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March 3, 2014

**Via Email**  
**Original via Mail**

Canadian Office and Professional Employees Union Local 378  
c/o Jim Quail, Barrister & Solicitor  
2<sup>nd</sup> Floor, 4595 Canada Way  
Burnaby, B.C. V5G 1J9

Attention: Mr. Jim Quail

Dear Mr. Quail

**Re: FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (collectively the Companies)  
Applications for Approval of a Multi-Year Performance Based Ratemaking Plan  
for 2014 through 2018 (the Applications)  
Rebuttal Evidence to the Evidence of Ms. Barbara Alexander, on behalf of the  
Canadian Office and Professional Employees Union Local 378 (COPE)**

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The Companies respectfully submit the attached Rebuttal Evidence to the Evidence of Ms. Barbara Alexander, on behalf of COPE, in accordance with British Columbia Utilities Commission (BCUC or the Commission) Orders G-9-14 and G-10-14 establishing the Regulatory Timetable for the above noted proceedings,

If further information is required, please contact the undersigned.

Sincerely,

**FORTISBC ENERGY INC. and  
FORTISBC INC.**

***Original signed by: Diane Roy***

**For:** Diane Roy and Dennis Swanson

Attachments

cc (email only): Registered Parties

**FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (collectively FortisBC or the  
Companies)  
Applications for Approval of  
Multi-Year Performance Based Ratemaking Plans for  
2014 through 2018**

**Rebuttal Evidence  
of the  
Companies  
to Evidence of Barbara Alexander (COPE)**

**March 3, 2014**

1 **Q1: What is the purpose of this Rebuttal Evidence?**

2 A1: The purpose of this Rebuttal Evidence is to provide FortisBC's response to aspects of  
3 the evidence of Ms. Barbara R. Alexander (FEI Exhibit C2-10 and FBC Exhibit C4-9)  
4 filed on behalf of the Canadian Office and Professional Employees' Union, Local 378  
5 (COPE). FortisBC disagrees with significant portions of Ms. Alexander's evidence. Our  
6 silence on particular matters raised by Ms. Alexander's evidence should not be  
7 construed as agreement.

8 **Q2: Ms. Alexander states that:**

9 *“there are no incentives in the recommended performance standards to*  
10 *improve performance during the term of the PBR Plans”.* (FEI Exhibit C2-10;  
11 *FBC Exhibit C4-9, p. 9, lines 30-32)*

12 **What is FortisBC's response to this statement?**

13 A2: The base year costs do not reflect the costs that would be required to increase service  
14 levels in a manner suggested by Ms. Alexander. FortisBC already operates at a  
15 relatively high level of service and the Companies are not aware of widespread customer  
16 concern about the service quality provided by FortisBC. Hence, FortisBC did not  
17 consider it to be in the interest of customers to add to the base year costs for enhanced  
18 service levels.

19 In past PBR plans in B.C., SQIs have always been used to monitor and ensure that  
20 service quality remains at acceptable (not improved) levels during the PBR term.

21 **Q3: Ms. Alexander states:**

22 *“It is unfair and unreasonable for FortisBC to reward its managers for*  
23 *improvement in service quality performance and refuse to provide any*  
24 *compensation to its customers if service quality deteriorates.”* (FEI Exhibit C2-  
25 *10; FBC Exhibit C4-9, p. 14, lines 14-16)*

26 **What is FortisBC's response to Ms. Alexander's comments?**

27 A3: Ms. Alexander appears to be drawing the analogy because (a) the Balanced Scorecard  
28 and proposed PBR SQI's include certain common metrics, and (b) the compensation  
29 system based on the Balanced Scorecard can result in factors beyond an individual  
30 employee's direct control resulting in incentive pay not being paid out to that employee.  
31 While both of these facts are true, the analogy is still invalid.

32 The Balanced Scorecard-type methodology is a recognized industry practice for  
33 incentive plans and for compensation in general. Due the symmetrical nature of the

1 Scorecard, employees can benefit but can also be at risk (i.e. compensation) for not  
2 meeting performance targets. It is understood that individual employees at different  
3 levels in the organization have differing levels of influence over the metrics included on  
4 the Scorecard, and yet can benefit or be at risk irrespective of the extent of their  
5 individual contribution and influence. However, the logic of the compensation system  
6 and applying it to all eligible employees is that, by establishing appropriate targets based  
7 on historical performance for the metrics selected, the Company fosters an environment  
8 encouraging improvement by its employees at all levels, which also benefits ratepayers.

