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British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Mr. Patrick Wruck, Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. Annual Review for 2019 Delivery Rates ~ Project No. 1598966

In accordance with the regulatory timetable for this proceeding set out in Order G-143-18 and amended by way of Exhibit A-4, 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 Bystrom
Professional Law Corporation
CRB/gvm

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 2019 DELIVERY RATES

**REPLY SUBMISSION OF
FORTISBC ENERGY INC.**

November 6, 2018

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PART ONE: INTRODUCTION AND OVERVIEW

1. FortisBC Energy Inc. (FEI or the Company) filed its Annual Review for 2019 Rates (the Application) on August 3, 2018[1] in compliance with British Columbia Utilities Commission (the BCUC) 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, 2018, FEI filed an Evidentiary Update to the Application.[2] On October 23, 2018, FEI amended its delivery rate request from 0 percent to 1.1 percent. An amended Draft Order was included as Appendix B to this request.[3]

2. FEI is proposing to increase 2019 delivery rates by 1.1 percent,[4] and to distribute $1.466 million in earnings sharing to customers in 2019.[5] FEI continues to maintain a high level of service quality,[6] and holds a pre-tax surplus of approximately $42 million in the 2017-2018 Revenue Surplus Account to mitigate future rate pressures.[7]

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

(a) Increase 2019 delivery rates by 1.1 percent, before consideration of rate riders, effective January 1, 2019.

(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, Exhibit B-2-1 and Exhibit B-11.
3 Exhibit B-11.
4 Exhibit B-11.
5 Exhibit B-2, p. 1.
6 Exhibit B-2, Application, Section 13.
7 Exhibit B-11, Appendix A, Schedule 12, Line 7, Column 9.
8 Exhibit B-2, Application, p. 2; Exhibit B-2-1 and Exhibit B-11.
9 R.S.B.C. 1996, c. 473.

- Creation of a rate base deferral account for the 2019-2022 Demand Side Management Expenditures regulatory proceeding with a four-year amortization period.

- Amendment of the existing rate base 2017 Long-Term Resource Plan Application deferral account to also capture the regulatory proceeding costs related to the Application, as well as a three-year amortization commencing in 2019.

- A five-year amortization period for the existing 2017 Rate Design Application deferral account, commencing in 2019.

- Creation of a non-rate base deferral account, attracting a weighted average cost of capital (WACC) return, for the development costs related to Transmission Integrity Management Capabilities (TIMC), with disposition to be proposed in a future application.

(c) The following rate riders, as described in section 10.2 of the Application:

- A Biomethane Variance Account (BVA) Rate Rider for 2019 in the amount of $0.018 per gigajoule (GJ); and

- Revenue Stabilization Adjustment Mechanism (RSAM) riders for 2019 in the amounts set out in Table 10-10.

(d) The continued debiting of the MCRA and crediting of the delivery margin revenue in the amount of $3.6 million for 2019, as described in Section 5.3.2 of the Application.

(e) Z-factor treatment for the 2019 Employer Health Tax and 2018 and 2019 MSP premium reductions, as described in Section 12.2 of the Application.

4. The BCUC-approved regulatory timetable for the proceeding included one round of information requests and a workshop, followed by written argument.[10] On September 18, 2018, FEI responded to information requests (IRs) from the BCUC and interveners, including the BC Sustainable Energy Association and Sierra Club (BCSEA), Commercial Energy Consumer Association of BC (CEC) and Canadian Office and Professional Employees Union, Local 378

[10] Exhibit A-2.

(known as Movement of United Professionals or MoveUP). The workshop was held on October 2, 2018, and FEI's presentation materials and the transcript of the workshop were placed on the record in the proceeding.[11] FEI filed responses to undertakings from the workshop on October 16, 2018.[12]

5. Interveners unanimously support FEI's approvals sought in the Application. On October 22 and 25, 2018, British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre et al. (BCOAPO), BCSEA, CEC and MoveUP filed final arguments. MoveUP agrees that the order sought by FEI in this Annual Review should be granted.[13] BCSEA supports FEI's approvals sought.[14] BCOAPO supports FEI's Application.[15] The CEC recommends that the BCUC approve FEI's application as filed.[16]

6. In the remainder of this Reply Submission, FEI respond to comments of interveners related to 2019 rate issues and the evaluation of PBR.

