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British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Patrick Wruck
Commission Secretary and Manager,
Regulatory Support

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc.

Project No. 1598919

Multi-Year Performance Based Ratemaking Plan for 2014 through 2019 approved by the British Columbia Utilities Commission (the Commission) Order G-138-14 – Annual Review for 2018 Rates (the Application)

Reply Argument

In accordance with the Regulatory Timetable for this proceeding set out in Commission Order G-115-17, we enclose for filing the electronic version of the Reply Argument of FortisBC Energy Inc.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[original signed by Christopher R. Bystrom]

Christopher R. Bystrom

CB
Enclosure

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF THE UTILITIES COMMISSION ACT,
R.S.B.C. 1996, CHAPTER 473

and

FORTISBC ENERGY INC.

MULTI-YEAR PERFORMANCE BASED RATEMAKING PLAN APPROVED

FOR 2014 THROUGH 2019

ANNUAL REVIEW OF 2018 DELIVERY RATES

REPLY SUBMISSION OF
FORTISBC ENERGY INC.

November 17, 2016

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PART ONE: INTRODUCTION AND OVERVIEW

1. FortisBC Energy Inc. (FEI or the Company) filed its Annual Review for 2018 Rates (the Application) on August 4, 2017[1] in compliance with British Columbia Utilities Commission (the Commission) Order G-138-14, which approved a Performance Based Ratemaking Plan (the PBR Plan) for FEI for the years 2014 to 2019. On September 26, 2017, FEI filed an Evidentiary Update to the Application.[2] An amended Draft Order was included as Appendix B to the Evidentiary Update.

2. FEI is proposing to keep 2018 delivery rates at approved 2017 levels and to hold the resulting cumulative two-year surplus of approximately $40 million in the 2017-2018 Revenue Surplus Account.[3] FEI is proposing to distribute $3.462 million in earnings sharing to customers in 2017[4] and continues to maintain a high level of service quality.[5]

3. As set out in the Application as updated,[6] FEI requests Commission approval for the following pursuant to sections 59 to 61 of the *Utilities Commission Act*[7]:

(a) Maintain 2018 delivery rates at approved 2017 levels, holding the delivery charge and basic charge at existing levels;

(b) The following deferral account approvals as described in Sections 7.5 and 12.4 of the Application

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[1] Exhibit B-2.
[2] Exhibit B-2-1.
[3] Exhibit B-2-1, Evidentiary Update, p. 2-3.
[4] Exhibit B-2, p. 1.
[5] Exhibit B-2, Application, Section 13.
[6] Exhibit B-2, Application, p. 2; as amended by Exhibit B-2-1.
[7] R.S.B.C. 1996, c. 473.

- Creation of a rate base deferral account for the 2020 Revenue Requirement regulatory proceeding with an amortization period to be proposed when that application is filed.

- Creation of a rate base deferral account for the Surrey Operating Agreement regulatory proceeding with a three-year amortization period.

- A three-year amortization period for the existing 2016 Cost of Capital Application deferral account, commencing in 2018.

- A name change of the 2017 Revenue Surplus account to the 2017-2018 Revenue Surplus account, and an addition of the 2018 surplus of $7.960 million to the 2017- 2018 Revenue Surplus account.[8]

(c) A Biomethane Variance Account (BVA) Rate Rider for 2018 in the amount of $0.026 per gigajoule (GJ) as calculated in Section 10.2.1 of the Application;

(d) Revenue Stabilization Adjustment Mechanism (RSAM) riders for 2018 in the amounts set out in Table 10-11 in Section 10.2.2 of the Application; and

(e) The transfer of the ending 2017 balances in the Rate Stabilization Deferral Account (RSDA) Phase-in Rider Balancing Account and Amalgamation Regulatory Account to the Residual Delivery Rate Riders deferral account as described in Section 10.2.3 of the Application.

4. The Commission-approved regulatory timetable for the proceeding included a round of information requests and a workshop, followed by written argument.[9] On September 26, 2017, FEI responded to information requests (IRs) from the Commission and interveners, including the British Columbia Old Age Pensioners' and Seniors' Organization et al. (BCOAPO), the B.C. Sustainable Energy Association and the Sierra Club of British Columbia (BCSEA), the

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8 As updated in Exhibit B-2-1.

