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November 24, 2017
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By Electronic Filing

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 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-139-14

Annual Review for 2018 Rates – Reply Argument

In accordance with the Regulatory Timetable for this proceeding set out in Commission Order G-116-17, we enclose for filing the electronic version of the Reply Argument of FortisBC 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 INC.

MULTI-YEAR PERFORMANCE BASED RATEMAKING PLAN APPROVED FOR 2014 THROUGH 2019

ANNUAL REVIEW FOR 2018 RATES

REPLY SUBMISSION OF FORTISBC INC.

November 24, 2017

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PART ONE: INTRODUCTION AND OVERVIEW

1. FortisBC Inc. ("FBC" or the "Company") filed its Annual Review for 2018 Rates (the "Application") on August 10, 2017[1] in compliance with British Columbia Utilities Commission (the "Commission") Order G-139-14, which approved a Performance Based Ratemaking Plan (the "PBR Plan") for FBC for the years 2014 to 2019. On October 3, 2017, FBC filed an Evidentiary Update to the Application.[2] An amended Draft Order was included as Appendix B to the Evidentiary Update.

2. FBC is requesting a 0.17% increase to rates effective January 1, 2018 rates.[3] FBC has requested, however, that rates remain interim at existing levels pending the outcome of FBC's Application for Acceptance of Demand Side Management Expenditures for 2018 (the "2018 DSM Application").[4] After the completion of the 2018 DSM Application proceeding, FBC would be able to incorporate into its compliance filing for final 2018 rates the updates referred to in the workshop, such as corporate tax changes, and the results of any BC Hydro rate freeze.[5] FBC is proposing to distribute $0.831 million in earnings sharing to customers in 2017[6] and continues to maintain a high level of service quality.[7]

3. As set out in the Application as updated,[8] FBC requests Commission approval for the following pursuant to sections 59 to 61 of the *Utilities Commission Act*[9]:

1. Permanent rates for all customers effective January 1, 2018, resulting in a general increase of 0.17 percent compared to 2017 rates (to be adjusted for

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1 Exhibit B-2.

2 Exhibit B-2-1.

3 Exhibit B-2-1, Evidentiary Update, p. 2.

4 Exhibit B-16.

5 Exhibit B-16. Transcript, pp. 6-7 and 24.

6 Exhibit B-2, p. 1.

7 Exhibit B-2, Application, Section 13.

8 Exhibit B-2, Application, p. 2, as amended by Exhibit B-2-1.

9 R.S.B.C. 1996, c. 473.

updates and the results of the 2018 DSM Application as noted above), to be applied to all components of rates for all customer classes.

2. The creation of five non-rate base deferral accounts, as described in Section 12.4.1 of the Application:

    - Multi-Year DSM Expenditure Schedule, to be financed at the Company's weighted average cost of debt (WACD);
    - Community Solar Pilot Project application, to be financed at the Company's short term interest (STI) rate;
    - Tariff Applications, to be financed at the Company's STI rate;
    - 2020 Revenue Requirements application, to be financed at the Company's WACD; and
    - 2018 Joint Use Pole Audit, to be financed at the Company's WACD.

3. Z-factor treatment for the 2018 incremental O&M and capital expenditures related to the Mandatory Reliability Standards (MRS) Assessment Reports No. 8 and No. 10, as described in Section 12.2 of the Application.

4. The Commission-approved a regulatory timetable for the proceeding included a round of information requests and a workshop, followed by written argument.[10] On October 3, 2017, FBC responded to information requests ("IRs") from the Commission and interveners, including the British Columbia Municipal Electrical Utilities ("BCMEU") 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 Commercial Energy Consumers Association of British Columbia ("CEC"), the Industrial Customers Group ("ICG"), the Irrigation Ratepayers Group ("IRG"), and Movement of United Professionals ("MoveUP"). The workshop was held on October 24, 2017, and FBC's presentation materials and the transcript of the workshop were placed on the record in the proceeding.[11] FBC filed responses to undertakings from the workshop on November 10, 2017.[12]

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[10] Exhibit A-2.

[11] Exhibit B-14. The Workshop Transcript is available on the Commission's website at: http://www.bcuc.com/ApplicationView.aspx?ApplicationId=591.

[12] Exhibit B-15.

5. On November 9, 2017, BCOAPO, BCSEA, CEC, ICG, BCMEU and MoveUP filed final arguments in accordance with the regulatory timetable approved by the Commission. CEC recommends the approval of FBC's Application as filed, although makes recommendations for certain directions to FBC. BCSEA takes no issue with FBC's Application. BCOAPO argues that FBC's costs for Assessment Report No. 10 should not be given Z-Factor treatment. ICG takes no issue with FBC's approvals sought, but argues for certain direction to be provided to FBC regarding a system loss study. BCMEU takes no issue with FBC's Application.

