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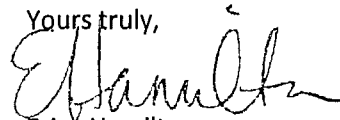
June 23, 2015

Ms. Diane Roy  
Director, Regulatory Services  
FortisBC Inc.  
Suite 100  
195 Springfield Road  
Kelowna, BC V1Y 7V7

Dear Ms. Roy:

Re: FortisBC Inc.  
Annual Review and Approval of 2015 Rates  
pursuant to the Multi-Year Performance Based Ratemaking Plan  
approved for the years 2014 through 2019 by Order G-139-14

Further to your February 6, 2015 Application for the Annual Review of 2015 Rates, enclosed please find Commission Order G-107-15 with Reasons for Decision.

Yours truly,  
  
Erica Hamilton

cms  
Enclosure

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER G-107-15**

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IN THE MATTER OF  
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Inc.  
Application for Approval of 2015 Rates  
Pursuant to the Multi-Year Performance Based Ratemaking Plan  
Approved for 2014 through 2019 by Order G-139-14

**BEFORE:** D. M. Morton, Commissioner  
D. A. Cote, Commissioner June 23, 2015  
H. G. Harowitz, Commissioner

**O R D E R**

**WHEREAS:**

- A. On September 15, 2014, the British Columbia Utilities Commission (Commission) issued Order G-139-14 along with its Reasons for Decision (the PBR Decision) approving for FortisBC Inc. (FBC) a Multi-Year Performance Based Ratemaking (PBR) Plan for 2014 through 2019;
- B. The PBR Decision directed FBC to conduct an Annual Review process to set rates for each year under the PBR Plan;
- C. On November 24, 2014, the Commission issued Order G-182-14 approving, among other things, a rate increase of 3.5 percent on an interim and refundable basis, effective January 1, 2015, pending the outcome of the Annual Review of 2015 rates;
- D. On February 6, 2015, FBC submitted an application for its Annual Review of 2015 Rates (the Application);
- E. Pursuant to Order G-21-15 dated February 16, 2015, the Commission established the regulatory timetable for review of this Application, which included a Workshop, held on Wednesday, April 1 in Vancouver, BC;
- F. According to the regulatory timetable, Undertakings from the Workshop were filed by FBC on April 8, 2015, followed by Final Submissions from the interveners on April 22, 2015, and a Reply Submission from FBC on April 29, 2015; and
- G. The Commission reviewed all of the evidence contained in this proceeding and concludes that approval is warranted.

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER** G-107-15

2

**NOW THEREFORE** pursuant to sections 59 to 61 of the *Utilities Commission Act*, the British Columbia Utilities Commission orders as follows:

1. FortisBC Inc.'s (FBC) existing interim rates are approved as permanent effective January 1, 2015.
2. The establishment of the following two non-rate base deferral accounts, as described in Section 12.4.1 of the Application, are approved:
  - a) Residual Capacity Agreement Tariff Supplement 10 and Rate Schedule 111, financed at FBC's short term interest rate, to be amortized in 2015; and
  - b) 2015 – 2016 Demand Side Management Plan Application, financed at FBC's short term interest rate, to be amortized in 2015.
3. The Commission approves the establishment of the proposed deferral account for the 2016 Long Term Electric Resource Plan Development costs subject to the following:
  - a) All activities/costs anticipated under "Incremental labour" are not eligible for deferral treatment; accordingly, the deferral account forecast is reduced by \$0.119 million; and
  - b) Any staff costs for "Stakeholder consultation" are not eligible for deferral.

FBC must adjust this deferral balance in its subsequent Compliance Filing to the Commission.

4. The Commission approves a three year amortization period for the Interim Rate Variance deferral account, with amortization of 20 percent of the opening balance in 2015, as set out in Section 12.4.2.1 of the Application.
5. The Commission approves the Pension and OPEB Funding Liability to be included in rate base, as set out in Section 12.3.2 of the Application.
6. FBC is directed to update its short term interest rate forecast, as described in Exhibit B-2, BCUC IR 1.14.1, in its Compliance Filing.
7. FBC is directed to include in the next Annual Review a discussion on whether the Generator Forced Outages Rate should be moved from an informational Service Quality Indicator (SQI) and added to the list of measurable SQIs.
8. FBC is to provide the complete engineering root cause analysis reports for the South Slokan Unit 1 and Corra Linn Unit 2 outages with any supplemental documentation to address the following items:
  - i. description of the failures with photos,

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER G-107-15**

3

- ii. incident timelines from forced outage to return to service with major milestones,
  - iii. mitigation action decisions (short term corrective actions),
  - iv. previous preventative maintenance plans (testing, inspection, etc.) related to root cause(s) and results / verification of these previous preventative maintenance activities being conducted,
  - v. any expert analysis or testing results (summary and recommendations),
  - vi. whether testing, inspection, etc. found any similar problems with the remaining generator units and actions FBC is taking to correct,
  - vii. long term corrective action recommendations,
  - viii. all proposed changes to preventative maintenance plans to prevent re-occurrence, and
  - ix. any changes to operating activities, frequency, controls or safeguards to prevent re-occurrence.
9. FBC must provide the adjusted rate increase, along with the supporting financial schedules, as a result of all the determinations made in the attached Reasons, in a Compliance Filing to the Commission within 10 business days of this order. This approved general rate increase will be effective August 1, 2015, and will be applied to the Residential Conservation Rate (Rate Schedule 1) in accordance with the pricing principles set out in Order G-3-12.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 23<sup>rd</sup> day of June 2015.

BY ORDER



D. Morton  
Commissioner

Attachment



**IN THE MATTER OF**

**FORTISBC INC.**

Application for Approval of 2015 Rates  
Pursuant to the Multi-Year Performance Based Ratemaking Plan  
Approved for 2014 through 2019 by Order G-139-14

**REASONS FOR DECISION**

**June 23, 2015**

**BEFORE:**

D. M. Morton, Panel Chair/Commissioner  
D. A. Cote, Commissioner  
H. G. Harowitz, Commissioner

## TABLE OF CONTENTS

		<b>PAGE NO.</b>
<b>1.0</b>	<b>INTRODUCTION .....</b>	<b>3</b>
1.1	Background	3
1.2	Approach to FBC Annual Review Decision	4
1.3	Approvals Sought	5
1.4	Application Review Process	5
<b>2.0</b>	<b>DETERMINATIONS ON APPROVALS SOUGHT.....</b>	<b>6</b>
2.1	New Deferral Accounts	6
2.1.1	2016 Long Term Electric Resource Plan Development.....	7
2.2	Pension and OPEB Funding Liability	9
<b>3.0</b>	<b>DETERMINATIONS ON ISSUES ARISING .....</b>	<b>11</b>
3.1	Load forecast	11
3.2	Power purchase expense	12
3.2.1	Portfolio optimization.....	13
3.2.2	Advanced Metering Infrastructure (AMI) Theft detection .....	14
3.2.3	Demand Side Management for Industrial Customers .....	15
3.3	Service Quality Indicators (SQIs)	16
3.3.1	Regulatory Context .....	17
3.3.2	Has a serious degradation of service occurred?.....	19
3.3.3	To what extent are the performance results attributable to the actions or inactions of the Company? .....	21
3.4	Generator Fires Causing Forced Outages and Costs	22
<b>4.0</b>	<b>FUTURE ANNUAL REVIEWS.....</b>	<b>24</b>

## **1.0 INTRODUCTION**

### **1.1 Background**

On September 15, 2014, by Order G-139-14, the British Columbia Utilities Commission (the Commission) approved a Performance Based Ratemaking (PBR) Plan for FortisBC Inc. (FBC or the Company) covering a six-year period commencing in 2014. A primary purpose of the plan was to create an incentive for FBC to adopt a productivity focus and seek out sustainable operating and capital savings while maintaining service quality levels as measured by Service Quality Indicators (SQIs). The PBR Plan provided for an equal sharing of any PBR related savings between customers and the Company.