9 Exhibit A-2.

Commercial Energy Consumers Association of British Columbia (CEC), and Movement of United Professionals (MoveUP). The workshop was held on October 17, 2017, and FEI's presentation materials and the transcript of the workshop were placed on the record in the proceeding.[10] FEI filed responses to undertakings from the workshop on October 16, 2017.[11]

5. On November 9, 2017, BCOAPO, BCSEA, CEC and MoveUP filed final arguments in accordance with the regulatory timetable approved by the Commission. The CEC recommends the approval of FEI's application as filed,[12] and neither BCOAPO nor BCSEA take any issue with FEI's approvals sought.[13] Subject to MoveUP's comments on the allocation of costs of the SAP Integration, MoveUP has no objections to FEI's approvals sought.[14]

6. In the remainder of this Reply Submission, FEI will first respond to the topics raised by interveners related to the approvals sought in this proceeding, namely, BCOAPO's submission on the amount of the 2018 surplus and MoveUP's submission on the allocation of costs from the SAP Integration. FEI will then respond to comments of the CEC, BCOAPO and MoveUP related to the evaluation of PBR.

PART TWO: REPLY SUBMISSION ON 2018 RATES ISSUES

A. 2018 Surplus of $7.960 Million

7. BCOAPO's submission that FEI's forecast $7.960 million surplus for 2018 is cumulative and only due to the 2017 surplus is incorrect, and appears to be based on a misunderstanding of the waterfall chart on slide 9 of FEI's workshop presentation.[15] FEI is

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10 Exhibit B-10. The Workshop Transcript is available on the Commission's website at: http://www.bcuc.com/ApplicationView.aspx?ApplicationId=592.

11 Exhibit B-11.

12 CEC Argument, p. 26.

13 BCOAPO and BCSEA Arguments.

14 MoveUP Argument, p. 13.

15 BCOAPO Argument, pp. 2-3.

forecasting a 2018 surplus of $7.960 million, which is in addition to the 2017 surplus of $32.012 million. The cumulative surplus over 2017 and 2018 is approximately $40 million.[16]

8. The 2018 surplus is due to FEI's 2018 revenue forecast at existing rates exceeding FEI's 2018 costs by $7.960 million, irrespective of the $32.012 million 2017 surplus. Exhibit B-2-1, Schedule 16, Column 3 details FEI's 2018 forecast cost and revenues. Line 22 shows the 2018 revenue surplus of $7.960 million that FEI has proposed to add to the 2017 revenue surplus of $32.012 million that will accrue to the 2017-2018 Revenue Surplus deferral account in 2017. The total amount residing in the 2017-2018 Revenue Surplus deferral account at the end of 2018 will be $39.972 million, which is the sum of the two years' surpluses.

B. SAP Integration

1. The SAP Integration is an initiative to integrate the FEI and FortisBC Inc. (FBC) SAP systems.[17] MoveUP argues that the SAP Integration will destroy FEI's ability to track costs and that FEI's allocation based on employee count of approximately 75 percent to FEI and 25 percent to FBC should be reversed, with more costs allocated to FBC.[18] (FEI notes that MoveUP mistakenly indicates that FEI's allocation proposal is 63 percent to FEI and 37 percent to FBC.[19] These percentages reflect the proportionate share of O&M savings forecast for each company due to the SAP Integration.[20]) MoveUP's position is incorrect, appearing to be based more on its opposition to shared services than an assessment of the evidence, and reflects mistaken assumptions about the nature and consequences of the SAP Integration.

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[16] E.g., Exhibit B-10, Presentation Slide 9 and Transcript, pp. 25-26. The 2017 surplus shown on the waterfall chart reflects that 2018 revenue is based on 2016 delivery rates at a $32.012 million surplus compared to 2017 costs. To put it another way, if 2018 costs were forecast to be the same as 2017 costs, then FEI would have accumulated a $32.012 million surplus in 2018.

[17] Exhibit B-2, p. 9.