9 Utility regulation falls within a completely different paradigm and legislative framework. It  
10 is fundamental to utility regulation that prudently incurred costs are recoverable in rates.  
11 This requires a different approach to SQI's than might otherwise be appropriate in  
12 compensation schemes. That is, the utility can only answer for circumstances within its  
13 control and cannot be penalized when it has acted prudently.

14 **Q4: Ms. Alexander advocates incorporating a specific benchmark for employee safety,**  
15 **stating in part:**

16 ***“Furthermore, both FEI and FBC measure this metric for the purposes of***  
17 ***incentive payment to its managers. The fact that FBC failed to meet its internal***  
18 ***“scorecard” target for this metric in 2012 and that the FBC AIFR results***  
19 ***compared to the Canadian Composite AIFR shows a trend of increasing AIFR***  
20 ***results compared to the clear trend elsewhere in Canada of a lower AIFR are***  
21 ***red flags that should cause the Commission to insist that it remain as a***  
22 ***measurable metric for any SQI and that a specific target should be included to***  
23 ***properly incent the Company to implement safety policies and training***  
24 ***programs.”*** (FEI Exhibit C2-10; FBC Exhibit C4-9, page 26, lines 6-13)

25 **What is FortisBC's response to Ms. Alexander's comments?**

26 A4: There is a well developed regulatory framework to ensure that employee safety remains  
27 a priority. Employee safety is regulated and monitored by the provincial health and  
28 safety regulator (WorkSafeBC) who has the ability to levy financial penalties for non-  
29 compliance, providing ample oversight on matters of employee safety.

30 In the last PBR, the AIFR metric was not included as an SQI for FEI. However, FEI  
31 proposed the addition of the AIFR to its suite of SQIs to monitor company performance  
32 recognizing the importance of employee safety.

33 FortisBC does not believe it is appropriate to establish a benchmark for AIFR given there  
34 may be events outside of the Company's control which may affect results. For example,  
35 during the course of a vehicle incident where an employee is travelling from job site to  
36 job site, an employee may sustain injury in the case of a no-fault incident that is in no  
37 way related to their routine work accountabilities and thus to the provisions of service  
38 quality. The Company tracks this type of injury but the injury is beyond the Company's  
39 control. While the Company may undertake activities and programs such as Defensive

1 Driving awareness and Certificate of Recognition Audit program, incidents may still arise  
2 across the province as described. This concept was recognized in FEI's 2004 PBR  
3 where at page 20 of the Negotiated Settlement Agreement (NSA) attached to Order G-  
4 51-03, the following was stated in reference to three SQIs which included the Customer  
5 Satisfaction Survey:

6 *The parties agree that the SQIs are intended to track Terasen Gas service*  
7 *quality, but acknowledge that the final three SQIs listed below in particular can be*  
8 *influenced by high gas costs and other events beyond the control of Terasen*  
9 *Gas. The three SQIs listed below will be compared to previous years*  
10 *performance, recognizing the impact of events beyond the control of Terasen*  
11 *Gas.*

12 While no benchmark is proposed for AIFR, the annual results will be discussed at the  
13 Annual Review where concerns about the performance of this metric would be  
14 addressed.

15 **Q5: Regarding the Telephone Service Factor SQI, Ms. Alexander states:**

16 *"I recommend that the best practice standard of answering 80% of such calls*  
17 *within 30 seconds be required for calls from both FEI and FBC customers."*  
18 *(FEI Exhibit C2-10; FBC Exhibit C4-9, p. 27, lines 10-12)*

19 *"I recommend that the Commission establish a performance requirement for*  
20 *FBC and FEI that reflects the best practice in many industries and at several*  
21 *utilities that I have referenced in my testimony, that is, an annual average of*  
22 *answering 80% of calls within 30 seconds."* (FEI Exhibit C2-10; FBC Exhibit C4-  
23 *9, p. 28, lines 8-11)*

24 **What is FortisBC's response?**

25 A5: Ms. Alexander provides examples of U.S. based utilities that answer calls within 30  
26 seconds in her response to FEI's IR 1.2.3 Exhibit C2-14. It could equally be said that  
27 there are other U.S. jurisdictions such as Pennsylvania, Texas or District of Columbia  
28 where a benchmark of 70 percent has been determined to be appropriate (and in the  
29 case of Texas, the time frame used in the 70 percent measure is 45 seconds). Given  
30 the diversity of precedents, the best approach is to look at what is actually appropriate  
31 for FortisBC.

32 There is a cost associated with increasing service levels (for instance, it is widely  
33 recognized that there is a close relationship between the call answer time and the  
34 amount of staffing required).<sup>1</sup> To increase service levels, this cost will need to be added  
35 to the base year costs to accommodate the increased resource requirements, and will

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<sup>1</sup> As per the Erlang C formula, an industry standard approach, where the staffing can be derived from inputs like required service level/average call time and volume of call. See <http://www.mitan.co.uk/erlang/elqcmath.htm>.