PART TWO: REPLY SUBMISSION ON 2019 RATES ISSUES

A. Delivery Rate Increase

7. BCOAPO invites FEI to "fully explain" the reason for its proposed change to its delivery rate request from 0 to 1.1 percent[17] FEI explained in Exhibit B-11 the reasons for changing its proposal and has no further explanation to offer. All of the interveners agree with

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11 Exhibit B-8. The Workshop Transcript is available on the BCUC's website at: https://www.bcuc.com/ApplicationView.aspx?ApplicationId=639.

12 Exhibit B-9.

13 MoveUP Argument, p. 7.

14 BCSEA Argument, p. 9.

15 BCOAPO Argument, p. 12.

16 CEC Argument, p. 25.

17 BCOAPO Final Argument, p. 6.

FEI's proposed change to a 1.1 percent delivery rate increase. BCSEA, for example, states that FEI's explanation in Exhibit B-11 provides a "persuasive rationale".[18]

B. Capital Costs

8. BCOAPO invites FEI to explain the reasons why FEI's 2018 capital expenditures were greater than forecast last year due to fleet and equipment for operating crews and the Whistler pipeline IP project.[19] Based on the evidence filed on the record in this proceeding, FEI notes that the increases in 2018 were both related to customer growth. The new vehicle and equipment requirements were identified due to the addition of Operations headcount, the majority of which are related to construction crews required to assist with the increasing volume of growth capital projects.[20] The Whistler pipeline IP project was initially planned to be constructed in phases by 2020, but now needs to be undertaken in 2018 due to the higher than anticipated growth in customers.[21] FEI invited questions on these topics at the Workshop,[22] but none were asked.

C. Calculation of the Cumulative Two-Year Dead Band

9. CEC submits that the calculation of the cumulative two-year dead band is "mathematically flawed" and should be corrected in this and any future PBRs.[23] As discussed in FEI's previous Annual Reviews, FEI has calculated a cumulative two-year variance as directed by the PBR Decision which approved the use of "a two year cumulative 15 percent dead-band for all Fortis' formulaic capital spending".[24] The alternative calculations suggested by CEC using the same base figure would result in an average variance, not a cumulative variance. FEI sees no value in adjusting the calculation in the final year of the PBR Plan. As noted by Ms. Roy at

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18 BCSEA Argument, p. 4.

19 BCOAPO, p. 10.

20 Exhibit B-3, BCUC IR 1.8.3

21 Exhibit B-3, BCUC IR 1.8.11; Transcript p. 39.

22 Transcript p. 11.

23 CEC Final Argument, p. 7.

24 Exhibit B-6, CEC IR 1.1.3.

the workshop, FEI did not propose the two-year dead band, and will not be proposing a two-year dead band as part of its next PBR plan.[25]

D. Demand Forecast

10. The CEC submits that it would be useful for FEI to continue to research alternative forecasting techniques to improve its forecasting.[26] FEI has repeatedly demonstrated that its existing forecast method is performing better than industry averages, and remains a reliable and reasonable demand forecasting method.[27] FEI has also conducted significant research on alternative forecasting methodologies and has reported extensively on the results of that research over successive Annual Reviews,[28] with the latest report filed in Section 11 of Appendix A3 of the Application.[29] FEI will be making a recommendation regarding whether to continue with the existing method or change to the use of Holt's exponential smoothing method as part of FEI's next PBR application.[30]

PART THREE: REPLY SUBMISSION ON EVALUATION OF PBR

11. While the evaluation of PBR is one of the topics that the BCUC requires to be addressed in each Annual Review, this is not a topic that impacts rates in 2019 and no decision is required by the BCUC in this proceeding. In last year's Annual Review, the BCUC agreed with FEI's assessment of the scope of the Annual Review proceeding, as follows:[31]

> The Panel acknowledges the parties' comments on the current PBR Plan and their expectations and/or concerns regarding future PBR plans. However, the Panel agrees with FEI that this topic falls outside the scope of this proceeding.

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[25] Transcript, p. 23.

[26] CEC Final Argument, p. 8.

[27] Exhibit B-3, Attachment 15.1.

[28] Exhibit B-3, BCUC IR 1.15.1 and Attachment 15.1.

[29] Exhibit B-2.

[30] Exhibit B-3, BCUC IR 1.15.1

[31] Appendix A to Order G-196-17, p. 15.
Online: https://www.bcuc.com/Documents/Proceedings/2017/DOC_50478_12-21-2017_G-196-17_Final-Order-Reasons.pdf.

> The Panel has stated previously in these Reasons for Decision that it is clear based on the evidence that at least the capital formula component of the PBR Plan is not working as originally expected in the PBR Decision; however, the Panel makes no comments or determinations at this time on how capital or other components of the PBR Plan should be treated in the future. Similarly, the Panel makes no determinations on what future form of regulation should take place at the conclusion of the PBR Plan term.