[18] MoveUP Argument, p. 13.

[19] MoveUP Argument, p. 10.

[20] Exhibit B-11, Response to Undertaking No. 6.

(a) Shared Services are Beneficial and are being Conducted within Commission-Approved Guidelines

2. FEI submits that the root of MoveUP's submissions on the SAP Integration is its continued opposition to increased shared services between FEI and FBC. In response to MoveUP's arguments regarding shared services and integration in last year's annual review proceedings, FEI and FBC submitted that the sharing of services is efficient and benefits both FEI and FBC, as well as the customers of the utilities. In its decision on FEI's Annual Review for 2017 Rates, the Commission dismissed MoveUP's concerns, stating:

> The Panel agrees with the positions taken by FEI with regard to this issue. The Panel also notes that some of the issues are more within the purview of management of operations rather than issues to be addressed by the Commission, with the exception of the potential analysis required to be provided by FEI in the event that the annual costs being allocated to FBC from FEI for handling calls exceeds $100,000 in any one year, as directed by the Commission in the FEI Annual Review of 2016 Delivery Rates Reasons for Decision.

3. The Commission similarly agreed with FBC in FBC's Annual Review for 2017 Rates, stating:

> FBC argues the following:
>
>> … FBC and FEI are sharing services to generate efficiencies that improve service quality and provide service at lower costs than would otherwise be required for the utilities acting separately. This activity is consistent with the direction of the two companies since coming under common ownership, and is consistent with FBC's ongoing focus on achieving efficiencies for the benefit of its customers.
>
> With regard to the cost allocation in the sharing of services between FBC and FEI, FBC submits that the costs are "reasonably allocated pursuant to the shared services agreement between the companies, using a cost per interaction approach that the Commission determined to be fair and reasonable."
>
> **Panel discussion**
>
> The Panel agrees with the positions taken by FBC in its reply argument and declines to take any action on the requests made by MoveUP.

4. FEI submits that MoveUP's underlying concerns with shared services are not aligned with the interests of FEI's customers.

5. Furthermore, MoveUP's submission that the Commission has not examined or made any determinations related to the sharing of services between or integration of FEI and FBC is false.[21] The Commission not only exercises ongoing oversight over FEI and FBC in their revenue requirement and annual review proceedings, the Commission has reviewed and approved FEI's Code of Conduct and Transfer Pricing Policy ("CoC/TPP") for Affiliated Regulated Businesses in 2015 (the "ARB Decision"), and reviewed and approved FEI's All-Inclusive CoC/TPP in 2017. FEI will also be filing a shared services model for review and approval in its next revenue requirement proceeding.

6. In the Commission Decision approving FEI's All Inclusive COC/TPP, the Commission rejected MoveUP's views on shared services and the regulatory oversight of the Commission as follows:[22]

> MoveUP asserts that the proposed All-Inclusive CoC/TPP fails to provide the Commission with the tools necessary for regulatory oversight of shared services and transactions between FEI and its various affiliates and the shared services agreement between FEI and FBC.
>
> The Panel does not agree with MoveUP and is persuaded by FEI's arguments. The Panel agrees with FEI that the proposed CoC/TPP is drafted to take into account prior Commission determinations, including the ARB Decision, the AES Inquiry Report and the RMDM Guidelines, all of which considered appropriate cost allocation methodologies and the avoidance of cross-subsidization. In the Panel's view, the proposed CoC/TPP together with other Commission processes, including revenue requirement applications or annual reviews under PBR plans, provide the Commission with the tools necessary to provide the required regulatory oversight of shared services and resources between FEI and its Affiliates.

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[21] MoveUP Argument, p. 13.

[22] Order G-25-17, dated March 1, 2017, Appendix A, p. 24. Online: http://www.bcuc.com/Documents/Proceedings/2017/DOC_48840_G-25-17_FEI_All-Inclusive_CoC_and_TPP_final_order.pdf.

> In the Panel's view, FEI customers, as well as customers of FBC and FAES, benefit from appropriate sharing of employees because it can lead to more efficient use of labour and reduce the need for each utility to take on more staff. Indeed, the current PBR is intended to encourage and give FEI the flexibility to find efficiencies and share the benefits with customers. FEI's proposed All-Inclusive CoC/TPP allows FEI to operate efficiently within appropriate parameters that are aligned with the goals under performance based regulation.

