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British Columbia Utilities Commission
6th floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Erica Hamilton
Commission Secretary

Dear Sirs/Mesdames:

**Re: FortisBC Energy Inc. (FEI), FortisBC Energy (Vancouver Island) Inc., and
FortisBC Energy (Whistler) Inc. (collectively the “FortisBC Energy Utilities”
or “FEU”)
Order G-105-14
Application for Common Rates Delivery Methodology**

We are counsel for the FEU in the above-referenced proceeding. Pursuant to the regulatory timetable established for this proceeding by Commission Order G-105-14, the FEU file this Final Submission.

Introduction

The FEU filed their Application for a Common Rates Delivery Methodology (the “Application”) on July 16, 2014. The approvals sought are described in section 1.2 of the Application and a draft order is included in Appendix C. In summary, the FEU are seeking approval of:

- The calculation of the 2014 common delivery rates, subject to updating the calculations for the Commission’s decision in the Performance Based Ratemaking (“PBR”) Application when issued.
- The 2015 Rate Stabilization Deferral Account (“RSDA”) Rate Riders as set out in Table 4-12, subject to updating the calculations for the 2015 demand and the closing December 31, 2014 balance in the RSDA and Gas Cost Variance Account (“GVCA”).

- The 2015 Phase-in Rate Riders as set out in Tables 4-15 and 4-16, subject to updating the calculations for the 2015 demand.
- The Amalgamation Flow-Through Account to match actual amalgamation costs with actual amalgamation savings over time.
- The non-rate base Phase-in Rider Balancing Account.

A regulatory timetable was established by the Commission in Order G-105-14 on July 25, 2014 and the FEU responded to information requests from the Commission and interveners on August 22, 2014.

On August 29, 2014, final submissions were filed by three interveners: the B.C. Old Age Pensioners Organization et al. (“BCOAPO”), the Commercial Energy Consumers Association of B.C. (the “CEC”), and Mr. Robinson. The CEC requests that the FEU’s Application be approved as filed. Aside from the topics raised by Mr. Robinson that are out of scope or not relevant to this proceeding, the BCOAPO and Mr. Robinson only opposed the FEU’s requested Amalgamation Flow-Through Account. For the reasons discussed below, the submissions of BCOAPO and Mr. Robinson on this matter should be rejected. The FEU submit that the evidence in this proceeding demonstrates that the approvals sought in the Application are just and reasonable and should be approved as filed.

Amalgamation Flow-Through Account

The only aspect of the Application opposed by BCOAPO is the FEU’s request for approval of the Amalgamation Flow-Through Account to allow the FEU to match and offset the actual costs and savings of amalgamation.¹ The BCOAPO suggest instead that the costs and savings be included in general O&M.

BCOAPO’s position is mainly based on its assertion that it will be difficult to separate amalgamation costs/savings from general costs/savings.² Mr. Robinson similarly asserts that “these costs and benefits are not reasonably verifiable in an independent post implementation audit”.³ This is not the case. The FEU have estimated the costs and savings of amalgamation and described them in detail in the Application and response to IRs.⁴ The actual costs and savings would be recorded in the Amalgamation Flow-Through Account and reviewed by the Commission as part of the annual review process if PBR is approved or as part of FEI’s revenue requirements applications if not. Simply

¹ BCOAPO Final Submission, pp. 1-2.

² BCOAPO Final Submission, pp. 1-2.

³ Mr. Robinson Final Submission, p. 6.

⁴ Exhibit B-1, section 3 and Exhibit B-2, BCUC IR 1.1.2, 1.2.1, and 1.3 series; Exhibit B-3, CEC IR 1.2.1

put, these costs and savings can be identified and reviewed in the same manner as other costs and savings routinely considered by the Commission.

The BCOAPO suggests that event costs (included in communications and media costs) are an example of difficult to separate costs, asserting that “a somewhat arbitrary amount of the cost has been allocated to the amalgamation project.”⁵ Allocating costs of an event or other items for different purposes, however, is common and does not present any difficulties. The estimated \$6,400 in costs for events is minor,⁶ and if there are concerns with the allocation method, then it can be reviewed by the Commission. Furthermore, most costs, such as bill inserts, by their nature do not involve any allocation. BCOAPO asserts that similar issues will arise with respect to legal and regulatory savings, but does not explain why.⁷ The FEU disagree. The FEU have stated that they are currently estimating annual O&M savings of approximately \$430 thousand, primarily in the Finance and Regulatory department from reduced labour, rating agency fees and audit fees.⁸ With respect to labour savings, the FEU have identified the elimination of two positions by mid-year 2015.⁹ There are no issues with respect to identifying these savings.

