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VIA EMAIL

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June 10, 2015

Ms. Diane Roy
Director, Regulatory Services
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8

Dear Ms. Roy:

Re: FortisBC Energy Inc.
Fort Nelson Service Area
Project No. 3698812/Order G-192-14
2015 and 2016 Revenue Requirements and Rates Application

Enclosed please find the Commission's Decision on the FortisBC Energy Inc.'s application for 2015 and 2016 revenue requirements and rates for the Fort Nelson service area.

Yours truly,

A handwritten signature in black ink, appearing to read "Erica Hamilton".

Erica Hamilton

SW/dg

Enclosure

cc: Registered Interveners



IN THE MATTER OF

FORTISBC ENERGY INC.

**2015-2016 REVENUE REQUIREMENTS AND RATES
FOR THE FORT NELSON SERVICE AREA**

DECISION

June 10, 2015

Before:

D. A. Cote, Panel Chair/Commissioner

H. G. Harowitz, Commissioner

I. F. MacPhail, Commissioner

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1.0 INTRODUCTION

1.1 Background

FortisBC Energy Inc. – Fort Nelson service area (FEFN) is part of FortisBC Energy Inc. (FEI). FEI is one of the largest natural gas distribution companies in Canada, distributing gas to approximately 952,000 residential, commercial and industrial customers located in the Inland, Columbia, Fort Nelson and Vancouver Island service areas. The natural gas distribution system in the Fort Nelson service area was acquired in 1985 by Inland Natural Gas Co. Ltd. and in 1989 amalgamated with this company and others to become what is now FortisBC Energy Inc.¹

FEFN's operations consist of a transmission lateral from the Spectra Energy processing plant close to the town of Fort Nelson along with gas distribution systems in Fort Nelson and Prophet River. Rates separate from FEI have been set for FEFN from its acquisition date to the present. On two occasions, first in 1992 and again in 2011, FEI sought regulatory amalgamation of FEFN with the remainder of the FortisBC Energy companies but neither of these applications was approved. Therefore, FEFN is not included in FEI's revenue requirements applications and continues to have rates which are unique to the service area.²

The most recent change in revenue requirements was approved by the British Columbia Utilities Commission (Commission) in April 2012 pursuant to Order G-44-12 for rates through the end of 2013. In February 2014, pursuant to Order G-17-14, the Commission approved a continuation of the 2013 delivery rates for 2014 with any surpluses or deficiencies to be captured in the Fort Nelson Revenue Surplus/Deficit deferral account. Order G-17-14 stated that this approval was "subject to the examination of the 2014 actual results that are added to the corrected December 31, 2013 balances of the deferral accounts, and the cost recovery, in the next revenue requirement proceeding."³

1.2 Approvals Sought

On December 3, 2014, FEI filed its 2015 and 2016 Revenue Requirements and Rates Application for the Fort Nelson Service Area (Application). FEI seeks approval of its rates for delivery service to FEFN customers on its natural gas distribution system over the 2015/2016 test period. As part of the Application and updated in its Final Submission, FEI seeks the following approvals:

- Effective January 1, 2015, a 25.44 percent increase in delivery rates reflecting a revenue deficiency of approximately \$496 thousand in 2015;
- Effective January 1, 2016, an additional 5.94 percent increase in delivery rates reflecting a revenue deficiency of approximately \$121 thousand in 2016;
- Effective January 1, 2015, the Revenue Stabilization Adjustment Mechanism (RSAM) Rate Rider to be set to \$0.039 per GJ;

¹ Exhibit B-1, p. 5.

² Ibid., pp. 2, 6.

³ Ibid., p. 6.