7. In summary, the Commission has and continues to exercise oversight over FEI and FBC, and MoveUP's position on shared services has been rejected in multiple Commission proceedings.

(b) Ability to Track Costs are Unaffected

8. Contrary to MoveUP's statements,[23] the SAP Integration will not affect how transactions are tracked or identified in SAP. FEI and FBC will continue to have the ability to track transactions in SAP by employee through the employee's network ID as discussed in FEI's response to Undertaking No. 2, which explains how each employee is identified in SAP:[24]

> The shared SAP platform does not adversely affect how transactions made by users are tracked or identified. The two companies are distinguished in SAP by separate company codes and each employee's network ID contains the employee's company affiliation, and each transaction is identified by the employee's network ID. The shared SAP platform will have the ability to track the number of transactions by employee should there be a business requirement to do so.
>
> The shared SAP platform will not affect the cost per interaction calculation for FEI contact centre employees that answer calls on behalf of FBC. This is because the cost per interaction calculation for shared contact centre resources is determined based on call volume statistics that come from the telephony system and not from SAP.

9. As indicated above, SAP is not used to track the call volume statistics that are used to calculate the cost per interaction for sharing of certain customer call centre services.

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[23] MoveUP Argument pp. 8 and 10.

[24] Exhibit B-11.

The SAP Integration will therefore have no impact on FEI's ability to calculate the cost of shared customer call centre services.

(c) Benefits of SAP Integration go beyond Shared Services

10. The benefits of the SAP Integration extend well beyond MoveUP's limited characterization of the project being solely about moving FBC to FEI's SAP system and facilitating shared services. FEI listed the benefits as follows:[25]

> The benefits of the SAP Integration Project for the organization and customers include:
>
> 1. reduce duplication of licensing and hardware costs;
> 2. reduce dependency on contracted support services;
> 3. reduce the redundancy when implementing process changes across the companies (configurations having to be applied to two separate systems);
> 4. allow for consistent reporting across both divisions to produce a holistic view of the integrated company which is currently a more manual and inefficient process;
> 5. improve internal and external audit efficiency due to a singular system being audited rather than two, thus reducing the number of key system-based controls to be tested;
> 6. align processes such as payment of invoices, credit card expense reconciliations, preparation and reimbursement of employee expenses, and time entry which will reduce the current inefficiencies for departments with employees in both divisions;
> 7. establish a Single Sign-On feature which will result in reducing time for end users to log into multiple systems to conduct business;
> 8. provide efficiencies for all cardholders across the organization by implementing a new Paperless Expense Management module which will reduce the current inefficient manual credit card and employee expense process;
> 9. replace the current manual and time-intensive intercompany cross-charging process with a more automated process;
> 10. address the inherent risk and future costs associated with certain critical financial toolsets which are no longer supported and out of date resulting in increased financial risk if these products cease to work as intended;
> 11. strengthen the system of internal controls through the implementation of the Business Planning Consolidation (BPC) financial reporting software

[25] Exhibit B-7, MoveUP IR 1.11.2.

which will allow for better integrity of data through increased controls and logging of changes to financial information; and

12. establish a consistent base ERP platform that will allow for upcoming and potential future projects to be consistently implemented for both gas and electric segments, including:
    a) Warehouse Bar Coding;
    b) Integrated budgeting and forecasting solution to replace many large and complex spreadsheets;
    c) financial reporting applications that will allow for the replacement of current key spreadsheets used for financial reporting; these system-based financial reporting applications allow for increased auditable controls and reduce the risk around manual input errors strengthening our system of internal controls which is of benefit in a SOX-compliant organization; and
    d) third party billing solutions to reduce manual processes and provide timely supporting documentation requested by customers.