6. In the remainder of this Reply Submission, FBC will first respond to the topics raised by interveners related to the approvals sought in this proceeding. FBC 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. Load Forecast

7. CEC, ICG and BCOAPO's comments or requests for directions related to the load forecast are addressed below. FBC notes that the CEC recommends that the Commission approve FBC's demand forecast[13], and neither ICG nor BCOAPO raise any issue warranting a revised forecast.[14]

(a) Impact of Customer Growth and Volume on Revenue Deficiency

8. In response to BCOAPO's comments that the negative impact on revenue due to customer growth and volume is "at first blush, a bit deceptive",[15] FBC was correctly comparing the 2018 forecast to the 2017 approved volumes because this is what impacts the revenue deficiency.[16]

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[13] CEC Argument, p. 15.

[14] BCOAPO Argument, pp. 3-9.

[15] BCOAPO Argument, p. 3.

[16] Exhibit B-2, p. 14.

(b) Forecast UPC

9. While BCOAPO suggests FBC's forecast of residential UPC may be too low,[17] CEC suggests it may be too high.[18] Consistent with past practice, FBC checks for significant trends in the historical load data.[19] FBC found a statistically significant trend in the residential UPC data and therefore forecast the 2017 Seed Year and 2018 Forecast residential UPC using the three-year trend. An average was used to forecast the UPC in prior years because a statistically significant trend was not previously seen in the historical data.[20]

10. CEC notes the declining UPC and that FBC's forecasts have been higher than actuals in recent years, and requests that FBC be directed to investigate the causes of the declining UPC and alternative forecasting methods.[21] The UPC is impacted by changes in customer behaviours, technologies and other factors.[22] FBC's past UPC forecasts have been higher than actual because FBC was using a three-year historical average and UPC was in fact declining. As noted above, FBC has now found a statistically significant trend and is forecasting based on the three-year trend. As FBC has adjusted its forecasting method to the declining trend, FBC submits that CEC's requested direction is not required.

11. Although indicating that the impact would be immaterial, BCOAPO argues that FBC's use of a trend analysis for residential and lighting UPC results in "double counting" of DSM savings.[23] FBC does not agree because the trend forecast is based on the amount of DSM and other savings embedded in the historical data, while the DSM savings represent incremental savings to the embedded amount.[24]

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17 BCOAPO Argument, pp. 6-7.

18 CEC Argument, p. 13.

19 Exhibit B-2, Application, p. 28.

20 Exhibit B-3, BCUC IR 1.13.1.

21 CEC Argument, p. 13.

22 Exhibit B-5, BCOAPO IR 1.14.3.

23 BCOAPO Argument, pp. 6-7.

24 Exhibit B-2, Application, p. 25; Exhibit B-5, BCOAPO IR 1.8.2 and 1.8.3.

(c) Peak Demand Forecast

12. CEC notes that FBC's After Savings Winter Peaks have been higher than actual the past four years and requests that the Commission direct FBC to report on possible methods for improving the After Savings Winter Peak forecasts.[25] FBC submits that such a direction is not necessary at this time. FBC explained on page 7 of Appendix A-3 that its method for forecasting peak demand is based on a 10-year historical average, which means that the peak forecast will take into account the lower peaks experienced in recent years:

> The peak demand forecast is produced by taking the ten year average (2007-2016) of historic peak data. The historic peak data is escalated by the gross load growth rate before it is averaged to account for the growth of demand on the FBC system. Self-Generating customers are removed from the historical load data since the underlying trends that impact other loads do not apply. A separate forecast of 16 MW a month was completed for those customers and was then added to the forecast. Seasonal peaks were used for both the winter and the summer. The twelve monthly peaks, as well as the seasonal peaks, were then escalated by the annual load growth rates in the forecast period to produce forecast monthly peaks. The winter peak and the summer peak are assumed to replace monthly peaks in December and July respectively.[26]

13. A 10-year average is appropriate given the purpose of the peak demand forecast is to forecast the greatest amount of capacity that may be needed on an annual basis:

> The ten year time frame used to calculate the peak forecast reduces anomalies which could result in forecast error. The purpose of the peak forecast is to forecast the greatest amount of capacity that may be needed at one point in time for the system on an annual basis, such as the coldest day of the year. If the forecast had a shorter time frame, such as five years, forecast error could be introduced due to anomalies such as extreme weather and system growth. An example of this would be the much warmer than expected winter in 2015 which would have resulted in a lower winter peak forecast. Using the ten-year time frame also takes into consideration other factors such as customers' changing

[25] CEC Argument, p. 14.