- Approval to amortize the Fort Nelson Revenue Surplus/Deficit account as described in Section 7.4.2 in the Application; and
- Approval of a deferral account for 2015-2016 Revenue Requirement Application costs as outlined in Section 7.4.1 of the Application.⁴

FEI states that the approvals sought are appropriate to recover the service costs for FEFN customers as well as the capital improvements to continue that service. The proposed rates are reflective of a cumulative 31.84 percent increase over existing delivery rates during the test period resulting in a cumulative average burner tip increase of 13.88 percent. FEI asserts that it is not uncommon for significant rate changes to occur given the small size of the customer base in Fort Nelson pointing out that over the last five years burner tip rates have fluctuated between decreases of 12 percent and increases of 33 percent. FEI also points out that a key driver of the current rate change is the Muskwa River Crossing Project resulting from a previously approved Certificate of Public Convenience and Necessity (CPCN).⁵

1.3 Regulatory Process

Pursuant to Order G-192-14 dated December 10, 2014, the Commission established a regulatory timetable which included intervenor registration and one round of information requests (IRs) to be followed by submissions from FEI and registered intervenors on further regulatory process. In addition, the Commission also approved FEI's proposed delivery rates and the RSAM rate rider to be set as interim effective January 1, 2015. Four intervenors registered for this proceeding: Fort Nelson & District Chamber of Commerce (FNDCOC); British Columbia Old Age Pensioners' Organization, *et al.* (BCOAPO); and Commercial Energy Consumers Association of British Columbia (CEC).

By letter dated February 17, 2015, the Commission established the remainder of the Regulatory Timetable, which provided for a second round of IRs to be followed by written final and reply submissions by the parties.

FEI filed its Final Submission on March 18, 2015. FNDCOC, BCOAPO and CEC filed their Final Submissions on April 1, 2015. FEI filed its Reply Submission on April 10, 2015.

2.0 CONTEXTUAL ISSUES

There were a number of matters raised in this proceeding that the Panel considers to be important in that they provide greater context. It is useful to consider these matters in some detail in order to create a higher level of understanding of the issues at play. These matters include:

- The Muskwa River Crossing Project;
- The amalgamation of FEI, FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW);

⁴ Exhibit B-1, p. 1; FEI Final Submission, p. 1.

⁵ Exhibit B-1, p. 4.

- The approval of a Multi-year Performance Based Ratemaking (PBR) Plan for FEI (PBR Decision); and
- Proposals put forth to reduce the magnitude of the proposed rate increases.

2.1 Rate Impact of Muskwa River Crossing Project

The Muskwa River Crossing Project (Project) was first approved in 2011 as part of FEFN's 2011 Revenue Requirements Application. After a series of delays, the Project was applied for as a CPCN Application in late 2013 and subsequently approved by Order C-2-14 on January 30, 2014. The Project was completed in 2014.

The Muskwa River Crossing Project is the largest single driver of increased revenue requirements over the 2015-2016 test period. The Project's final capital cost was \$4,210 thousand, which is approximately \$1,840 thousand less than the \$6,050 thousand capital cost approved by the Commission by Order C-2-14. The Project capital cost was added to rate base at the beginning of 2015.⁶ The impact of the Muskwa River Crossing Project accounts for approximately \$365 thousand or 77 percent of the total revenue deficiency of \$473 thousand.⁷ This equates to an annual bill impact of \$79 per year in 2015 for a residential customer, which is approximately \$11 per year lower than forecast in the CPCN proceeding. However, the impact of the Muskwa River Crossing Project on rates remains very significant and, were it not for this project, the 2015 rate increase would be significantly lower.⁸

FNDCCO acknowledges that Fort Nelson has been independent and has operated as a stand-alone unit within the FortisBC organization and understands they must bear the costs of capital projects and other expenses resulting in some rate volatility. They also clearly understand the costs of the Muskwa River Crossing Project must be borne by FEFN and therefore take no issue with this. However, FNDCCO submits that notwithstanding the 18.57 percent rate increase related to this project, the remaining 13.27 percent (totalling 31.84 percent) constitutes rate shock. FNDCCO requests that the Commission "do everything possible to lessen the rate shock to customers in the Fort Nelson Service Area."⁹