1 be borne by customers throughout the PBR period. This will also lead to higher rates  
2 coming out of the PBR period than would otherwise be the case.

3 In addition, although Ms. Alexander notes that Central Maine Power Company requires  
4 the call center to perform at the “80% in 30 seconds” level, in fact the 80% benchmark in  
5 Maine is a “qualified” benchmark. A review of the non-emergency TSF calculated in  
6 Maine indicates that Central Maine Power Company may exclude from its calculation the  
7 days that are excluded from the SAIDI and SAIFI calculations. Additionally, the company  
8 may also request permission from the Commission to exclude calls from the calculation  
9 of this indicator on days when specific events beyond the company’s control cause  
10 substantial increases in call volumes. Exclusion of such events from the actual results  
11 will provide for better final results observed, all else equal. There are no such exclusions  
12 in how FEI and FBC calculate their TSF results.

13 **Q6: Ms. Alexander states as follows with respect to the SAIFI and SAIDI SQI measures**  
14 **for FBC:**

15 *“FBC proposes to eliminate any enforceable performance standards from its*  
16 *SQI on the grounds that “there may be external factors that can influence the*  
17 *results.” This is a specious argument. First, the major storms events are*  
18 *excluded from the normalized results reported and relied upon for the*  
19 *historical results and the benchmark that was in effect for the prior PBR plan.”*  
20 *(FEI Exhibit C2-10; FBC Exhibit C4-9, page 30, lines 2-6)*

21 *“Second, it is the duty and obligation of an electric utility to manage its*  
22 *distribution systems and its response to routine outages so as to plan and*  
23 *respond properly to known outage causation factors and events.” (FEI Exhibit*  
24 *C2-10; FBC Exhibit C4-9, page 30, lines 7-9)*

25 *Finally, “[t]he three-year average for 2010-2012 is 2.22 (expressed as hours) for*  
26 *SAIDI, and is only slightly below the 2004-2012 average of 2.37 hours. I*  
27 *recommend that the benchmark performance standard for SAIFI be*  
28 *established at 1.64 (expressed as events), a significant improvement compared*  
29 *to the 2004-2012 average of 2.24.” (FEI Exhibit C2-10; FBC Exhibit C4-9, page*  
30 *31, lines 3-7)*

31 **What is FortisBC’s response?**

32 **A6:** FortisBC responds to each of the three items as follows.

33 Influence of External Factors

34 The IEEE 2.5 beta approach (as proposed by FBC) is an established industry practice  
35 for excluding “major events” resulting in customer outages when calculating reliability  
36 statistics. Ms. Alexander’s argument does not acknowledge that there may be external  
37 factors that can result in temporary variations in reliability levels beyond major events.

1 This is why some jurisdictions such as Maine (cited by Ms. Alexander in her evidence)  
2 exclude not only major events but also may allow the utility to exclude other events that  
3 are beyond the company's control such as work stoppages or strikes. In Maine, this is  
4 called a discretionary exclusion. Therefore, using a 2.5 beta approach does not  
5 completely address the issue of temporal variations in reliability due to the external  
6 factors. Also, it can be the case that there are a number of major storm events in a  
7 given year that, by random chance, may be large but not meet the strict 2.5 beta  
8 exclusion threshold. The exclusion methodology is not perfect and there are external  
9 factors that can influence performance results.

10 In addition to external factors, the impact of the AMI project on reliability performance  
11 measurement is uncertain at this time. As explained in response to information requests  
12 (for instance please refer to FBC response to BCUC IR 1.62.1 (FBC Exhibit B-7)) and  
13 indicated in literature, reliability indicators computed in automatic systems are more  
14 comprehensive than manual or semi-automated systems. As FBC transitions to  
15 automated outage management systems, the historical benchmarks may not be  
16 appropriate for the new measured data and Company and regulator will be faced with  
17 the problem of comparing apples with oranges. Therefore, it is likely to be necessary to  
18 re-set the reliability benchmarks during the mid-term review after the effect of AMI and  
19 the new OMS is more apparent.

#### 20 Management of Electric Systems

21 Regarding the comment from Ms. Alexander that it is the duty and obligation of an  
22 electric utility to manage its distribution systems, it is not necessary to have direct  
23 performance benchmarks to ensure that a utility meets its reliability obligations. As  
24 indicated in Ms. Alexander's evidence, some 24 jurisdictions in the U.S. (i.e.  
25 approximately half) currently do not have reliability benchmarks and have no direct  
26 penalty-mechanism associated with them. These jurisdictions instead rely on monitoring  
27 and reporting systems to better understand the reliability and safety of their networks.  
28 Further, FBC is already legally obligated to meet the requirements set out in the BC  
29 Mandatory Reliability Standards regulations with respect to the reliable operations of the  
30 bulk electric system.