[26] Exhibit B-2, page 7 of Appendix A-3.

> energy needs and climate change which could possibly be negated if a longer time frame was used for forecasting purposes.[27]

14. Further, the growth rate component of the peak demand forecast may improve due to FBC's incorporation of declining UPC trends that are significant in the historical data (as discussed above), and as FBC is now able to use post-CoK historical data in its forecast. FBC explained that the CoK data may be the cause of the higher forecast variance in the residential load as follows:

> …the cause of the higher forecast variances in 2014 to 2016 may be related in part to the acquisition of the City of Kelowna. Due to the unavailability of sufficient historical load information prior to the transaction, for forecasting purposes FBC was required to approximate the actual CoK consumption in 2009 through 2013 for each rate group using an estimate of the historical load mix. The adjusted actuals were then used to prepare the forecast for 2014 through 2016. FBC is now able to use only post-CoK historical data, so the approximation step is no longer needed. To the extent that the approximation step contributed to the forecast variance, it has been eliminated from future forecasts.[28]

15. As FBC is now able to use only post-CoK historical data in its forecast, this factor has been eliminated from the 2017S and 2018F forecasts.[29] This may in turn improve the growth rate component of the peak demand forecast.

16. For these reasons, FBC does not believe any direction in relation to its peak demand forecast is warranted. A 10-year average remains appropriate, which will take into account lower peaks in recent years.

(d) System Loss Study

17. ICG requests that the Commission direct FBC to submit a new system loss study in its next annual review.[30] FBC submits that no direction is needed as FBC is already analyzing

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[27] Exhibit B-7, CEC IR 1.27.2.

[28] Exhibit B-3, BCUC IR 1.13.2.

[29] Exhibit B-3, BCUC IR 1.13.3.

[30] ICG Argument, p. 3.

the AMI loss data in order to update its loss projections.[31] FBC confirmed that it is an ongoing project that FBC will be actively pursuing in 2018, which will be complete in 2018 or 2019.[32] Mr. King for FBC explained that there is a lot of data[33] and that it is a bigger process than expected.[34] The evidence therefore indicates that a new loss study may not be ready for the next annual review. In the meantime, the existing loss projections are accurate[35] and any variances will be trued up through the Flow-through deferral account.[36]

B. Z-Factor Treatment of Assessment Report No. 10

18. BCOAPO does not support the proposed Z-Factor treatment of Assessment Report No. 10 (AR 10) because FBC was not able to provide an O&M/Capital breakdown of the anticipated $3.3 million in future expenditures on AR 10 or a description of when exactly the costs will be incurred between now and when AR 10 must be implemented in 2020.[37] BCOAPO has not identified a valid reason for not approving Z-Factor Treatment. AR 10 was approved in July 2017 and FBC's preliminary estimate is of the costs to become compliant and remain compliant, but this preliminary estimate does not provide a capital/O&M breakdown.[38] FBC will be assessing and determining the strategy and detailed scope required to comply with the revised standards in 2018.[39] FBC explained in more detail in response to BCUC IR 1.24.2:[40]

> As part of the assessment report process, FBC identified high level estimates of approximately $3.3 million of one-time and approximately $2.8 million of ongoing costs which were included in the BC Hydro Assessment Report No. 10 that was submitted to the Commission on May 1, 2017. FBC will be engaging consultants and reaching out to other entities in 2018 to determine and evaluate all options available to meet the requirements. The 2018 expenditures are

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[31] Exhibit B-8, ICG IR 1.4.1.

[32] Transcript, p. 119-121 and 153.

[33] Transcript, p. 120.

[34] Transcript, p. 152.

[35] Exhibit B-2, Application, p. 30-31; Transcript, pp. 120-121.

[36] Transcript, p. 119.

[37] BCOAPO Argument, p. 15.

[38] Transcript, p. 86.

[39] Exhibit B-2, Application, p. 50.

[40] Exhibit B-3.

> primarily required for assessing and determining the strategy and detailed scope required to comply with the revised standards, which include: performing real-time pre and post-contingency assessments every 30 minutes; meeting outage coordination requirements, implementing outage scheduling timelines and next day studies, and development of an operating plan to address all the above tasks. The 2019 and future expenditures associated with Assessment Report No. 10 will be addressed in future filings.