11. At the workshop, Mr. Henderson emphasized that the project is much more than FBC adopting FEI's SAP platform:[26]

> There is -- you know, it involves the implementation of a single sign-on module which will affect all FEI and FBC electric employees. It includes the implementation of a paperless expense management module. Again, it will affect all employees in FortisBC Energy and FortisBC Electric. There is an update to the budgeting planning consolidation software that we use for financial reporting. Again, a similar sort of allocation amongst employees. Cross-charging will be addressed as part of these $4.2 million of capital costs. There's kind of a solution there to provide greater efficiencies on how those -- that process is undertaken. So again, affects many of the FEI employees. There is some cost accounting changes that we're making around the FEI system that, again, affect employees in FEI.
>
> And even some of the payroll changes being made that will affect some of the reporting around pension. Loaded labour with pension will be affected with FEI employees. So, you know, this isn't just transitioning electric over to the gas system. There is differences between FortisBC electric, and FortisBC energy in terms of how we're using SAP. So, a lot of this process involves assessing what is the best way to conduct business? What is the best way to structure processes where we can? So, I'll emphasize it is not just strictly taking electric platform over. There is a fair bit more that is going into this project.

[26] Transcript, pp. 14-15.

12. Consistent with the above, the forecast O&M savings for FEI and FBC resulting from the SAP Integration are weighted towards FEI as the majority of employees that use SAP and will benefit from the SAP Integration reside in FEI.[27]

(d) Allocation Based on Number of Employees is Reasonable

13. FEI proposes to allocate the costs of the SAP Integration between FBC and FEI based on the employee count within each company, which results in the costs being billed approximately 75 percent to FEI and 25 percent to FBC.[28] The number of employees as a cost allocator is representative of the drivers of the costs being incurred for the project and is therefore consistent with cost causality.[29] This cost allocation approach is often used for shared IT platforms that are used internally by both organizations.[30]

14. FEI and FBC also considered allocating costs based on the Massachusetts formula, number of customers, and forecast O&M savings. Using the Massachusetts Formula would result in a similar allocation of approximately 76 percent to FEI and 24 percent to FBC. The number of customers was not used because customers are not a cost driver for the project. Using O&M savings as an allocator resulted in an allocation of 63 percent to FEI and 37 percent to FBC. FEI considered, however, that there were many qualitative benefits of the project that were more closely aligned with the efficiencies provided to the end users, which supports the use of number of employees in the respective utilities as a driver of cost allocation.[31]

15. In its response to Undertaking No. 5, FEI explains its conclusion to use the number of employees as the allocator:

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[27] Exhibit B-11, Undertaking No. 5.

[28] Exhibit B-7, MoveUP IR 1.11.5.

[29] Exhibit B-9.

[30] Exhibit B-9.

[31] Exhibit B-9. Also see Exhibit B-11, Undertaking No. 5 for further discussion of qualitative benefits.

> FEI considers the number of employees per company to be the most appropriate cost driver of the SAP Integration Project capital and operating costs. The employees are the users of the shared system and are the driver of project costs, and therefore should be the appropriate project cost driver. The number of employees is also expected to be a more stable and practical allocation over the long-term. This overall allocation is further corroborated with the application of the Massachusetts Formula (76%/24%), which has been previously approved by the BCUC to allocate Board of Director and Executive costs between FEI and FBC and has been accepted as a cost allocator in other regulatory jurisdictions, as described in Exhibit B-9.

16. In summary, FEI considered various potential allocators, the benefits of the project to FEI and FBC, and proposed a reasonable allocation methodology based on cost causation.

PART THREE: REPLY SUBMISSION ON EVALUATION OF PBR

17. While the evaluation of PBR is one of the topics that the Commission requires to be addressed in each Annual Review, this is not a topic that impacts rates in 2018 or any decision required by the Commission in this proceeding. In particular, this proceeding has not laid the evidentiary foundation for the Commission to make findings on the purpose or theory of PBR, or whether a second cycle of PBR should follow the present PBR Plan. FEI submits that those are decisions that should be made in the appropriate proceeding designed for that purpose. FEI's comments below therefore remain at a high level. Silence on any particular intervener submission does not indicate agreement.

18. BCOAPO makes a number of suggestions for the next PBR.[32] FEI notes the following in reply:

- Surpluses or deficiencies have been successfully addressed in the annual review processes over the PBR term. Amortization periods for surpluses are best determined in the annual review process when other rate pressures are understood.