#### 31 Three Year Average

32 Concerning Ms. Alexander's proposal that a three year rolling average approach be  
33 used to establish benchmarks, FBC believes this is inappropriate as service quality  
34 benchmarks should be as stable as possible over the term of the PBR plan. A moving  
35 average has the result of setting increasingly stringent benchmarks as the Company  
36 improves its performance. There will be less and less additional room for improvement  
37 without incurring considerable additional costs as the Company faces exponentially  
38 increasing marginal costs of improving quality. A reasonable balance of cost and  
39 response time must be achieved. In addition, it is harder to achieve a "moving target",  
40 particularly if operational changes can only be implemented over long periods.  
41 Therefore, long-term historical averages such as the 2004-2012 average of 2.24 are

1 more appropriate and can more reasonably reflect the effects of external factors on  
2 FBC's reliability.

3 **Q7: Ms. Alexander's proposal on managing Kept Appointments is that:**

4 *"this policy be changed to require FBC and FEI to offer appointments within a*  
5 *4-hour window and to track whether appointments are met by the Company or*  
6 *not met for Company related reasons."* (FEI Exhibit C2-10; FBC Exhibit C4-9,  
7 page 34, lines 3-6)

8 **Additionally, Ms. Alexander proposes a "\$25 customer compensation credit" for**  
9 **appointments not met. (FEI Exhibit C2-10; FBC Exhibit C4-9, page 34, lines 12-14)**

10 **What is FortisBC's response?**

11 A7: For FEI, most non-emergency appointments are limited to meter exchange activities.  
12 Customers can choose an AM or PM four hour appointment window. FEI tracks the  
13 number of meter exchange appointments met within this four hour window. On average,  
14 for the 2010-2012 time periods, customer service technicians met the appointment  
15 window 95.7% of the time. As explained in response to FBC COPE Supplementary IR  
16 1.9.21, due to the multitude of factors that can impact the timing of customer site visits,  
17 FBC does not track whether it keeps appointments. FBC does endeavor to keep all  
18 appointments as committed to customers, and to reschedule such appointments when  
19 they may be unavoidably delayed.

20 The typical FEI customer service technician's work day includes scheduled meter  
21 exchange appointments, emergency calls and non-urgent non-appointment customer  
22 premise calls such as meter investigations, lock-offs, reconnects and meter re-reads.  
23 The technician requires the customer premise call activities to be somewhat flexible to  
24 be able to respond to the higher priority emergency calls (gas odour, hit lines, fire and  
25 carbon monoxide calls) as they are dispatched and to meet the scheduled meter  
26 exchange appointment. A requirement to set appointments for non-emergency customer  
27 service calls in addition to the existing meter exchanges would increase appointment  
28 setting costs and reduce the ability of the technician to respond to emergencies without  
29 breaking an appointment.

30 There are any number of reasons for appointment cancellations and delays that are  
31 beyond the control of management, such as a customer cancellation or diversion of field  
32 personnel for emergency or major storm events. Road closures and vehicle accidents  
33 may also lead to appointment cancellation and delays that are beyond the control of the  
34 company. Work stoppage and strikes are another type of external factors that may  
35 influence this metric. It would not be reasonable to compensate customers for such  
36 matters.

37 Beyond these factors which influence the company's ability to keep appointments, in  
38 order to even implement Ms. Alexander's proposed \$25 compensation credit for



1 appointments not met, FortisBC would have to develop a system to evaluate the reasons  
2 behind appointment cancellations or delays and determine individual customers'  
3 eligibility for compensation. The cost of implementing and running this system would be  
4 in addition to the \$25 provided to individual customers. The base year costs would need  
5 to be increased to reflect these requirements, which would result in a permanent  
6 increase in rates for customers, all else equal. FortisBC does not agree that any  
7 potential benefits to customers outweigh the costs.