In summary, AR 10 was only recently approved and FBC is in the process of creating detailed scope and cost estimates for becoming compliant. The timing or accounting breakdown of AR 10 cost should not impact whether the event is an exogenous factor or not. For instance, if the deadline for compliance set by the Commission was in 2019 (rather than 2020), the 2018 forecast costs would be much higher.

19. The materiality threshold for Z-Factor treatment is $0.301 million. The preliminary estimate of the costs for complying with AR 10 are 11 times this amount. The breakdown between O&M and capital is not relevant to the Z-Factor criteria approved by the Commission: whether costs are treated as O&M or Capital is the result of the application of accounting principles, and is not relevant to whether the costs are due to an exogenous event. Similarly, the exact timing of when the approximately $3.3 million will be spent over the next 3 years is also not relevant to the application of the Z-Factor criteria approved by the Commission. What is relevant to the criteria is that the costs exceed the materiality threshold and are due to an unforeseen event outside the control of the utility. AR 10 is an event that meets these criteria in the same way that the costs of Assessment Report No. 8 have been approved as meeting the criteria, as explained in Section 12.2 of the Application.

20. CEC recommends approval of Z-Factor treatment for AR 10 "with the proviso that the costs for the AR 10 event are demonstrated to exceed the materiality threshold prior to the end of the PBR period."[41] This proviso is not necessary given that FBC is required to implement AR 10 and the estimated costs vastly exceed the materiality threshold of $0.301

[41] CEC Argument, p. 24.

million. FBC submits there is no realistic possibility that the costs over the PBR period will be less than $0.301 million.

C. MRS Audit Costs

21. ICG does not oppose the treatment of MRS audit costs outside the formula, but misstates the reason for FBC's proposal as being that it occurs every three years.[42] FBC proposes this treatment as the MRS audit costs were originally determined by the Commission to not be part of Base O&M for the PBR Plan. As stated in the PBR Decision (page 238), "As the MRS audit is a non-recurring expenditure, it therefore should not be included in FBC's Base O&M." Therefore, FBC includes the compliance audit costs as a forecast expenditure outside of formula O&M, which is also consistent with the treatment of the 2015 compliance audit.[43]

D. Capital Plan

22. ICG argues that there is no evidence to support FBC's claim that it was unsustainable to stay within the capital expenditure formula by simply reprioritizing work.[44] FBC has in fact provided evidence on how it is prioritizing its capital program and the reasons why it has been unable to stay within the formula amount.[45] FBC responded to information requests on the cost pressures experienced, capital efficiencies achieved, and how it prioritizes capital projects.[46] In response to CEC IR 1.8.1, FBC provided the list of projects that were deferred to 2017 for a total of $5.3 million.[47] At the workshop, Mr. Chernikhowsky spoke at length about the capital planning process and work FBC has been undertaking under PBR. Mr. Chernikhowsky explained that the capital work being completed was identified as part of the 2012 long-term capital plan,[48] but that various cost pressures experienced over the PBR period

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[42] ICG Argument, p. 2.

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

[44] ICG Argument, p. 2.

[45] Exhibit B-2, Application, pp. 7-9.

[46] E.g. Exhibit B-3, BCUC IR 1.10 and 1.11 series.

[47] Exhibit B-3, BCUC IR 1.10.1 and Exhibit B-7, CEC IR 1.8.1.

[48] Transcript, p. 44 and 46.

have made it impossible to complete the work within the formula amounts. Mr. Chernikhowsky stated:

> So, ultimately what it comes down to is while we may have been able to absorb some or a few of these factors, when they're all combined, it was simply unsustainable to stay within the allowed formula by simply reprioritizing capital work into future years. And that has occurred in spite of our efforts to find capital efficiencies under PBR…[49]

23. Mr. Chernikhowksy was clear that FBC is executing the work that it said it would execute over the PBR term[50] and that FBC has not fundamentally changed the way it plans, operates or maintains its system.[51] FBC submits that the evidence establishes that it was not possible for FBC to complete the capital plan within the capital formula amounts.

24. There is no basis for ICG's concern that FBC's capital costs include "fixed costs" such as salaries and equipment costs that will continue beyond the need.[52] Whether costs are "fixed" is unrelated to whether they are treated as capital or O&M. FBC's depreciation rates are approved by the Commission,[53] and ensure that capital costs are recovered over the expected lives of the resulting assets.

E. Telephone Abandon Rate

25. The Telephone Abandon Rate is an informational indicator and therefore has no benchmark or threshold level.[54] BCOAPO states that there is no evidence to support FBCs explanation for the deterioration in its Telephone Abandon Rate.[55] FBC has been clear that it is not able to determine with certainty the reasons that a customer may abandon a specific call.[56]

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[49] Transcript, p. 47-48.