A key element of the PBR Plan is the provision for an Annual Review. The purpose and content of the Annual Review was a point of considerable contention in the PBR proceeding. FBC envisioned it to be primarily an information-sharing forum similar in terms of scope and process to less formal annual reviews held for previous PBRs. A number of interveners saw the annual review process as being much broader in scope and capable of dealing with a variety of issues.<sup>1</sup> Considering these two perspectives, the Commission determined that an extensive annual review process was necessary to build trust among the stakeholders and to ensure the PBR was functioning as intended. For clarity, the Commission was prescriptive in setting out the list of activities to be undertaken in annual reviews. These activities are as follows:

1. Evaluation of the operation of the PBR Plan in the past year(s) and identification by any party of any deficiencies/concerns with the operation of the PBR Plan that have become apparent. Parties are expected to put forward recommendations with how to deal with such concerns.
2. Review of the current year's projections and the upcoming year's forecast. For further clarity, these items are listed below:
  - a. Customer growth, volumes and revenues;
  - b. Year-end and average customers, and other cost driver information including inflation;
  - c. Expenses (determined by the PBR formula plus flow-through items);
  - d. Capital expenditures (as determined by the PBR formula plus flow-through items);
  - e. Plant balances, deferral account balances and other rate base information and depreciation and amortization to be included in rates;
  - f. Projected earnings sharing for the current year and report on true-up to actual earnings sharing for the prior year; and
  - g. Any proposals for funding of incremental resources in support of customer service and load growth initiatives.
3. Identification of any efficiency initiatives that the Companies have undertaken, or intend to undertake, that require a payback period extending beyond the PBR Plan period and make recommendations to the Commission with respect to the treatment of such initiatives.

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<sup>1</sup> FBC 2014-2018 Performance Based Ratemaking Revenue Requirements Decision (PBR Decision), p. 182.

4. Review of any exogenous events that the Company or stakeholders have identified that should be put forward to the Commission for decision as to their exclusion from the PBR Plan. The review process should include recommendations as to how the exogenous events costs/revenues should be recovered from or credited to ratepayers.
5. Review of the Company's performance with respect to SQIs. Bring forward recommendations to the Commission where there have been a "sustained serious degradation" of service.
6. Assess and make recommendations with respect to any SQIs that should be reviewed in future annual reviews. For example, stakeholders are to review the usefulness of continuing with the Billing Index and Meter Reading Accuracy SQIs.
7. Assess and make recommendations to the Commission on the scope for future annual reviews.<sup>2</sup>

In compliance with Order G-139-14, FBC filed its first Annual Review Application (Application) on February 6, 2015. Under the PBR Plan, some savings were achieved in 2014. Overall, FBC proposes to distribute \$0.330 million in earnings sharing to customers in 2015. FBC states that it has achieved these savings over 2014 while maintaining an overall high level of service quality as evidenced by its performance against the SQIs approved in Order G-139-14 and Reasons for Decision (the PBR Decision).

FBC proposes a 4.6 percent increase over 2014 rates, or an increase of 1.1 percent over 2015 interim rates in effect since January 1, 2015. This equates to an increase of \$15 to the annual bill for an average residential customer. FBC states that without the impact of power purchase expense, which is outside of the PBR Plan, FBC would be requesting a rate decrease for 2015.<sup>3</sup>

## **1.2 Approach to FBC Annual Review Decision**

Section 1 of this Decision provides background to the Application and outlines the approvals and issues to be addressed in the following sections.

Section 2 addresses approvals sought. Section 3 addresses issues which have arisen over the course of the proceeding which require either clarification or a determination to be made by the Panel. The following issues are addressed:

- Load Forecast
- Power purchase expense, including portfolio optimization, Advanced Metering Infrastructure Theft Detection, and Demand Side Management (DSM)
- Service Quality Indicators and Generator Forced Outages

Section 3 addresses future annual review applications with respect to additional requirements for future applications and developing a review process which best addresses the needs of the parties. The Commission

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<sup>2</sup> FBC PBR Decision, pp. 179-180.

<sup>3</sup> Exhibit B-1, p. 1.



made specific reference to this topic in its letter of April 17, 2015, and requested parties to provide written submissions on this matter (Exhibit A-5).

### **1.3 Approvals Sought**

FBC seeks the following approvals pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA):

1. Approval of existing rates as permanent, effective January 1, 2015.
2. Permanent rates for all customers effective July 1, 2015, resulting in an increase of 2.2 percent compared to 2015 interim rates. The general rate increase will be applied to the Residential Conservation Rate (Rate Schedule 1) in accordance with the pricing principles set out in Order G-3-12.
3. The creation of three deferral accounts, attracting a debt rate of return, for the following matters:
  - Residual Capacity Agreement Tariff Supplement 10 and Rate Schedule 111 to be amortized in 2015;
  - 2015 – 2016 Demand Side Management Plan Application to be amortized in 2015 and 2016; and
  - 2016 Long Term Electric Resource Plan Development costs, with the amortization period to be determined in a future annual review process.
4. A three year amortization period for the Interim Rate Variance deferral account with amortization of 20 percent of the opening balance in 2015.
5. The Pension and OPEB Funding Liability to be included in rate base.<sup>4</sup>

### **1.4 Application Review Process**

By Order G-21-15 on February 16, 2015, the Commission established a regulatory timetable. This included one round of information requests (IRs), a Workshop open to all participants, an opportunity for FBC to provide undertakings for any outstanding responses from the Workshop, final submissions from interveners and a reply submission from FBC.

Seven interveners registered for the proceeding:

- British Columbia Old Age Pensioners' Organization, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre (BCOAPO)
- Commercial Energy Consumers Association of British Columbia (CEC)
- BC Sustainable Energy Association and The Sierra Club of British Columbia (BCSEA)
- Canadian Office and Professional Employees Union, Local 378 (COPE)
- British Columbia Municipal Electrical Utilities (BCMEU)
- Industrial Consumers Group (ICG)

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<sup>4</sup> Exhibit B-1, p. 2.

- Norman Gabana

Three letters of comment were received, which raised concerns about rising rates.

## **2.0 DETERMINATIONS ON APPROVALS SOUGHT**

No issues were raised with respect to the following approvals sought:

1. Approval of existing rates as permanent, effective January 1, 2015.
2. Permanent rates for all customers effective July 1, 2015, with the general rate increase being applied to the Residential Conservation Rate (Rate Schedule 1) in accordance with the pricing principles set out in Order G-3-12.
3. A three year amortization period for the 2014 Interim Rate Variance deferral account, with amortization of 20 percent of the opening balance in 2015.

**The Panel determines that approval of these requested items is just and reasonable and accordingly approves them.** The remaining requested approvals are addressed in the following sections.

### **2.1 New Deferral Accounts**

FBC is seeking approval for the establishment of three new deferral accounts and proposes that they be financed using either the short term interest rate where recovery is over a one-year period or the weighted average cost of debt (WACD) for longer-term deferrals.

The following three new deferral accounts relate to regulatory proceedings that have transpired subsequent to the PBR Decision:

- i. \$0.11 million for the Residual Capacity Agreement Tariff 1 Supplement 10 & Rate Schedule 111, to be amortized over one year in 2015;
- ii. \$0.016 million for the 2015 – 2016 DSM Plan Application, to be amortized over two years in 2015 and 2016; and
- iii. \$0.461 million in preparation costs for the 2016 Long Term Electric Resource Plan Development. FBC will apply for disposition of the account in a future annual review.