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[32] BCOAPO Argument, pp. 3-5.

- FEI is subject to a Commission direction to continue to review the Holts Exponential Smoothing (ETS) method during the remainder of the PBR term.[33] FEI agrees that it is too early to adopt the ETS method at this time for the reasons discussed in the responses to the BCUC IR 1.13 series. As noted there, an FEI amalgamated ETS forecast would first be available for 2021.[34]

- While FEI has been challenged to stay within the capital formula amounts, the current PBR Plan does address how capital is treated and includes incentive properties to find efficiencies in capital execution. FEI agrees that a future PBR should also include these features.

- There were opportunities in this proceeding to test FEI's SAP Integration, and there were a number of information requests[35] and discussion at the workshop on this topic[36] and other major capital projects. FEI is prudently implementing its capital plan[37] and has taken advantage of the certainty and flexibility of PBR to realize capital savings.[38]

19. The CEC's submissions on major initiatives are misleading and incorrect for a number of reasons:

- The CEC does not explain how it calculates the ratepayer costs and benefits of the initiatives. Although FEI has been able to replicate some of CEC's calculations, it does not agree with the underlying logic. CEC does not take into account that capital costs are recovered in rates over a number of years. The CEC does not take into account O&M savings from the major initiatives beyond

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33 Exhibit B-2, Appendix C-1, No. 18.

34 Exhibit B-3, BCUC IR 1.13.1.2.

35 Exhibit B-3, BUC IR 1.5 series; Exhibit B-6, CEC IR 1.7.1; Exhibit B-7, MoveUP 1.11 series; Exhibit B-9.

36 Transcript, pp. 11-20, 48-52, and 97-105.

37 Exhibit B-2, Appendix C-4.

38 Exhibit B-11, Response to Undertaking No. 6.

2017, or only considers savings up to the end of the PBR term.[39] (The six major initiatives considered by CEC will result in approximately $5 million of annual savings in 2018 and $6 million beginning in 2019 and thereafter.[40]) The CEC appears to make questionable assumptions about what customers pay for and benefit from under PBR vs. cost of service. For example, the CEC appears to treat any shared savings as offsetting costs and savings to ratepayers, making it impossible for any project to "break even". For instance, Project Blue Pencil had minimal capital costs to implement (less than $.3 million), and is now generating $1 million in O&M savings each year. CEC, however, concludes that the project "will cost ratepayers $2.8 million by the end of PBR in 2019 to receive a benefit of $2.5 million."[41] The correct analysis is that Project Blue Pencil has an immaterial cost to implement and that customers and ratepayers will equally share the $1 million in O&M savings each year during the PBR term, and that customers will benefit every year after that. FEI submits that CEC's economic analysis of the major initiatives is incorrect and should be rejected.

- The CEC does not take into account qualitative benefits of the initiatives.[42] The Online Service Application, for instance, was undertaken to improve customer service, rather than generate O&M savings.[43]

- The CEC ignores the fact that the major initiatives, except for the Online Services Application, will reduce FEI's revenue requirements and therefore reduce pressure on rates.[44]

- The CEC characterizes capital costs above the formula as "overruns",[45] which misleadingly suggests that the projects are over budget or can be associated

[39] E.g., CEC Submission, para. 11 and 20.

[40] Exhibit B-10, Presentation Slide No. 6.

[41] CEC Argument, p. 5.

[42] See, for instance, Exhibit B-3, BCUC IR 1.2.4.

[43] Exhibit B-2, Appendix C-2, p. 4.

[44] Exhibit B-2, Appendix C-2 sets out the costs and anticipated savings of the major initiatives.

with capital costs being above the formula. The CEC's comments about ratepayers being responsible for such so-called "overruns" are misguided. Under cost of service, all prudent capital costs are recovered from ratepayers. In contrast, under the PBR plan the shareholder does not earn on half of capital expenditures within the dead band, and earnings on expenditures above the dead band are delayed until the following year.[46] This represents a savings for customers under PBR.