[50] Transcript, p. 48.

[51] Transcript, p. 62.

[52] ICG Argument, p. 2.

[53] Exhibit B-2, Application, p. 58.

[54] Exhibit B-2, Application, p. 133.

[55] BCOAPO Argument, p. 24.

[56] Exhibit B-5, BCOAPO IR 1.28.4.

As Ms. Carman explained, even though FBC cannot know for sure the reasons for abandoned calls, it can make reasonable best guesses.[57] One of these is that there were more storms in 2017 compared to 2016, as noted in FBC's response to BCOAPO IR 1.28.4.[58] Ms. Carman explained:

> So, as we discuss in our responses, we continue to believe that it is reasonable to assume that what is happening in 2016 and 2017 really is related to outages. So, when an outage occurs, to the extent that it makes sense for that outage, we record a message that plays on our IVR. So, if a customer is calling about that outage, and they get the information they need, they hang up without having to actually talk to one of our representatives, and that call is counted as abandoned.[59]

It is therefore not unreasonable to assume that storms have had an impact on the Telephone Abandon Rate.[60]

26. It also not unreasonable to believe that the use of IVR may have an effect on the telephone abandon rate because customers may have their questions answered by the IVR and then hang up.[61] A customer receiving an answer through IVR and hanging up would increase the Telephone Abandon Rate, but would actually provide better service to the customer.[62] A reduction or increase in the Telephone Abandon Rate is therefore not necessarily favourable or unfavourable. FBC observes that the average customer wait times are still less than a minute and customer satisfaction remains high.[63] FBC is nonetheless cognizant of the telephone abandon rate results and will continue to monitor and look into it.[64]

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[57] Transcript, p. 104.

[58] Exhibit B-5, BCOAPO IR 1.28.4.

[59] Transcript, p. 104.

[60] Exhibit B-5, BCOAPO IR 1.28.4.

[61] Exhibit B-5, BCOAPO IR 1.28.3; Transcript, p. 101 and 104-105.

[62] Transcript, p. 101.

[63] Transcript, pp. 104-105 and 108.

[64] Transcript, p. 109.

F. Labour Relations Board Decision is Irrelevant to this Proceeding

27. MoveUP's discussion of and inclusion of Labour Relations Board decision B66/2017 in its argument is irrelevant to this proceeding.[65] The LRB decision regarding common employer status is for the purpose of the *Labour Relations Code*, and has no bearing on the Commission's jurisdiction under the *Utilities Commission Act*.

G. Shared Services and SAP Integration

28. The SAP Integration is an initiative to integrate the FBC and FortisBC Energy Inc. ("FEI") SAP systems.[66] MoveUP restates its concerns expressed in FEI's Annual Review that the SAP Integration will destroy FEI and FBC's ability to track costs and, while not repeating the bulk of its argument, asserts that the main risk is that FEI ratepayers are cross-subsidizing FBC ratepayers.[67] 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. In the subsections below, FBC reiterates the arguments filed by FEI on this matter.

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

29. FBC 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

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[65] MoveUP Argument, p. 5.

[66] Exhibit B-2, p. 5-6.

[67] MoveUP Argument, p. 6

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.

30. 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.

31. In the Commission Decision approving FEI's All Inclusive COC/TPP, the Commission also rejected MoveUP's views on shared services as follows:[68]

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.

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[68] 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.

> 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.
>
> 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.

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

(b) Ability to Track Costs are Unaffected

33. Contrary to MoveUP's statements,[69] the SAP Integration will not undermine the availability of reliable data used to track costs. FEI and FBC will continue to have the ability to track transactions in SAP by employee through the employee's network ID. This was discussed in FEI's response to Undertaking No. 2 in its Annual Review workshop, which explains how each employee is identified in SAP:[70]

> 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

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[69] MoveUP Argument p. 6.

[70] FEI's Annual Review for 2018 Delivery Rates, Exhibit B-11. Given that that the approach taken at the FBC workshop was not to repeat the discussion related to the SAP Integration, FBC believes it is appropriate to refer to the evidence filed in FEI's proceeding related to this issue. See discussion in the FBC Transcript, pp. 14-15.

> 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.

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

(c) Allocation Based on Number of Employees is Reasonable

35. FBC and FEI propose 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.[71] 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.[72] This cost allocation approach is often used for shared IT platforms that are used internally by both organizations.[73]

36. FBC and FEI 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

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[71] Exhibit B-2, Application, p. 6.