BCSEA and BCOAPO agree with FBC's proposal; however, BCOAPO suggests that the 2015 – 2016 DSM Plan Application deferral account be amortized over one year in 2015, instead of over two years, noting that the small balance in this account will have minimal impact on rates.<sup>5</sup> FBC agrees that the shorter amortization is a reasonable approach.<sup>6</sup>

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<sup>5</sup> BCOAPO Final Submission, para. 98

<sup>6</sup> FBC Reply, para. 37

**Commission Determination**

**The Panel approves the establishment of the Residual Capacity Agreement Tariff 1 Supplement 10 & Rate Schedule 111 deferral account and the 2015 – 2016 DSM Plan Application deferral account. Both deferral accounts must be financed at FBC’s short term interest rate, amortized in 2015, and subsequently closed.** These deferral accounts are to recognize costs, which are external to FBC, such as legal fees, Commission expenses and intervener funding. **Therefore, the Panel finds it reasonable to recover these costs through the deferral mechanism.**

2.1.1 2016 Long Term Electric Resource Plan Development

FBC plans to file its 2016 Long Term Electric Resource Plan (LTERP) on or before June 30, 2016 and requests the establishment of a new deferral account to capture their incremental costs of preparing the 2016 LTERP. The forecast costs associated with the development of the LTERP is \$0.335 million in 2015 and an additional \$0.265 million in 2016.<sup>7</sup>

FBC also states that it:

“will apply for disposition of the account in a future annual review. Consistent with the Commission’s direction for deferral accounts with recovery periods longer than one year, the Company proposes that this account will attract a WACD return.”<sup>8</sup>

FBC provided a breakdown of the 2015 cost estimate and states that:

“[t]he preparation of the LTERP requires participation by a significant number of employees throughout FBC, and their participation is generally included in the Base O&M expenses. The incremental costs captured in the deferral account are related to stakeholder consultation, external consulting, resource options collaboration with BC Hydro, portfolio analysis software and incremental labour.

Stakeholder consultation	\$ 0.048
External consultant work or studies	0.100
Resource options collaboration with BC Hydro	0.060
Portfolio analysis software	0.008
Incremental labour	<u>0.119</u>
<b>Total</b>	<b>\$ 0.335</b>

A description of each of the items in the table above is as follows:

- Stakeholder consultation includes estimates of costs related to workshops led by FBC within its service area communities as well as advisory group workshops held in Vancouver.

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<sup>7</sup> Exhibit B-2, BCUC IR 1.20.1

<sup>8</sup> FBC 2014 Annual Review for 2015 Rates, S.12.4.1.3, p. 86

- External labour or consultant work or studies costs relate to any incremental work, research or analysis that FBC might require to develop its LTERP. This could include, for example, research regarding regional electricity market developments.
- Resource options collaboration costs relate to the collaboration work FBC is conducting with BC Hydro in developing and updating resource options within BC. This collaboration saves time and costs compared to FBC and BC Hydro doing this work separately and results in a more consistent set of resource options and associated costs.
- Portfolio analysis software is required to perform the portfolio analysis that FBC was directed to undertake by the Commission in its decision regarding the 2011 LTERP.
- Incremental labour is that required above the amounts included in Base O&M, such as overtime paid to unionized employees or temporary positions required exclusively for the development of the LTERP.”<sup>9</sup>

### Intervener Positions

Three interveners provided comments on this issue.

BCSEA supports approval of the account<sup>10</sup> and BCOAPO “takes no issue with FBC’s proposal for this deferral account.”<sup>11</sup>

ICG does not support the approval of a deferral account. ICG “supports the approval of the 2015 budget provided in response to an information request from the Commission with the exception of the Incremental labour line item. Not only should FortisBC be able to prepare an LTERP without overtime, but there should be no incremental labour costs. The final approved 2015 recommended budget would then be \$0.216 million. FortisBC could file an approved 2016 budget with the 2016 Annual Review for approval. At that time, the issue of whether a deferral account should be established for the Regulatory Process costs could be considered.”<sup>12</sup>

FBC argues that ICG’s submissions are inconsistent and should be rejected as FBC’s requested deferral treatment is consistent with past practice and the labour to be captured in the deferral account is not included in FBC’s normal base O&M activity.<sup>13</sup> FBC states that the Base O&M includes regular O&M costs associated with the development of long term plans but does not include “incremental” O&M expense.<sup>14</sup>

### **Commission determination**

The Panel agrees with FBC that the preparation of an LTERP precipitates incremental expenditures that may fall outside of Base O&M. The Panel further agrees that establishment of a deferral account as requested by FBC is a reasonable treatment for these types of expenditures.

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<sup>9</sup> BCUC IR1.20.1, p 71-72

<sup>10</sup> BCSEA Argument, p.2

<sup>11</sup> BCOAPO Argument, p. 19

<sup>12</sup> ICG Argument, p.3

<sup>13</sup> FBC Reply, p. 16

<sup>14</sup> Exhibit B-2, BCUC IR 1.20.1

However, the Panel does not agree with FBC's request to include some incremental internal staff costs as outside of Base O&M and eligible for deferral account treatment as these costs should more appropriately be covered within Base O&M. One of the fundamental principles of the PBR regime is to give the company greater latitude to allocate its resources generally as it sees fit within certain parameters in order to effectively and efficiently carry out its mandate. In that context, Base O&M was set at a level to provide FBC with sufficient resources to execute a number of activities, including preparation of all required regulatory filings.

The fact that the internal resource profile (departments within FBC) is not smooth /consistent over time does not mean that it is not a routine part of the Company's operations. Internal resource allocation and scheduling for LTERP preparation are matters for the Company to determine, and do not give rise to treating such activity as outside Base O&M.

Given the foregoing, **the Panel approves the establishment of the LTERP deferral account as set out by FBC in its request, subject to the following.**

- **All activities/costs anticipated under "Incremental labour" are not eligible for deferral treatment; accordingly, the deferral account forecast is reduced by \$0.119 million.**
- **Any staff costs for "Stakeholder consultation" are not eligible for deferral.**

**Accordingly, FBC is directed to adjust this deferral balance in its subsequent Compliance Filing to the Commission.**

## **2.2 Pension and OPEB Funding Liability**

As part of the FBC 2012 – 2013 Revenue Requirements Application (RRA) Decision and accompanying Order G-110-12, the Commission directed FBC to classify its Prepaid Pension Costs and OPEB deferral account as non-rate base attracting interest at FBC's weighted average cost of debt.<sup>15</sup> These two accounts were later combined and renamed "Prepaid Pension Costs and OPEB Liability."<sup>16</sup> Subsequently, the Commission's clarification letter from September 17, 2012 regarding Order G-110-12 in part stated:

"The Commission confirms the following:

- i) With respect to financing costs applicable during the test period, financing costs are to be added to the deferred account and amortized concurrently with principal amounts."

In this Application, FBC states that this treatment was designed for traditional deferral accounts and cannot be logically applied to the Pension/OPEB Funding Liability, which is not a deferral account as usually defined. FBC has concluded it is incorrect to attempt to treat the Pension/OPEB Funding Liability account as if it were a traditional deferral account and that the Commission could not have intended for FBC to apply this treatment. Given the credit balance of this account, FBC also concluded that it was incumbent on it to bring this issue to the

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<sup>15</sup> FBC 2012-2013 RRA Decision, pp. 120 and 122.

<sup>16</sup> FBC 2012-2013 RRA & ISP application, Exhibit B-7, BCUC IR 1.216.2.

Commission's attention in this Application and seek a workable treatment for the Pension/OPEB Funding Liability going forward.<sup>17</sup>

FBC requests approval to reclassify the Pension/OPEB Funding Liability deferral account from non-rate base to rate base and to discontinue the accrual of a WACD return on this account. According to FBC, this account is currently not drawn down through amortization into rates, therefore the WACD return accrued annually will continue to accumulate with no mechanism for recovery in rates. FBC refers to this as "stranded financing costs."<sup>18</sup> Instead, FBC proposes to include this account into rate base such that the utility and customers are appropriately compensated for the timing difference between when pension and OPEB costs are expensed and when they are recovered from customers. By including this account in rate base, FBC is able to either recover from, or return to, customers the earned return on this account.

FBC also requests that its credit balance as at December 31, 2014 of \$18.7 million be added as a credit to its rate base and be treated as an offset to the revenue requirement.

#### Intervener positions

BCOAPO supports FBC's proposal on the basis that the pension and OPEB account is not a true deferral account and therefore it is appropriate to treat this account differently from other Commission approved deferral accounts.

ICG submits that FBC's request for a change in carrying costs should not be the subject of a PBR Annual Review, since it appears to be a reconsideration of a previous Commission decision.