- The CEC's comments on what might have been done under cost of service regulation are speculative. It is not possible, or necessary, to prove that a project would or would not have occurred under a different form of regulation. Rather, the end result for ratepayers in terms of rates and service quality are what is important to consider.

- The CEC's comments to the effect that FEI should simply contract cost-effectively, hire an efficiency expert or exercise good management[47] are baseless. Management of the utility is the responsibility of FEI, and FEI has demonstrated repeatedly its good management practices in carrying out its business and ability to create efficiencies.[48]

20. The CEC's comments on headcount are vague.[49] FEI has repeatedly explained how it has achieved savings through its broad-based focus on productivity. FEI states in the Application:

> Much of the remainder of the projected O&M savings is being achieved through the Company's ongoing productivity focus. Resources are being redeployed and roles and responsibilities are being broadened. Departments and employees are asked to review the way they operate to streamline processes and make it more

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[45] CEC Argument, p. 4.

[46] Exhibit B-3, BCUC IR 1.10.7 and 1.10.8, and Attachment 10.7.

[47] CEC Argument, p. 5.

[48] E.g., Exhibit B-2, Section 1.4 and Appendix C-2 and C-4; Exhibit B-11, Undertaking No. 6.

[49] CEC Argument, p. 8-9.

> efficient for our customers to do business with us. Expenditures and filling of vacancies are being reviewed. While some of the savings are one-time in nature (e.g. delay in filling vacancies, lower call volumes due to warmer weather) as the result of the continuing productivity focus throughout the Company, many of the efficiencies and savings are expected to continue into the future, recognizing that cost pressures in the future may offset the savings.[50]

21. These are legitimate types of cost savings which benefit customers and which FEI is incented to achieve under PBR.

22. The CEC's comments dismissing FEI's capital savings under PBR are inaccurate.[51] PBR has provided the benefit of a longer test period with more certainty and flexibility for FEI's capital planning. This has enabled FEI to achieve savings that it otherwise would not have, through economies of scope and scale, procurement, and coordination.[52]

23. While FEI has not been able to keep capital spending within the formula, the CEC's concerns about projects deferred outside the PBR Plan are not warranted. FEI has explained its capital planning process in detail, including the potential for deferral of flexible work.[53] FEI addressed the deferral of projects as follows:[54]

> The management of the capital plan is a dynamic and ongoing process and project timing is routinely shifted to accommodate changing conditions, such as resource constraints, permitting, material delays, project interdependencies, load changes and financial constraints. FEI reprioritizes capital spending as part of its routine management of the capital portfolio and has done so in prior years to accommodate unforeseen events and work, and to mitigate in part some of the pressures seen in the past years of PBR term. However, FEI will not defer significant amounts of capital spending that would result in increased risk exposure.
>
> FEI continuously manages its capital investment plan to:

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[50] Exhibit B-2, p. 5.

[51] CEC Argument, pp. 9-10.

[52] Exhibit B-11, FEI's Response to Undertaking No. 6.

[53] Exhibit B-2, Appendix C-4.

[54] Exhibit B-2, Appendix C-4, p. 17.

- Ensure a safe and reliable gas delivery system;
- Maintain an acceptable risk profile for the system;
- Optimize resources and spending; and
- Achieve efficiencies and cost savings.

> In order to achieve these goals, some projects that are assessed to be less critical to the system, or that are less time-sensitive, may be reprioritized to future years in favour of more urgent projects. Likewise, if additional capital is made available through project delays or cost savings, projects may be brought forward based on their assessed priority and their ability to be successfully executed.

24. The reprioritization of capital projects is a routine part of the management of FEI's capital portfolio. Furthermore, while the formula provides an incentive to stay as close to the formula as possible, FEI also must maintain a level of service and ensure that service quality indicators are not impacted.[55] The evidence is clear that FEI has maintained a high level of service throughout the PBR period.[56] Further, since capital expenditures have been above formula each year of the PBR term, FEI has not realized any benefits from deferring capital. FEI therefore submits that the prudent deferral of some projects outside the PBR term should not be a subject of concern.

