No. 3a.

FBC respectfully submits these FBC BCSEA IR No. 3a responses related to the PBR Methodology.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC INC.

Original signed:

Dennis Swanson

Attachments

cc: Commission Secretary
Registered Parties (email only)



FortisBC Inc. (FBC or the Company) Application for Approval of a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018 (the Application)	Submission Date: December 6, 2013
Response to British Columbia Sustainable Energy Association and Sierra Club of BC (BCSEA) Information Request (IR) No. 2 IRs Related to PBR Methodology being filed as IR No. 3a	Page 1

1 **73.0 Topic: PBR performance review**

2 **Reference: Exhibit B-12, Attachment BCSEA 35.2, “Review of FortisBC**
3 **Performance under PBR, 1996 to 2004,” prepared by Elenchus Research**
4 **Associates Inc., August 2, 2005**

5 “The incentive mechanism (or PBR plan) implemented for FortisBC is essentially an
6 indexed cost-of-service plan rather than a full-fledged performance-based regulation
7 plan. The incentive mechanism is a non-litigious, streamlined way of setting revenue
8 requirement and rates using a traditional cost-of-service approach.” [p.14, underline
9 added]

10 73.1 Does FortisBC accept Elenchus Research Associates’ characterization of the
11 1996 to 2004 PBR plan? If not, why not?

12
13 **Response:**

14 B&V provides the following response.

15 Based on the construct of the plan where specific cost elements had their own unique
16 escalation factor (in some cases it was a general form of $I - X$ while in others the escalation was
17 related specifically to cost pass through such as BC Hydro rate increases and the actual cost of
18 preferred stock issues) the conclusion of the report is reasonable. The PBR Plan more closely
19 approximated a formula type rate with some 23 specific factors and another 6 capital project
20 adjustment factors for new capital. Since the annual PIFs in the plan varied from year to year
21 rather than being fixed on a plan term basis, this further supports the view that the Plan is an
22 indexed cost of service type plan attempting to track cost adjustments on a year by year basis.
23 Since revenues related to controllable costs tended to track those costs by category, the
24 conclusion of the report is supported on an even more specific application of the plan.

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28 73.2 In FortisBC’s view, is the proposed 2014-2018 PRB plan accurately described as
29 “essentially an indexed cost-of-service plan rather than a full-fledged
30 performance-based regulation plan”?

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32 **Response:**

33 B&V provides the following response.



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1 No. The proposed 2014-2018 plan is not an indexed cost of service concept. Rather, the I – X
2 mechanism is the traditional form of the PBR model where the X-Factor is consistent with the
3 Bernstein and Sappington article *Setting the X Factor in Price Cap Regulation Plans*.¹ In this
4 context the proposed PBR Plan breaks the link between authorized revenues and the realized
5 cost of service. That is the essential feature of a PBR Plan as conceived by Littlechild and
6 implemented by regulators under the PBR concept.

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10 73.2.1 If so, please comment on how and whether this characterization affects
11 the merits of the 2014-2018 PRB plan.

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13 **Response:**

14 Please refer to the response to FBC BCSEA IR 3a.73.2.

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16

17
18 73.2.2 If not, why not?

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20 **Response:**

21 Please refer to the response to FBC BCSEA IR 3a.73.2.

22

¹ Bernstein, Jeffrey I & Sappington, David E M, 1999. "[Setting the X Factor in Price-Cap Regulation Plans](#)," [Journal of Regulatory Economics](#), Springer, vol. 16(1), pages 5-25, July.