In Reply, FBC reiterates that the rate base treatment of the Pension/OPEB Funding Liability account is consistent with past treatment and will benefit ratepayers by reducing rates. FBC also submits that its request is properly within the scope of this proceeding.

#### **Commission determination**

The Panel agrees with the submissions of FBC and is prepared to reconsider the Commission's previous decision regarding the Pension/OPEB Funding Liability account. This proceeding is an appropriate forum for the reconsideration, as the amounts at issue are material and the parties have had an opportunity to examine the issue and make recommendations and submissions.

Upon review, the Panel considers it appropriate that the Pension/OPEB Funding Liability account be returned to rate base. The Commission's clarification letter stated that financing costs are to be added to deferral accounts that are amortized. There is no amortization of this account. Therefore, while it is appropriate that the account attracts financing costs, these financing costs should not be accrued in the account, as this could potentially result in these costs being stranded. Adding the account to rate base allows the financing costs to be recovered from, or returned to, customers through their inclusion in the earned return component of FBC's revenue

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<sup>17</sup> ICG IR 1.8.2.

<sup>18</sup> Exhibit B-1, pp. 84-85

requirement, while leaving the account balance whole. This treatment is consistent with FBC’s practice prior to the 2012 revenue requirements decision and also with the treatment by FortisBC Energy Inc. (FEI) of its analogous account.

Further, the Panel is of the view that the interest accrued to date should be returned to ratepayers forthwith. **Accordingly, the Panel approves the closing balance of \$18.7 million to be included in FBC’s 2015 rate base.** This amount is net of \$0.745 million of accrued interest for the years 2012 – 2014 which is to be returned to customers as a reduction to 2015 revenue requirements.<sup>19</sup>

### 3.0 DETERMINATIONS ON ISSUES ARISING

#### 3.1 Load forecast

Table 1 below shows the historical and forecast normalized after-savings gross energy load by customer class, as provided by FBC.

**Table 1: Normalized after-savings gross energy (GWh)<sup>20</sup>**

Energy (GWh)	2009	2010	2011	2012	2013	2014	2015F
Residential	1,239	1,242	1,249	1,229	1,353	1,389	1,397
Commercial	675	660	657	681	788	798	808
Wholesale	908	895	910	899	675	587	593
Industrial	216	234	271	291	352	369	371
Lighting	13	14	13	13	13	14	13
Irrigation	49	40	40	38	40	41	40
Net	3,100	3,085	3,140	3,151	3,222	3,197	3,224
Losses	315	284	307	271	278	275	275
Gross	3,416	3,369	3,447	3,422	3,500	3,473	3,499
<b>System Peak</b>							
Winter Peak (MW)	704	726	702	723	698	743	749
Summer Peak (MW)	496	566	537	589	600	579	582

FBC submits that it used the same load forecast methodologies as were used in its 2014 – 2018 PBR Application, except for some adjustments to fully address the City of Kelowna integration.<sup>21</sup> In the FBC 2014 – 2018 PBR Decision, the Commission accepted FBC’s load forecast and agreed that the methodology used by FBC conforms to the recommendations set by the Load Forecast Technical Committee (consisting of representatives from FBC, interested interveners and Commission staff).<sup>22</sup>

FBC submits that overall, its forecasting error ranges from 1 percent to 3 percent, which FBC submits is on par with the current industry benchmark of 1.5 percent on average. FBC also submits that, since all power purchase expense and revenue variances are captured in the flow-through deferral account and amortized into future

<sup>19</sup> Exhibit B-2, BCUC IR 1.17.2

<sup>20</sup> Exhibit B-1, p. 21

<sup>21</sup> Exhibit B-2, BCUC 1.4.1

<sup>22</sup> In the Matter of FortisBC Inc. Application for Approval of a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018 (FBC 2014-2018 PBR) Decision, dated September 15 2014 (G-139-14), pp. 180, 182

revenue requirements, any change in the load forecast or power purchase expense would not have an impact on shareholder earnings.<sup>23</sup>

FBC forecast the commercial customer class load based on a regression of load on the provincial Gross Domestic Product, supplied by the Conference Board of Canada, and states that forecasting errors ranged from 2.1 percent to 1.4 percent over the past three years.<sup>24</sup> CEC recommends the Commission accept FBC's load forecast, but submits it would be useful for FBC to undertake to have further information as to the factors influencing commercial consumption.<sup>25</sup> While BCSEA and BCOAPO support acceptance of the load forecast, they raise concerns regarding the impact of Advanced Metering Infrastructure (AMI) on system losses.<sup>26</sup>

### **Commission determination**

**The Commission Panel accepts FBC's 2015 Load Forecast as reasonable, given consistency with the recommended methodology set by the Load Forecast Technical Committee and past forecasting errors ranging from 1 percent to 3 percent.**

The Panel is satisfied with FBC's approach to forecasting load for its commercial customer class as past forecasting errors are within an acceptable range, and therefore does not consider that CEC's suggestion for investigation into the factors influencing commercial consumption is necessary at this point. Concern regarding the effect of AMI on system losses will be addressed in the following section.

### **3.2 Power purchase expense**

FBC forecasts its power purchase expense (PPE) for 2015 at \$118 million, an increase of \$32 million over the \$86 million in PPE projected for 2014. FBC submits that this is a result of \$26 million in additional PPE costs related to the Waneta Expansion project, increased load, a greater reliance on energy supplied by BC Hydro, as well as increases to BC Hydro and Brilliant contract rates.<sup>27</sup>

FBC also forecasts \$4.7 million in Wheeling Expenses (2014 \$5.1 million) and \$9.8 million in Water Fees (2014 \$9.6 million) for 2015.<sup>28</sup>

BCOAPO accepts the PPE as reasonable, and note that any variances will be captured in the flow-through deferral account and refunded/recovered from customers. BCOAPO also takes no issue with the proposed wheeling and water fees.<sup>29</sup>

The following concerns were raised by interveners:

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<sup>23</sup> Exhibit B-2, BCUC 1.3.2

<sup>24</sup> Exhibit B-1, p. 16, Exhibit B-2, BCUC 1.3.1

<sup>25</sup> CEC Final Submission, pp. 2, 5

<sup>26</sup> BCSEA Final Submission, pp. 2-4, BCOAPO Final Submission, pp. 3-4

<sup>27</sup> Exhibit B-1, p. 27

<sup>28</sup> IBID., pp. 29-30

<sup>29</sup> BCOAPO Final Submission, pp. 7, 8



- CEC raised a concern regarding FBC’s 2015 forecast savings from Portfolio Optimization.<sup>30</sup>
- BCSEA and BCOAPO raised concerns regarding the impact of FBC’s AMI Project on network losses due to energy theft.<sup>31</sup>
- ICG submits that FBC could do more in the area of industrial demand side management to cost-effectively reduce power purchases.<sup>32</sup>

### 3.2.1 Portfolio optimization

The nature of FBC’s contracted resources, in particular the BC Hydro power purchase agreement (PPA), provide FBC with some flexibility to participate in the market when conditions are favourable to mitigate the cost of holding those firm resources.<sup>33</sup> CEC raised a concern that FBC’s 2015 PPE assumes an increase in BC Hydro PPA purchases compared to 2014, despite market and contracted purchases having a lower average cost, as outlined in Table 2:<sup>34</sup>

**Table 2: Comparison of BC Hydro PPA to market/contracted purchases<sup>35</sup>**

	<b>Projected 2014</b>	<b>Forecast 2015</b>	<b>Average cost (2015)</b>
BC Hydro PPA	599 GWh	760 GWh	\$60/MWh
Market/contracted purchases	378 GWh	192 GWh	\$49/MWh

For 2015, FBC has included a total of approximately \$5.2 million in market savings from displacing BC Hydro PPA purchases with lower priced market/contracted purchases. This comprises approximately \$4.2 million in savings due to purchases already contracted for, and an additional \$1.0 million to take into account the potential for additional real-time market opportunities.<sup>36</sup> By comparison, in 2014, FBC’s total market and contracted purchases reduced the PPE by \$9.1 million.<sup>37</sup> CEC submits that 2015 forecast market and power purchases should be increased to approach prior levels.<sup>38</sup>

In response, FBC submits that market opportunities overall are less than they were in 2014, and CEC’s assertion that FBC should be able to achieve a level of savings closer to that of the prior year is unlikely and is unsupported by any evidence of current market conditions.<sup>39</sup> FBC further submits that it files an Annual Electric Contracting Plan (AECPP) with the Commission on a confidential basis, which outlines FBC’s plan to optimize its

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<sup>30</sup> CEC Final Submission, p. 2

<sup>31</sup> BCSEA Final Submission, p. 4

<sup>32</sup> ICG Final Submission, p. 2

<sup>33</sup> Exhibit B-1, p. 25

<sup>34</sup> CEC Final Submission, pp. 7, 8

<sup>35</sup> Ibid., p. 8

<sup>36</sup> FBC Reply Submission, pp. 9-10

<sup>37</sup> Exhibit B-2, BCUC 1.7.4

<sup>38</sup> CEC Final Submission, p. 8

<sup>39</sup> FBC Reply Submission, p. 10

power supply portfolio over the coming year. FBC's 2014/15 AECP was accepted by the Commission on June 19, 2014.