25. In response to MoveUP's submission that the PBR Plan should be followed by "a spell of traditional Cost of Service-based regulation",[57] the Commission's Decision approving the PBR Plan itself assumed a second phase of PBR: "While there is no such [benchmarking] study available at this time, the Panel considers that it would be useful to have one completed <u>prior to the application for the next phase of the PBR</u>."[58] [Emphasis added.] FEI also notes that successive PBR periods have previously been approved by the Commission for FEI[59] and occur in

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[55] Transcript, p. 113.

[56] Exhibit B-2, Application, Section 13.

[57] MoveUP Argument, p. 6.

[58] Decision on FEI's Multi-Year Performance Based Ratemaking Plan for 2014 through 2018, dated September 15, 2014, p. 82.

[59] Commission Order No. G-33-07, dated March 23, 2007, approving a two-year extension of the Settlement Agreement for a 2004-2007 Multi-Year Performance-Based Rate Plan for 2008 and 2009.

other jurisdictions, such as in Ontario where the Ontario Energy Board has employed incentive regulation for electricity distributors since 2001.[60]

26. MoveUP and CEC's submissions on the purpose of PBR (e.g. being to "induce truly extra-ordinary achievements"[61] or "better than best standard practices"[62]) repeat the tenor of the submissions already heard by the Commission before approving the current PBR Plan. While this is not the proceeding to have a renewed debate on this topic, the Commission stated in it's 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."[63] The evidence shows that the PBR mechanism has successfully created this environment.[64]

27. Overall, FEI submits that the CEC's and MoveUP's evaluations of PBR, such as MoveUP's characterization of PBR savings as "trivial",[65] are inaccurate. FEI refers to the following facts in reply:

(a) FEI achieved approximately $37.4 million in O&M savings compared to formula over the term of the PBR to date. These savings have been shared equally with customers.[66]

(b) Approximately $15 million of the above O&M savings were achieved through major initiatives.[67]

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[60] Ontario Energy Board, Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach, October 18, 2012, p. 7.

[61] MoveUP Argument, p. 5-6.

[62] CEC Argument, p. 9.

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

[64] E.g., Exhibit B-2, Section 1.4 and Appendix C-2 and C-4; Exhibit B-11, Undertaking No. 6.

[65] MoveUP Argument, p. 6.

[66] Exhibit B-10, Presentation Slide 4. Exhibit B-2, Application, p. 5.

[67] Exhibit B-3, BCUC IR 1.1.1.

(c) The PBR formula includes a 1.1 percent productivity factor, which FEI has met in all years. The productivity factor accounts for an additional $10 million in O&M savings, which are all to the benefit of customers.[68]

(d) FEI's total O&M and O&M per customer are trending favourably over PBR.[69]

(e) FEI has explained the challenges of maintaining capital expenditures within the limits of the capital formula over the PBR term. However:

- FEI'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.[70]

- The longer term certainty and flexibility of PBR has enabled FEI to achieve approximately $9 million in savings to mitigate capital cost pressures.[71]

(f) FEI has maintained a high level of service quality as measured by the approved SQIs.[72]

(g) FEI's delivery rates are trending below inflation.[73]

(h) FEI is not seeking a delivery rate increase for the second consecutive year, and is forecast to accumulate approximately $40 million in surplus revenue to offset future rate increases.[74]

28. The above facts indicate an overall favourable evaluation of PBR to date.

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[68] Exhibit B-2, Application, p. 5.

[69] Transcript, pp. 8-9. Exhibit B-10, Presentation Slide 4.

[70] Exhibit B-3, BCUC IR 1.10.7 and 1.10.8, and Attachment 10.7.

[71] Exhibit B-11, Undertaking No. 6. Transcript, p. 114.

[72] Exhibit B-2, Section 13; Transcript, p. 9.

[73] Transcript, p. 9. Exhibit B-10, Presentation Slide 5.

[74] Exhibit B-10, Presentation Slides 9 and 10.

PART FOUR: CONCLUSION

29. FEI submits that its approvals sought are just and reasonable and should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: November 17, 2017

[original signed by Christopher Bystrom]

Christopher Bystrom
Counsel for FortisBC Energy Inc.