[72] Exhibit B-3, BCUC IR 1.6.5.

[73] Exhibit B-3, BCUC IR 1.6.5.

percent to FBC.[74] FBC and 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.[75]

37. FBC submits that the number of employees per company is the most appropriate cost driver of the SAP Integration capital and operating costs. The employees are the users of the shared system and are the driver of project costs, and therefore are 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 by 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 FBC and FEI and has been accepted as a cost allocator in other regulatory jurisdictions.[76]

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

PART THREE: REPLY SUBMISSION ON EVALUATION OF PBR

39. 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. FBC submits that those are decisions that should be made in the appropriate proceeding designed for that purpose. FBC's comments below therefore remain at a high level. Silence on any particular intervener submission does not indicate agreement.

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[74] For a description of the benefits of the SAP Integration, see Exhibit B-10, MoveUP IR 1.7.2.

[75] Exhibit B-3, BCUC IR 1.6.5

[76] Exhibit B-3, BCUC IR 1.6.5.

(a) Prudent Decision Making and Purpose of PBR

40. MoveUP and CEC's submissions on the purpose of PBR (e.g. being to "induce truly extra-ordinary achievements"[77] or "exceptional management of costs"[78]) 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 its 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."[79]

41. CEC's discussion regarding the content of prudent decision-making[80] seeks to incorporate into the concept of "prudent" specific management approaches taken by FBC during PBR, such as seeking the most cost-effective opportunities to manage vacancies and a broad-based focus on productivity. The concept of "prudent", which is synonymous with "reasonable", is a general concept and does not include such specific actions. In the 2014 PBR proceeding, the Commission heard CEC's views about what actions the utility should be rewarded for under PBR[81] and the Commission approved the PBR Plan. The PBR Plan does not include any assessment about whether specific savings were due to prudent decision-making. Rather, as stated by the Commission, the purpose of PBR is to create an environment to encourage the utility to take actions to create efficiencies.[82] The PBR Plan has created this environment.

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77 MoveUP Argument, p. 4.

78 CEC Argument, p. 5.

79 Decision on FBC's Multi-Year Performance Based Ratemaking Plan for 2014 through 2018, dated September 15, 2014, p. 120.

80 CEC Argument, pp. 3-4.

81 Decision on FBC's Multi-Year Performance Based Ratemaking Plan for 2014 through 2018, dated September 15, 2014, pp. 10-11.

82 Decision on FBC's Multi-Year Performance Based Ratemaking Plan for 2014 through 2018, dated September 15, 2014, p. 120.

(b) Major Initiatives

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

- CEC's calculation of the ratepayer costs and benefits of the Interactive Responses Enhancements, SAP Integration and Advanced Distribution Management System/Outage Management System are misleading. CEC does not take into account that capital costs are recovered in rates over a number of years, or that O&M savings from the major initiatives extend beyond the PBR term. Moreover, the CEC treats any shared savings as offsetting costs and savings to ratepayers when in fact shared savings are still a savings to customers. The CEC's analysis does not recognize that, since annual O&M savings exceed the depreciation expense, the major initiatives will reduce FBC's revenue requirements on an ongoing basis and therefore reduce pressure on rates.[83]

- The CEC does not take into account qualitative benefits of the initiatives. The benefits of the SAP Integration, for instance, included qualitative benefits that are not quantified as O&M savings.[84]

- 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.

- Regarding CEC's comments on the benefits of AMI,[85] customers are receiving the full benefit of AMI. The AMI costs and savings are forecast outside the PBR

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[83] Exhibit B-2, Application, pp. 5-6.

[84] Exhibit B-3, BCUC IR 1.6.5. Exhibit B-10, MoveUP IR 1.7.2.

[85] CEC Argument, p. 7.

formula as discussed in section 6.3.3 of the Application, and trued up each year through the Flow-through deferral account as shown on line 11 of Table 12-5.[86]

43. FBC therefore submits that CEC's analysis of the major initiatives is incorrect and should be rejected.

(c) FTEs

44. The CEC's comments inaccurately suggest that FBC's FTEs declined during PBR and inclined towards the end.[87] As shown in the table quoted in CEC's Argument on page 7, FBC's FTEs have not changed materially over the PBR term. FTEs increased in 2014 and 2015, reduced in 2016 and increased again in 2017.[88]

(d) Capital Savings Achieved

45. The CEC's comments dismissing FBC's capital savings under PBR are inaccurate.[89] MoveUP's submission that the capital formula has imposed "shorter-term considerations and a current-year horizon on some decisions" is similarly incorrect.[90] PBR has provided the benefit of a longer test period with more certainty and flexibility for FBC's capital planning. This has enabled FBC to achieve savings that it otherwise would not have, through economies of scope and scale, procurement, and coordination. FBC stated in response to BCUC IR 1.10.2:

> As described on Page 8 of the Application, capital efficiency initiatives undertaken to date include comprehensive pre-construction planning, combining transmission and distribution sustainment work into larger programs and resourcing through a competitive bid process, and a focus on reducing design costs across various Information Systems applications.