### **Commission determination**

#### **The Commission Panel determines that FBC's 2015 forecast of \$5.2 million in market savings is reasonable.**

The Commission Panel accepts FBC's explanation that it has included a forecast of its market purchases based on the current pricing environment, which FBC submits is different than in 2014, and the Panel is not persuaded that a case had been made to support a higher forecast of market purchases.

#### 3.2.2 Advanced Metering Infrastructure (AMI) Theft detection

FBC received approval for a Certificate of Convenience and Necessity for its AMI project on July 23, 2013. The AMI project consists of replacing the existing fleet of meters with advanced (or smart) meters and related infrastructure and software. In the AMI decision, the Commission estimated the net present value of the reduction in FBC's PPE arising from reduced electricity theft resulting from the AMI project at \$33.5 million.<sup>40</sup>

FBC states that, because of the high variability of AMI costs and savings during the PBR period, net AMI costs are forecast and tracked outside of the PBR formula and variances are recovered from or returned to customers in the following year by way of the flow-through deferral account.<sup>41</sup>

FBC submits that the AMI project will be substantially complete during 2015.<sup>42</sup> FBC estimates network losses for 2014 as 7.86 percent (258 GWh), and states that it will continue monitoring the system losses percentage and consider lowering it if evidence suggests that there is a trend of reduced losses. However, FBC further submits that the reduced amount, if any, would likely be quite small (annual AMI related loss reduction for 2015 is estimated at 4.3 GWh, increasing to 10.7 GWh/year by 2019).<sup>43</sup>

BCOAPO submits that FBC's assertion that losses are likely to remain consistent throughout the PBR period are contrary to assertions made by FBC in the AMI application. However, BCOAPO accepts that FBC may not yet be in a position to achieve significant loss reductions during 2015 before the AMI becomes fully operational.<sup>44</sup>

BCSEA raised similar concerns and suggests the impact of AMI on losses through theft deterrence be specifically addressed in FBC's next and subsequent annual reports. FBC submits that it will continue to report on AMI savings and costs and the impact of the AMI project on losses in future annual reviews, and interveners will continue to have the opportunity to request information in future proceedings as required. FBC submits that there is no need for any direction from the Commission on these topics.<sup>45</sup>

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<sup>40</sup> FortisBC Inc. Certificate of Public Convenience and Necessity for the Advanced Metering Infrastructure Project, (AMI decision), dated July 23, 2013, Order C-7-13, pp. (i), 88; BCOAPO Final Submission, p. 3

<sup>41</sup> FBC 2015 PBR Review, Exhibit B-1, pp. 35, 36

<sup>42</sup> Exhibit B-1, p. 36

<sup>43</sup> FBC 2015 PBR Review, Exhibit B-3, CEC 1.10.4, CEC 1.10.2, Exhibit B-1, BCUC 1.9.7

<sup>44</sup> FBC 2015 PBR Review, BCOAPO Final Submission, pp. 3-4

<sup>45</sup> FBC Reply Submission, p. 12

### **Commission determination**

**The Commission Panel directs FBC to include, in its next and subsequent annual PBR reports, the impact of AMI on losses through theft deterrence.** This directive will improve regulatory efficiency in the review of FBC's proposed actions (and FBC's incentives to undertake these actions while under PBR) related to the reduction of theft related costs.

The information to be submitted should include: (i) a comparison of the projected GWh reduction for the test year and proceeding years to the estimated GWh theft reduction assumed in the AMI decision for those years; and (ii) a description of FBC's operational activities and costs incurred in reducing electricity theft (for example, related to FBC's Revenue Protection Program) and the regulatory treatment of these costs.

#### 3.2.3 Demand Side Management for Industrial Customers

In its decision on FBC's Application for Approval of Demand Side Management Expenditures for 2015 and 2016 (Order G-186-14), the Commission expressed concern about the adequacy of FBC's DSM proposal, in particular for residential and industrial customers. The Commission determined that FBC's DSM budget for its industrial customers appeared low when considering (amongst other things) the low utility cost of industrial DSM (2.0 ¢/kWh) and the industrial positive Rate Impact Measure result. These measures indicate that industrial DSM places long-term downward pressure on both FBC's revenue requirement and rates.<sup>46</sup>

In Order G-186-14, FBC was directed to include in its next DSM Annual Report a review and discussion of whether opportunities exist in expanding DSM funding to 2013 approved levels for industrial customers while continuing to obtain cost-effective energy savings.<sup>47</sup> Directive 17 specifically required FBC to include an update on its efforts to identify and mitigate (through DSM programs) market barriers to energy efficiency investment and consumption decisions of its industrial customers, and an update on FBC's proposal to increase the funding available for Industrial energy efficiency studies.<sup>48</sup>

In this proceeding, FBC submits that it is not planning a supplemental DSM expenditure request for industrial customers at this time, and notes the spending rules allow FBC to shift up to 25 percent of the sector budget between sectors without Commission approval. FBC submits it is undertaking a number of activities related to industrial DSM, including participating in the industrial program design workshop planned and hosted by FEI's Energy Efficiency and Conservation group on March 5, 2015. In addition, the joint dual fuel BC-wide Conservation Potential Review now underway will review the economic potential of a wide range of industrial measures and programs which will inform DSM expenditure filings for 2017 and beyond.<sup>49</sup>

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<sup>46</sup> In the Matter of FortisBC Inc. Application for Approval of Demand Side Management Expenditures for 2015 and 2016, Decision dated December 3, 2014 (Order G-186-14), pp. 11, 25

<sup>47</sup> Application for Approval of Demand Side Management Expenditures for 2015 and 2016, Decision dated December 3, 2014 (Order G-186-14), pp. 11, 25

<sup>48</sup> IBID. p. 28

<sup>49</sup> FBC Reply Submission, pp. 7,8

ICG, however, submits the direction set by FortisBC is inconsistent with the directions, findings, and conclusions in the Order G-186-14 decision, and notes that no FBC industrial customers were invited to FEI’s industrial program design workshop. ICG submits that this Panel direct FortisBC to comply with the findings and conclusions in the Order G-186-14 decision.<sup>50</sup> In Reply, FBC submits that compliance with Directive 17 of Order G-186-14 is out of scope of this proceeding.<sup>51</sup>

### Commission determination

**The Commission Panel agrees with FBC that compliance with Directive 17 of Order G-186-14 is out of scope for this proceeding as the directive relates to FBC’s next DSM Annual Report and not the FBC PBR Annual Review.**

However, the Panel notes the concerns raised in Order G-186-14 that FBC’s revenue requirement and rates may be higher than necessary as a result of sub-optimal levels of industrial DSM spending, and encourages FBC to address this matter in its next DSM Annual Report. Regarding ICG’s submission that the Panel should make specific determinations in this decision regarding the adequacy of FBC’s industrial DSM spending, the Panel considers that this issue is best addressed as part of FBC’s next Long Term Resource Plan or DSM Expenditure Application (whichever comes first).