12. FEI's comments below therefore remain at a high level. Silence on any particular intervener submission does not indicate FEI's agreement.

13. Contrary to MoveUP's characterization of PBR, for many utilities in Canada, including FEI, PBR is in fact "normal" and certainly no longer an "experiment". FEI has been under a form of PBR for most of the past 20 years, with successive PBR periods having been approved by the BCUC.[32] PBR has been implemented in multiple jurisdictions in Canada over many years,[33] and as such has been repeatedly proven to be consistent with the regulatory compact and the obligations and entitlements under utilities regulation legislation such as the Utilities Commission Act. In short, an assessment of the regulatory landscape across the country shows that PBR is a well-established form of ratemaking that many regulators across Canada have approved instead of cost of service ratemaking.

14. FEI has a track record of success under its PBR plans over the past 20 years. Some of the markers of success of this most recent PBR Plan are as follows:

(a) FEI has shared approximately $43 million in O&M savings with customers,[34] with over $20 million achieved through major initiatives.[35]

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[32] 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.

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

[34] Exhibit B-8, Presentation Slide 4. Exhibit B-2, Application, p. 5.

[35] Exhibit B-8, Presentation Slide 7.

(b) The PBR formula includes a 1.1 percent productivity factor, which FEI has met in all years. The productivity factor accounts for an additional $13 million in O&M savings, which are all to the benefit of customers.[36]

(c) FEI's total O&M has trended down over the PBR term.[37]

(d) On a per customer basis, FEI's total and formula O&M have trended down over the PBR term.[38]

(e) FEI has started numerous initiatives to improve customer service and increase growth,[39] including common trenching and pursuing innovative technology.[40]

(f) FEI has increased its capture rate for customers, contributing to the growth in customer additions that has been beneficial for customers.[41]

(g) Although FEI has been challenged to maintain capital expenditures within the limits of the capital formula over the PBR term, 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.[42]

(h) The PBR Plan 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.[43]

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36 Exhibit B-8, Presentation Slide 4. Exhibit B-2, Application, p. 5.

37 Exhibit B-8, Presentation Slide 4.

38 Exhibit B-8, Presentation Slide 4.

39 Exhibit B-2, Application, pp. 7-10.

40 Transcript, pp. 56-57 and 59-63.

41 Exhibit B-8, Presentation Slide 16.

42 Exhibit B-2, Application, p. 12.

43 Exhibit B-2, Application, p. 12.

(i) Overall, FEI's delivery rates are trending below inflation.[44] Moreover, FEI's delivery rates have remained flat for the past two years, and FEI has approximately $42 million in pre-tax surplus revenue in the 2017-2018 Revenue Surplus account available to offset future rate increases.[45]

(j) FEI has maintained a high level of service quality as measured by the approved SQIs.[46] Indeed, FEI met or exceeded the benchmark for all SQIs in 2017.[47]

(k) The BCUC 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."[48] The evidence shows that the PBR mechanism has successfully created this environment.[49]

15. FEI has therefore been successful in achieving benefits for customers under the PBR Plan.

16. FEI opposes the recommendation of the CEC that the BCUC have a separate proceeding to review the existing PBR before advancing to the next PBR.[50] FEI is unaware of any other regulator having such a proceeding separate from a rate application. Having a separate proceeding would be extremely inefficient from a regulatory perspective. The evaluation of PBR was a topic in the last PBR proceeding, has been an ongoing topic of discussion in each Annual Review under the PBR Plan, and will no doubt be discussed thoroughly again in FEI's upcoming application for a new PBR plan. There is no reason to believe that a separate proceeding to evaluate PBR would assist the BCUC in its decision on

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44 Exhibit B-8, Presentation Slide 6.

45 Exhibit B-10, Presentation Slides 9 and 10; Exhibit B-11, Appendix A, Schedule 12.

46 Exhibit B-2, Section 13.

47 Exhibit B-2, Section 13.

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

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

50 CEC Final Argument, p. 3.

whether to continue with PBR. That decision is best made in the context of a proposed PBR plan for future years.

17. FEI will be submitting its proposal for an updated PBR plan in due course. FEI looks forward to working with interveners and the BCUC in that process.

PART FOUR: CONCLUSION

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

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: November 6, 2018 ***[original signed by Christopher Bystrom]***

Christopher Bystrom
Counsel for FortisBC Energy Inc.