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[86] Exhibit B-2, Application.

[87] CEC Argument, p. 7.

[88] Exhibit B-3, BCUC IR 1.3.1.

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

[90] MoveUP Argument, p. 4.

> FBC has implemented process improvements, explored the market and secured long term contracts in order to achieve cost savings with respect to services, equipment and apparatus. Some examples of these cost savings initiatives are:
>
> 1. FBC obtained a three year services contract based on unit pricing with two power line construction companies. These companies conduct transmission and distribution rehabilitation and rebuild work;
>
> 2. FBC has secured long term contracts and service agreements with vendors which has provided flexibility of "bulk purchasing" of equipment such as high voltage circuit breakers and power transformers; and
>
> 3. FBC has bundled several projects together in a competitive bid process to reduce technical and administrative costs.
>
> Through these activities and other cost saving activities, FBC estimates that approximately $1.7 million of efficiencies were achieved in 2016.[91]

46. FBC spoke to these savings in more detail at the workshop. Mr. Marshall described a number of examples illustrating the types of capital efficiencies achieved.[92] Mr. Chernikhowsky explained how these savings are attributable to PBR as follows:

> We have availed ourselves of bundling opportunities in the past, even under cost of service. The fundamental difference now under PBR is that previously, at best, we would have had a two-year capital plan. And so we've identified work for two years. But any contracts that we'd enter into would be subject to Commission approval, right, because we wouldn't have had approval of those capital expenditures for future years.
>
> Under PBR now, we have a lot more certainty because we have that six-year horizon. Of course, we're not working with the full six years, but we have a longer horizon that we're able to work within. And now once we've identified the capital expenditures and the scope that's required, we're able to go with much more certainty to our contractors and offer them the ability to bid on this work.

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[91] Exhibit B-3, BCUC IR 1.10.2.

[92] Transcript, pp. 65-67.

> And as Darrin mentioned earlier, they may actually choose to reorganize their own organizations to bring in resources on the expectation that Fortis is going to be able to provide them work. And we wouldn't have been able to do that in the past.[93]

47. FBC has therefore been able to achieve savings due to the longer-term certainty and flexibility provided by PBR.

(e) Deferred Capital Projects

48. While FBC has not been able to keep capital spending within the formula, the CEC's concerns[94] about projects deferred outside the PBR Plan are not warranted. FBC has explained its capital planning process, and has explained that it would not defer work beyond PBR except as part of routine capital plan management:

> FBC manages its capital investment plan to maintain a safe and reliable electric system with an acceptable risk profile, to optimize resources and spending, and to achieve efficiencies and cost savings. The capital plan contains a mix of projects, some of which are time-sensitive and others that have some flexibility in timing. This is done with the understanding that conditions change and the plan must be capable of adapting. This plan flexibility allows FBC to manage and execute typically expected levels of unforeseen urgent work that come up throughout the year within the resource and budget constraints of the capital plan. Apart from this routine capital plan management, FBC would not consider deferring any significant capital spending to after the PBR period. FBC believes that deferring any significant capital spending to after the PBR period would result in increased risk exposure to the system and would ultimately result in higher costs to execute the work. Furthermore, deferral of projects to after the PBR period could lead to an accumulation of work that could exceed FBC's ability to execute in a timely manner.[95] [Emphasis added.]

49. Ms. Roy was clear that the issue of deferred capital was something FBC was very cognizant of going into PBR:

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[93] Transcript, p. 80.

[94] CEC Argument, p. 9.

[95] Exhibit B-2, Application, p. 8.