### 3.3 Service Quality Indicators (SQIs)

FBC provided the following information on SQI results for 2014.<sup>52</sup>

Performance Measure	Description	Benchmark	Threshold	2014 Results
<b>Safety SQIs</b>				
Emergency Response Time	Percent of calls responded to within two hours	93%	90.6%	91%
All Injury frequency rate (AIFR)	3 year average of lost time injuries plus medical treatment injuries per 200,000 hours worked	1.64	2.39	2.58
<b>Responsiveness to the Customer Needs SQIs</b>				
First Contact Resolution	Percent of customers who achieved call resolution in one call	78%	72%	73%
Billing Index	Measure of customer bills produced meeting performance criteria	5.0	≤5.0	2.34
Meter Reading Accuracy	Number of scheduled meters that were read	97%	94%	98%
Telephone Service Factor (Non-Emergency)	Percent of non-emergency calls answered within 30 seconds or less	70%	68%	48%
Customer Satisfaction Index	Informational indicator - measures overall customer satisfaction	-	-	8.1
Telephone Abandon Rate	Informational indicator – percent of calls abandoned by the customer before speaking to a customer service representative	-	-	13%
<b>Reliability SQIs</b>				
System Average Interruption Duration Index (SAIDI) - Normalized	3 year average of SAIDI (average of cumulative customer outage time)	2.22	2.62	2.09
System Average Interruption Frequency Index (SAIFI) - Normalized	3 year average of SAIFI (average customer outage)	1.64	2.50	1.39
Generator Forced Outage Rate	Informational indicator – Percent of time a generating unit is removed from service due to component failure or other events.	-	-	1.74%

<sup>50</sup> ICG Final Submission, p. 2

<sup>51</sup> FBC 2015 PBR Review, FBC Reply Submission, p. 6

<sup>52</sup> Exhibit B-1, FBC Annual Review, Table 13-1, p. 92

The table indicates that of the eight SQIs with specified ranges:

- Four SQIs performed better than Benchmark (Billing Index, Meter Reading Accuracy, System Average Interruption Duration Index (SAIDI), and System Average Interruption Frequency Index (SAIFI);
- Two SQIs performed better than Threshold but inferior to Benchmark (Emergency Response Time and First Contact Resolution); and
- Two SQIs performed inferior to Threshold (All Injury Frequency Rate (AIFR), and Telephone Service Factor (TSF)).

Three of the interveners argue that on the basis of these results, a financial consequence (i.e. a reduction in FBC's earnings sharing entitlement) should be imposed.

FBC responds that a serious degradation in service has not occurred, and states that the Company has also taken all reasonable steps to address and correct SQI performance and "therefore, the 2014 SQI performance does not warrant financial consequence under the PBR Plan."<sup>53</sup>

### 3.3.1 Regulatory Context

#### PBR Decision

The basic framework for linking incentive sharing to SQI performance was set out in the 2014 PBR Decision, which states:

"[T]he Commission Panel determines that the incentives earned must be linked to the achievement of service quality standards."<sup>54</sup>

and

"[T]he Commission Panel determines that the most effective way to manage SQIs is to set a satisfactory performance range."<sup>55</sup>

#### Order G-14-15

Subsequently, on February 4, 2015, the Commission issued Order G-14-15 to incorporate into the PBR framework the agreement reached amongst FBC and interveners regarding appropriate performance ranges and guidelines for their interpretation.

The Order itself states:

"1. The Consensus Recommendation attached as appendix A to this order is approved.

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<sup>53</sup> FBC Reply, p. 18

<sup>54</sup> PBR Decision, S.2.3.3.1, p. 139

<sup>55</sup> PBR Decision, S.2.3.3.3., p.154

“2. The Determination, made in the [PBR Decision], which states “Performance outside of this range would be unacceptable representing a serious degradation of service which would be subject to consequences” is hereby rescinded.”<sup>56</sup>

The Consensus Recommendation (Appendix A to the Order) provides a delineation of the SQIs, summarized in a table that shows for each SQI, their indicator, benchmark and threshold levels. It also provides the following commentary.

“Based on how the Parties [to the Consensus Recommendation] have established the thresholds and performance ranges, the Parties do not consider performance inferior to a threshold to necessarily

- represent a “serious degradation of service”, or
- warrant adverse financial consequences for FortisBC

but rather they consider that this circumstance warrants examination at an Annual Review to determine whether further action is warranted. However, performance inferior to a threshold is a factor the Commission may consider in determining whether there has been a “serious degradation of service” and whether adverse financial consequences for FortisBC are warranted.”<sup>57</sup>

The Consensus Recommendation then provides guidelines/criteria for determining financial consequences.

“Determinations of any financial consequences will be made based on whether there has been a serious degradation of service and having regard to the other factors identified by the Commission in the following passage from the Decision:

“When assessing the magnitude of any reduction in each Company’s share of the incentive earnings, the Commission will take into account the following factors:

- Any economic gain made by each Company in allowing service levels to deteriorate;
- The impact on the delivery of safe, reliable and adequate service;
- Whether the impact is seen to be transitory or of a sustained nature; and
- Whether each Company has taken measures to ameliorate the deterioration in service.”<sup>58</sup>

### Commission discussion

In determining whether financial consequences are in order, the Panel interprets the Consensus Recommendation as asking two fundamental questions: Has a serious degradation of service occurred? To what extent are the performance results attributable to the actions or inactions of the Company?

The answer to whether a serious degradation has occurred is largely guided by key points set out in the Consensus Recommendation:

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<sup>56</sup> Order G-14-15, p.2

<sup>57</sup> Order G-14-15, Appendix A, p.5

<sup>58</sup> Order G-14-15, Appendix A, p.6

- SQI performance below threshold does not necessarily mean that a serious degradation of service has occurred, but is a factor to consider in that determination.
- Two of the four “other factors” noted are also relevant to a determination of whether or not any degradation of service is “serious”:
  - The impact on the delivery of safe, reliable and adequate service; and
  - Whether the impact is seen to be transitory or of a sustained nature.

In determining the extent to which the performance results are attributable to the actions or inactions of the Company, the remaining two “other factors” need to be considered:

- Any economic gain made by each Company in allowing service levels to deteriorate; and
- Whether each Company has taken measures to ameliorate the deterioration in service.

The Panel considers it appropriate that these questions be addressed sequentially. First, has a serious degradation of service occurred? Secondly, if a serious degradation has occurred, to what extent are the performance results attributable to the actions or inactions of the Company?

### 3.3.2 Has a serious degradation of service occurred?

FBC argues that the 2014 SQI results do not indicate a serious degradation of service.

With specific regard to the AIFR results, it submits that the rise in safety incidents began in 2013 and coincides with the labour dispute with the International Brotherhood of Electrical Workers (IBEW) union. Further, FBC was not operating under the PBR regime in 2013 or for the first three quarters of 2014 when the majority of incidents occurred, and hence performance cannot logically be linked to any aspect of the PBR framework. Further, the Company notes that while AIFR results are of concern, they have not otherwise affected any other aspect of service provided to customers.<sup>59</sup>

With regard to TSF, FBC argues that the below-threshold performance came about largely due to a combination of concurrent, one-time, unforeseen events. The transitory nature of the results is demonstrated by the improvement in TSF levels in the latter part of 2014. Furthermore, the longer wait times did not materially affect the delivery of safe, reliable and adequate service, as indicated by other indicators of customer service and satisfaction.<sup>60</sup>

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<sup>59</sup> FBC Reply Argument, p. 28

<sup>60</sup> FBC Reply Argument, p. 34

### Intervener positions

BCMEU argues that FBC has not provided sufficient justification to be relieved from a reduction in their earnings sharing. To reward FBC with full earnings sharing when half of the SQIs are below the benchmarks and two are below the threshold is not an appropriate precedent to be set in the first year of a PBR term.<sup>61</sup>

BCSEA does not view the 2014 results as a serious degradation of service within the meaning of the PBR regime, citing a few reasons including: for much of 2014 the PBR regime was not in place and hence there is little likelihood that the deficient performance arises from PBR incentives; and FBC has provided reasonable explanations for below-threshold performance for the two SQIs.<sup>62</sup>