BCOAPO incorrectly takes the FEU’s discussion of interest savings as an apparent acknowledgement by the FEU that there will be general difficulty with identifying the costs and savings of amalgamation.¹⁰ The interest rate savings, however, have not been proposed to be included in the Amalgamation Flow-Through Account and are not typical of amalgamation savings. Because interest rates are set by market forces, the FEU have acknowledged that it will be difficult to separate how much of the interest expense change will be attributable to amalgamation and how much is due to market forces.¹¹ Interest savings are therefore more appropriately recorded in the separate and existing Interest Variance deferral account as indicated by the FEU in BCUC IR 1.1.2.¹² Although recorded in a separate account, this treatment is aligned with the other amalgamation benefits that will flow through the Amalgamation Flow-Through Account. The O&M-related costs and savings proposed to be recorded in the Amalgamation Flow-Through Account have been identified separately.

⁵ BCOAPO Final Submission, p. 1.

⁶ Exhibit B-2, BCUC IR 1.3.1.

⁷ BCOAPO Final Submission, p. 1.

⁸ Exhibit B-1, p. 16 and Exhibit B-2, BCUC IR 1.2.1.

⁹ Exhibit B-2, BCUC IR 1.2.1.

¹⁰ BCOAPO Final Submission, p. 2.

¹¹ Exhibit B-2, BCUC IR 1.1.2.

¹² Exhibit B-2, BCUC IR 1.1.2.

BCOAPO also asserts that creating the Amalgamation Flow Through Account could create “anomalous outcomes” with respect to PBR.¹³ The FEU note that the CEC disagrees with BCOAPO, when it states:

“the use of a deferral account is an established and appropriate methodology for matching costs to benefits over time. The CEC accepts that the revenue-neutral aspects of the phase-in makes the use of a deferral account necessary and that the temporal impacts of other amalgamation related savings would be inappropriate with a PBR process which may be approved in the future.”¹⁴

Contrary to the BCOAPO’s submission, the Amalgamation Flow Through Account is consistent with FEI’s proposed PBR as FEI indicated that the costs and savings of amalgamation would be subject to exogenous treatment.¹⁵ By recording the costs and savings in the Amalgamation Flow Through Account, the costs and savings will not affect the PBR formula.¹⁶ As described in response to BCUC IR 1.2.1, the FEU’s proposed treatment of the costs and savings will remove any financial impact of amalgamation savings from the O&M that is subject to the PBR formula, and remove any resulting impact on the earnings sharing calculation. The FEU’s proposal therefore isolates the costs and savings of amalgamation and avoids any impact on the proposed PBR plan.

The FEU’s proposed Amalgamation Flow Through Account is an accepted method for matching costs and savings that are realized at different times, which aligns with the proposed PBR and also functions well under a forecast, cost of service regime. In contrast, the BCOAPO’s proposed approach would not ensure that amalgamation costs and savings are offset. Further, assuming PBR is approved, the BCOAPO’s proposal would result in the costs and savings from amalgamation affecting the earnings sharing mechanism, with half of the variance in each year being shared with customers.¹⁷ On the other hand, if PBR is not in place for the entire period that is required to offset the amalgamation costs with savings (forecast to be from 2014 through 2019), then the BCOAPO’s proposal would not work as intended because the O&M treatment may vary between the years. The FEU’s proposal is therefore superior to BCOAPO’s approach.

In sum, the FEU’s proposed approach is reasonable and sound, and achieves the result of matching amalgamation costs and savings without any impact on PBR.

¹³ BCOAPO Final Submission, p. 2.

¹⁴ CEC Final Submission, p. 2.

¹⁵ Exhibit B-1, p. 11; Exhibit B-2, BCUC IR 1.2.1 and 1.2.2.

¹⁶ Exhibit B-2, BCUC IR 1.1.3.

¹⁷ Exhibit B-2, BCUC IR 1.1.2.

Out of Scope and Other Issues

Mr. Robinson's submission addresses topics, such as the loss of the royalty revenues, the adequacy of the FEU's enterprise systems, and the application of performance based measures,¹⁸ that have already been settled by the Commission in Order G-21-14 approving the amalgamation of the FEU and common rates, or that are otherwise not properly within the scope of this proceeding. Mr. Robinson also makes submissions that are wholly unsupported by the record, such as his assertion that there has been "arbitrariness or misstatements".¹⁹ The FEU note in this respect Mr. Robinson's discussion of the Cost Allocation Review by KPMG in 2009,²⁰ which is not on the record in this proceeding and should therefore be disregarded. The FEU respectfully submit that Mr. Robinson's conclusions should be rejected.

Conclusion

The FEU have proposed a Common Rates Delivery Methodology in its Application that appropriately and reasonably implements Commission's Order G-21-14 and will settle some aspects related to the implementation of common rates in 2015. The FEU provided a detailed account of its proposed methodology in its Application and provided thorough responses to the information requests on its proposal. Intervener submissions by and large support the Application, and the FEU have responded above to the issues raised. In the FEU's submission, the evidence convincingly demonstrates that the approvals sought in the Application are just and reasonable. The FEU respectfully request that the Application be approved as filed.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

Christopher Bystrom

¹⁸ Mr. Robinson Final Submission, p. 6 of 7.

¹⁹ Mr. Robinson Final Submission, p. 5 of 7.

²⁰ Mr. Robinson Final Submission, p. 5 of 7.