> And we have been very cognizant of the fact that there was concern going into this PBR that the company would defer capital to outside of the PBR term. And so we've been very conscious of making sure that we are doing all the capital that we need to do to kind of manage the business and stay safe within -- you know, keep our system safe and reliable within the terms. So that is something that we've taken from the last PBR where there was significant concerns about deferring capital. So we've been very clear in addressing that.[96]

50. Mr. Chernikhowsky also emphasized that FBC must still maintain a level of safe and reliable service:

> Our mandate is to safely and reliably deliver electricity to our customers at the lowest reasonable cost. That is still true. All that PBR did is, it gave us a financial incentive mechanism perhaps to find efficiencies and to reduce the capital expenditures.
>
> But in the end, the work that we identify to ensure safety and reliability still needs to get done, and we're still carrying that out the same as we would have previously.[97]

51. In summary, the reprioritization of capital projects is a routine part of the management of FBC's capital planning process. While the formula provides an incentive to stay as close to the formula as possible, FBC must also maintain safe and reliable service. As measured by the approved SQIs, FBC has maintained a high level of service throughout the PBR period.[98] Further, since capital expenditures have been above formula each year of the PBR term, FBC has not realized any benefits from deferring capital. The movement of capital projects among years is a normal part of managing the capital program and the prudent deferral of some projects outside the PBR term should not be a subject of concern.

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[96] Transcript, p. 61.

[97] Transcript, p. 62.

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

(f) Next Phase of PBR

52. In response to MoveUP's submission that the PBR Plan should be followed by "a spell of traditional Cost of Service-based regulation",[99] 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 prior to the application for the next phase of the PBR."[100] [Emphasis added.] FBC also notes that successive PBR periods have previously been approved by the Commission for FBC[101] and for FEI[102] and occur in other jurisdictions, such as in Ontario where the Ontario Energy Board has employed incentive regulation for electricity distributors since 2001[103] and in Alberta where the Alberta Utilities Commission approved a second generation of PBR in 2016.[104]

(g) Evaluation of PBR

53. Overall, FBC submits that the CEC's and MoveUP's evaluations of PBR are inaccurate. FBC refers to the following facts in reply:

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[99] MoveUP Argument, pp. 4-5.

[100] Decision on FBC's Multi-Year Performance Based Ratemaking Plan for 2014 through 2018, dated September 15, 2014, p. 80. Online: http://www.bcuc.com/Documents/Proceedings/2014/DOC_42180_09-15-2014_FBC-2014-18-PBR-DecisionWEB.pdf.

[101] Commission Order G-193-08, re FortisBC Inc. 2008 Annual Review, 2009 Revenue Requiremetns and Negotiated Settlement Process, dated December 11, 2008. Online: https://www.ordersdecisions.bcuc.com/bcuc/orders/en/116914/1/document.do

[102] Commission Order 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.

[103] Ontario Energy Board, Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach, October 18, 2012, p. 7. Online: https://www.oeb.ca/oeb/_Documents/Documents/Report_Renewed_Regulatory_Framework_RRFE_20121018.pdf

[104] Alberta Utilities Commission, Decision 20414-D01-2016: 2018-2022 Performance-Based Regulation Plans for Alberta Electric and Gas Distribution Utilities, Proceeding 20414, December 16, 2016. Online: http://www.auc.ab.ca/regulatory_documents/ProceedingDocuments/2016/20414-D01-2016%20(Errata).pdf

(a) FBC achieved approximately $4.8 million in O&M savings compared to formula over the term of the PBR to date. These savings have been shared equally with customers.[105]

(b) The PBR formula includes a 1.03 percent productivity factor, which FBC has met in all years. The productivity factor accounts for an additional $2.2 million in O&M savings, which are all to the benefit of customers.[106]

(c) FBC's total O&M and O&M per customer are trending favourably over PBR.[107]

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

- FBC'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.[108]

- The longer-term certainty and flexibility of PBR has enabled FBC to achieve approximately $1.7 million in savings in 2016 alone to mitigate capital cost pressures.[109]

(e) FBC has maintained a high level of service quality as measured by the approved SQIs.[110]

(f) FBC's rates are trending downwards in recent years, as large one-time items that occurred earlier in PBR (Waneta Expansion Capacity Agreement and Celgar interim billing adjustment) have been phased in.[111]

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[105] Exhibit B-14, Presentation Slide 4. Exhibit B-2, Application, p. 4.

[106] Exhibit B-2, Application, p. 4.

[107] Transcript, pp. 7-8; Exhibit B-14, Presentation Slide 4.

[108] Exhibit B-2, Application, p. 11.

[109] Exhibit B-3, BCUC IR 1.10.2. Transcript, p. 65-67.

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

[111] Transcript, p. 10. Exhibit B-14, Presentation Slide 5.

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

PART FOUR: CONCLUSION

55. FBC submits that its approvals sought are just and reasonable and should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: November 24, 2017

[original signed by Christopher Bystrom]

Christopher Bystrom
Counsel for FortisBC Energy Inc.