CEC submits it is important that the Commission identify the results as representing a serious degradation of service, and not doing so would fail to protect ratepayers and sets an unreasonable basis for the rest of the PBR period.<sup>63</sup>

COPE notes that FBC attributed various shortcomings in its performance on the half-year lockout. COPE provides information and discussion as to why, for PBR purposes, the lockout decision taken by FBC should not be viewed as a circumstance beyond the Company's control. Further, since the actions taken were deliberate and achieved predictable negative impacts on performance, this should weigh heavily in the Commission's determination of whether there has been a serious degradation of service.<sup>64</sup>

BCOAPO argues that the AIFR and TSF results call for a penalty. With respect to AIFR, BCOAPO contends that FBC is not justified in attributing the poor results to the labour unrest. With regard to the TSF, it argues that staffing levels are a more logical explanation of sub-par performance than are the various factors cited by FBC.<sup>65</sup>

### **Commission determination**

The Panel is concerned by the fact that two SQIs had results below threshold levels in 2014. However, for the reasons outlined below, **the Panel has determined that there is insufficient evidence to support a finding of serious degradation of service in 2014.**

We put significant weight on the fact that the majority of the 2014 performance unfolded before the PBR Decision was issued. Furthermore, the Consensus Recommendation, which provided the first specific enumeration of the SQIs and their target ranges, was only put into effect in February 2015, hence subsequent to the conclusion of 2014's actual performance results. Considering this time line, **the Panel considers a finding of serious degradation on the basis of the evidence before us to be premature.**

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<sup>61</sup> BCMEU Argument, p.2

<sup>62</sup> BCSEA Argument, p. 9

<sup>63</sup> CEC Argument, p.12

<sup>64</sup> COPE Argument, pp. 1-5

<sup>65</sup> BCOAPO Argument, pp. 21-22



The Panel also gives some weight to FBC's position that the 2014 results were short-lived and have been/are being remedied, particularly in the absence of compelling evidence/argument to the contrary. While arguing for the imposition of penalties, interveners provide no basis to support their position that a serious degradation of service has occurred. The arguments for penalties focus almost exclusively on trying to establish FBC's responsibility for the results that have occurred, but do not offer compelling reasons to determine that those results indeed represent a "serious degradation", other than referring back to the SQI values themselves. However, inasmuch as the Consensus Agreement specifically decoupled the Commission's explicit and direct link between SQIs below the threshold and a de facto occurrence of "serious degradation of service", clearly the parties must have intended for the Commission to find the determination of a "serious degradation of service" to rest on something more than the SQI results themselves.

Finally, the Panel rejects the arguments put forward by interveners in various forms, that any outcome other than imposition of consequences would undermine the credibility of the SQIs and/or set a poor precedent for future annual reviews. It is not the role of the Panel to look for any opportunity to punish FBC as a way to set the stage for subsequent reviews, but rather to provide appropriate oversight to ensure that actions taken under PBR do not fundamentally affect the provision of safe, reliable and adequate customer service.

That said, while the Panel has made a determination that no serious degradation of service has occurred in 2014, it does not mean the Panel has no concerns regarding the reported service levels. FBC has argued that the 2014 performance problems are attributable to factors that should now be behind us, and that the Company has already taken steps and will continue to work towards improvement in these service levels. The Commission will therefore be particularly attentive to the reported results in the next and subsequent annual reviews, to assess whether the improvements do in fact materialize.

**3.3.3 To what extent are the performance results attributable to the actions or inactions of the Company?**

The parties to this proceeding have provided extensive information and comment surrounding the question of Company responsibility for the results that have unfolded.

However, as stated at the outset of this section on SQI performance, determination of responsibility is required only if a finding of serious degradation of service has first been made. Since the Panel has determined that a serious degradation of service has not occurred in 2014, there is no need to make a determination on the degree of company responsibility for the results achieved.

**Future Annual Reviews**

Looking to the next and subsequent annual reviews, the Panel provides the following comments and guidelines with regard to any determination of financial consequences arising out of one or more SQIs falling below threshold.

1. Imposition of financial consequences is dependent on two conditions being true: that a serious degradation of service has occurred; and that the performance results are attributable to the actions or inactions of the Company.

2. As to a finding of serious degradation of service, each particular situation will be decided in its unique context, looking at the severity, frequency and duration of the below-threshold results.
3. As to a finding of whether the performance results are attributable to the actions or inactions of the Company, this will only be required if there has first been a determination of serious degradation of service. Further, the Panel does not see the only determination options being that the performance results are either fully attributable or not at all – a determination of partial/shared attribution is entirely possible.
4. The Panel also notes that one of the design principles of the PBR regime is to give the Company greater latitude to allocate its resources generally as it sees fit within certain parameters, without extensive oversight and scrutiny within the annual review process. However, in cases where FBC chooses to argue that performance results are not attributable to the actions or inactions of the Company, a fulsome and complete review of relevant Company decisions and actions may be required to arrive at a determination.

### **3.4 Generator Fires Causing Forced Outages and Costs**

The Generator Forced Outage Rate (GFOR) for 2014 is an informational indicator measuring of the percentage of time in one year that the generating units experience forced outages due to component failure or other event, compared to the amount of time they could have operated without a forced outage. A forced outage means the removal of a generating unit from service due to the occurrence of a component failure or other event, making it unavailable to produce power due to the unexpected breakdown.

FBC estimates the GFOR for the year ending 2014 to be 1.74 percent. This rate results from approximately 1,489 of forced outage hours for the combined 15 FBC generating units. Practically all of these outage hours resulted from two generating unit fires (959 hours for South Slokan Unit 1 and 481 hours for Corra Linn Unit 2).<sup>66</sup> FBC states that all of the energy lost as a result of these outages needed to be replaced in order to meet FBC load requirements.<sup>67</sup>

The costs related to these two forced outages were estimated to be approximately \$742,600 for repair work after insurance coverage<sup>68</sup> and \$561,000 for the purchase of replacement energy after insurance coverage. Some additional work is required in 2015 to replace damaged cables at Corra Linn Unit 2.<sup>69</sup>

FBC's engineering department conducted root cause analyses and determined the cause of the forced outage, in both instances, was due to equipment failure of certain connecting cables, which resulted in the generator fires. Following the failures, FBC completed comprehensive electrical testing and inspection on all cable and main lead installations. FBC also implemented additional quality assurance standards and measures for new and existing

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<sup>66</sup> Exhibit B-1, p.100

<sup>67</sup> Exhibit B-2, 1.26.2

<sup>68</sup> Exhibit B-2, BCUC 1.26.1

<sup>69</sup> Ibid, BCUC 1.26.2, BCUC 1.26.3

cable installations, including routine testing on all cables every six years. FBC is also in the process of preparing a detailed testing/maintenance plan.<sup>70</sup>

### **Commission determination**

The Panel understands a forced outage to occur as a result of an unexpected or unplanned breakdown and, as a result of its investigations of these forced outages, FBC has taken steps to implement additional quality assurance standards as well as measures for new and existing cable installations and more frequent testing.<sup>71</sup> The Panel interprets this to mean that unplanned generator outages may be reduced by more robust inspection and maintenance programs.

Because FBC shares in savings in its operating and maintenance costs under PBR, the Panel is concerned that such savings should not be made at the expense of increasing energy purchase costs that are fully recovered from customers. Put more simply, the Panel considers it important to ensure that less robust inspection programs or lower maintenance standards resulting in increased unplanned forced outages are discouraged. Accordingly, **FBC is directed to include in its next Annual Review Application a discussion on whether GFOR should be moved from an informational SQI and added to the list of measurable SQIs.**

In addition, the Panel considers a more in depth review of the Corra Linn Unit 2 and the South Slovan Unit 1 generator forced outages to be in the public interest. Therefore, **the Panel directs FBC to provide the complete engineering root cause analysis reports for these two incidents with any supplemental documentation to address the following items:**

- a. description of the failures with photos,
- b. incident timelines from forced outage to return to service with major milestones,
- c. mitigation action decisions (short term corrective actions),
- d. previous preventative maintenance plans (testing, inspection, etc.) related to root cause(s) and results/verification of these previous preventative maintenance activities being conducted,
- e. any expert analysis or testing results (summary and recommendations),
- f. whether testing, inspection, etc. found any similar problems with the remaining generator units and what actions FBC is taking to correct,
- g. long term corrective action recommendations,
- h. all proposed changes to preventative maintenance plans to prevent re-occurrence, and
- i. any changes to operating activities, frequency, controls or safeguards to prevent re-occurrence.