8 **Q8: Regarding the establishment of a benchmark for FEI's proposed Public Contact**  
9 **with Pipeline SQI, Ms. Alexander states:**

10 ***"Based on the historical performance, FEI has reported a decreasing level of***  
11 ***such reported contacts, from 19 in 2010 to 13 in 2012.<sup>44</sup> The rolling three year***  
12 ***average of 16 should be included in the SQI for FEI."*** (FEI Exhibit C2-10; FBC  
13 ***Exhibit C4-9, page 34, lines 16-19)***

14 **What is FortisBC's response?**

15 A8: The Public Contacts with Pipelines measure tracks the number of third party hits (below  
16 ground) per 1,000 BC One Call tickets. The number of third party hits has been declining  
17 for a number of reasons. Damage prevention programs, such as increased BC One Call  
18 and Call Before You Dig advertising and awareness have helped reduce this type of  
19 damage. Other drivers for decreased activity are lower housing starts, municipal  
20 infrastructure activities, increased levels of regulation enforcement (WorkSafeBC and  
21 BC Safety Authority), and pursuit of damage claims through legal and collection  
22 channels. FEI continues to promote damage prevention programs and initiatives to  
23 reduce these types of damages, but the effectiveness of the BC One Call damage  
24 prevention program can be difficult for FortisBC to control in part because funding for the  
25 program comes from different parties in addition to FortisBC.

26 Setting a target for this SQI metric is not appropriate as these are factors outside of  
27 FEI's control. This principle was recognized in FEI's 2004 PBR where at page 19 of the  
28 Negotiated Settlement Agreement (NSA) attached to Order G-51-03 it stated:

29 *Principle:*

30 *Maintenance of existing high levels of service quality is an important feature of*  
31 *this Settlement. The parties recognize that variance in these statistics may occur*  
32 *due to random events or events beyond the full control of Terasen Gas.*

33 And on page 21 of the NSA it stated:

34 *The parties also agree to establish the following directional indicators:*

- 35
  - *Leaks per kilometer of distribution mains*
  - *Number of third party distribution system incidents*
- 36

1 The public contact with pipelines SQI is similar to the number of third party distribution  
2 system incidents that was included in the 2004 PBR.

3 Having a benchmark such as the one that Ms. Alexander has selected is also not  
4 appropriate. The current three year average reflects a declining trend in damages that  
5 coincides with a low ebb in the housing and construction market. As housing starts pick  
6 up and the economy recovers, the ratio results could well deteriorate and the benchmark  
7 will lag.

8 **Q9: Ms. Alexander's recommendation for a compensation structure for the SQI portion**  
9 **of the PBR plan is based in part on the following rationale:**

10 *"I recommend that a total of \$1,800,000 be at risk for service compensation*  
11 *dollars for FBC and \$11,500,000 for FEI. This dollar amount represents*  
12 *approximately 1% of the projected retail jurisdictional revenues for each*  
13 *Company for the calendar year 2012. I have selected the 1% based on my*  
14 *experience with designing similar service quality performance mechanisms*  
15 *and the fact that the Massachusetts maximum customer compensation amount*  
16 *reflected this same level prior to the divestiture of generation supply assets*  
17 *and the implementation of restructuring. (FEI Exhibit C2-10; FBC Exhibit C4-9,*  
18 *page 37, lines 6-14)*

19 **What is FortisBC's response to this aspect of Ms. Alexander's proposal?**

20 A9: Ms. Alexander's proposal would be introducing a significant regulatory risk factor that is  
21 not currently addressed in the return of either Company. It is a particularly significant  
22 risk to the Companies for a variety of reasons. For instance, in the way Ms. Alexander is  
23 envisaging the mechanism, the Companies would bear all of the risk of events that are  
24 beyond its control and for decline in service quality performance that may even be  
25 temporary in nature and not necessarily a cause for concern. Moreover, her proposal  
26 represents an asymmetric risk for the Company as there is no upside benefit even  
27 though there are increased costs associated with improving service quality. The  
28 Company may be penalized for not meeting some SQI's performance targets yet overall  
29 performance for the majority of SQIs may have improved.

30 Even the Massachusetts mechanism incorporates mechanisms such as dead-bands  
31 around the benchmarks to mitigate the effects of temporary fluctuations in service levels,  
32 and offset features where under-performance in an SQI can be offset by over-  
33 performance in another SQI.

34 Even if one were to accept the propriety of a penalty, the way in which Ms. Alexander  
35 has determined the amounts - tying the mechanism to revenues - does not make any  
36 sense. Revenues include significant amounts for items, including flow through items  
37 such as gas commodity and energy supply, which are influenced by events that have no  
38 relationship to the performance of the Companies' service quality indicators.

1 To address concerns about SQL performance, FortisBC has proposed an appropriate  
2 review process where issues can be raised and discussed at the Annual and Mid-Term  
3 Reviews, with changes undertaken where warranted. The outcomes of the PBR Plan  
4 can then be examined in light of the nature of the degradation in the performance of the  
5 SQLs.

6 **Q10: Does this conclude your Rebuttal Evidence?**

7 A10: Yes.

8