**These reports must be filed with the Commission within 30 business days from the date of this decision.**

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<sup>70</sup> Exhibit B-11, Undertaking No. 7

<sup>71</sup> Exhibit B-11, Undertaking No. 7

#### 4.0 FUTURE ANNUAL REVIEWS

In the PBR Decision, the Commission found that a more extensive annual review process is necessary to build trust among all stakeholders and to ensure the PBR Plan functions as intended.

By letter dated April 17, 2015, the Commission invited all registered parties for the FBC Annual Review proceeding to provide comments in their Final and Reply submissions on the scope and level of informational detail required for future annual review applications and the parties' views on the optimum review process for future annual reviews.

The FEI Annual Review of 2015 Delivery Rates was conducted under the following regulatory framework:

- Intervener and Interested Party Registration
- Commission and Intervener Information Requests No. 1
- FEI Responses to Commission and Intervener Information Requests No. 1
- Workshop
- FEI Responses to Undertakings from Workshop
- Intervener Written Submissions
- FEI Written Reply Submissions<sup>72</sup>

##### Intervener submissions

CEC states that it provided its comments with respect to the annual review process in its Final Submission in the FEI PBR Review, and that those comments remain appropriate for FBC.<sup>73</sup> In that proceeding, CEC's submissions included the following:

1. The workshops should follow a format that is similar to a streamline review process (SRP) such that all parties have an opportunity to make their respective points of view and ask questions of all other participants, although it made no submissions as to how these workshops would be facilitated.<sup>74</sup>
2. There may be a need for more than one workshop and it would be useful to insert a step prior to the workshop in which all parties work together to develop the workshop agenda.
3. "interactive two-way communication workshops would be useful for examining identified items and working on solutions to those problems."<sup>75</sup>

BCOAP0 does not support a SRP for annual reviews, but does support the use of workshops. It suggests that the most appropriate timing is to hold one workshop after responses to the first round of IRs, but if there are

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<sup>72</sup> Order G-6-15, Appendix A.

<sup>73</sup> CEC Final Argument, p. 14.

<sup>74</sup> CEC Final Submissions, p. 23;

<sup>75</sup> CEC Final Submissions, p. 23.

particularly contentious issues and/or a need for a second round of IRs, it may be helpful to hold a second workshop. BCOAPO submits that the need for a second round of IRs and a second workshop is best decided on a year-to-year basis as this likely depends on the prior year's results, the future year's forecast, and the responses received during the first round of IRs.<sup>76</sup>

BCOAPO also submits that it may be helpful to develop a standardized filing requirement for annual review applications which would describe the type and level of information required. The standardized filing requirement could be developed by a working group consisting of the utility, customers, and other interested stakeholders with input from the Commission.

COPE adopts the suggestions and comments of BCOAPO, and submits that a further truncation of the annual review process would undermine its capacity to fulfil its purpose under the PBR. In the view of COPE, this could ultimately undermine the credibility of the PBR and stakeholders' confidence in it.<sup>77</sup>

ICG believes that there should always be a workshop and states that the format and timing of the 2015 workshop was satisfactory. It also views at least one round of information requests as an appropriate step in the annual review process, although a second round may also be appropriate from time to time. It does not support the adoption of "the more formal" SRP.<sup>78</sup>

BCSEA suggests that future annual rate applications include, for context, the historical SQI results for five years prior to the current PBR period. BCSEA is not "at the present time calling for more than one workshop to be scheduled for the next year's annual review."

BCSEA notes that a SRP is a more conventional Commission process than a Company-led workshop. It points out two differences between the process in the current proceeding and a SRP process: the party leading the process (in this case the utility); and in a SRP, final arguments are typically oral, whereas in the current process, the final arguments are written. It makes no specific recommendation regarding process, but supports a written process and the Panel's participation in a workshop.<sup>79</sup>

In the workshop, BCMEU commented that that it "might be better if the workshop was held in Kelowna or somewhere in the Okanagan." If the workshops continue to be held in Vancouver, BCMEU asked whether "there be an opportunity for defraying costs for the customers to come from the service area to attend in Vancouver."<sup>80</sup>

#### FBC Reply

FBC is generally in agreement with the submissions of BCOAPO, BCSEA, ICG and COPE with respect to the annual review process. It believes that the process utilized in this proceeding is appropriate and should continue. With

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<sup>76</sup> BCOAPO, Final Argument, pp. 22-23.

<sup>77</sup> COPE Final Argument, pp. 6-7.

<sup>78</sup> ICG Final Argument, p. 4.

<sup>79</sup> BCSEA Final Argument, pp. 9-10.

<sup>80</sup> T1:165-166.

regard to a second round of information requests, FBC “notes that the time required to hold a workshop is less than a second round of information requests. Extending the annual review process for a second round of information requests or other process steps will require FBC to file its materials earlier in the year in order for rates to be approved by January 1, which will mean that the Application will be based on less actual data and less actual data will be available throughout the process.”

In reply to comments raised by BCMEU during the workshop regarding the location of the workshop, FBC submits that Vancouver remains the most cost effective location given that the Commission, FBC and majority of interveners are located in the city. It submits that it would be more economical to provide funding to interveners to attend in Vancouver than to move the workshop to a location in the FBC service territory.<sup>81</sup>

In response to CEC’s adoption of its own previous submissions in the FEI Annual Review proceeding, FBC adopts Part Three, Section B of FEI’s Reply Submission in that proceeding, “which respond to the CEC’s comments.” FBC summarises FEI’s position as follows

CEC’s proposal for an oral hearing, consultation sessions and multiple workshops is unprecedented, unworkable, and contrary to the purpose of PBR to provide regulatory efficiency. When this annual review is complete and parties have had a chance to become familiar with how it works and have an understanding of the level of information to be provided, FBC would expect that the process in future annual reviews will be more focused on the key issues, be less costly to ratepayers and absorb fewer of FBC’s resources. The CEC’s submissions would suggest a different trajectory of increasingly complex annual reviews that increasingly cost more for ratepayers and absorb more of FBC’s resources. For these reasons, FBC submits that the CEC’s proposals for the annual review process are not in the public interest.<sup>82</sup>

### **Commission determination**

The Panel shares the view held by most parties that the process used in the current proceeding is an appropriate general framework for future annual reviews. While we understand CEC’s concerns with precluding the possibility of additional steps to determine agenda items and ensure a fulsome record in a given year, we are also mindful that one of the underlying principles of the PBR regime is regulatory efficiency.

Hence, **the Panel sets out the following guidelines as the default template for future annual reviews.**

- Intervener and Interested Party Registration
- Commission and Intervener Information Requests No. 1
- Applicant Responses to Commission and Intervener Information Requests No. 1
- Workshop following IR 1 responses which may include Commission Panel participation in a format to be determined at each annual review proceeding
- Applicant Responses to Undertakings from Workshop

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<sup>81</sup> FEI Reply Argument, p. 39.

<sup>82</sup> Ibid, p. 40.

- Intervener Written Submissions
- Applicant Written Reply Submissions

We agree with the parties that the need for further process is best dealt with on a case by case basis as the need occurs.

As for the appropriate location for future annual review processes, **the Panel finds that Vancouver is still the preferred location as it is more cost effective.** The Panel reiterates its comment provided in the workshop that interveners could participate in other ways (such as through electronic interfaces) regardless of where the proceeding is actually held. With regard to intervener funding to attend a workshop in Vancouver, the Panel considers it premature to make any determinations in this regard. This issue can be addressed in the next annual review.<sup>83</sup>

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<sup>83</sup> T1:p.167