FEI notes that the 31.84 percent rate increase referred to by FNDCCO refers to delivery rates only. On an average burner-tip basis the increase in delivery rates results in a cumulative increase of 13.68 percent. As stated in the Application, FEFN has recently faced burner-tip rates fluctuating between minus 12 percent to plus 33 percent with this variance attributed to the small customer base.¹⁰ FEI notes the options to address the concern of FNDCCO are limited.¹¹

The Panel acknowledges the concerns raised by FNDCCO but also notes FEI's comment that there are limited options available to deal with the increase in costs. There is no disagreement among the parties that there is a need for the Muskwa River Crossing Project nor, based on FNDCCO's comments, does there appear to be any

⁶ Exhibit B-1, pp. 2-3.

⁷ Exhibit B-2, BCUC IR 1.2.1.

⁸ Exhibit B-1, p. 3.

⁹ FNDCCO Final Submission.

¹⁰ Exhibit B-1, p. 4.

¹¹ FEI Reply, p. 6.

concern with the costs which were expended on this Project. As noted by FEI, the FEFN service area has a history of fluctuations in burner-tip rates mainly attributed to its small customer base. FEI presented a potential solution to this by proposing that FEFN become part of the FortisBC Energy Utilities (FEU) amalgamated entity in the 2012 Common Rates, Amalgamation and Rate Design proceeding. This was opposed by FNDCOC and the Commission rejected inclusion of FEFN in the amalgamated FortisBC entity.

2.2 Amalgamation of FortisBC Energy companies

FEFN is allocated operations and maintenance (O&M) costs from the FEI departments providing support services. Included among these are: Information Systems, Energy Supply and Resource Development, Transmission, Customer Service, Energy Solutions and External Relations, Engineering Services, Finance and Regulatory, Operations Support, Governance, Human Resources, and Corporate. In 2008, the Commission approved the use of customers served as a means of allocating these shared services costs resulting in an allocation factor of 0.3 percent being applied through 2014. FEI is proposing the same method of determining the allocation of these costs in this Application. Noteworthy is that this became more complicated with the amalgamation of FEVI, FEW and FEI effective December 31, 2014. The impact on FEFN is that a new, lower allocation factor of 0.257 percent is proposed for use in 2015 and 2016. However, this is offset by an increase in the size of the pool of O&M costs due to the addition of FEVI and FEW's O&M costs.¹² Based on the existing allocation methodology, the increase in the shared service allocation compared to the projected 2014 amount is \$38 thousand in 2015 and an additional \$8 thousand in 2016.¹³ Therefore, in spite of a drop in the allocation factor, the addition of FEVI and FEW in the amalgamated O&M cost pool results in increased shared service costs for FEFN.

Noting that 2015 and 2016 O&M for FEI was still under review by the Commission in a separate proceeding at the time of filing the Application, FEI proposes to record any variances in allocated O&M that may occur as a result of that proceeding in the existing Fort Nelson Revenue Surplus/Deficit deferral account. These amounts would then be refunded or collected from customers in future years.¹⁴

None of the interveners raised concern with the allocation methodology for shared services costs or with the impact of the amalgamation on these costs.

Commission determination

The Panel approves FEI's proposal to continue to use FEFN customers served as a proportion of its total customers served as a means of allocating costs to FEFN customers. In addition, any variances in the O&M allocation resulting from the FEI Annual Review of 2015 Delivery Rates proceeding are to be accounted for in the Fort Nelson Revenue Surplus/Deficit Account. The Panel expects that FEI will apply for disposition of these deferred amounts, if any, in the next FEFN revenue requirements application.

¹² Exhibit B-1, pp. 22–23.

¹³ Exhibit B-2, BCUC IR 1.10.1.

¹⁴ Exhibit B-1, p. 23.

2.3 Impacts of the FEI PBR Decision

FEI states that Order G-17-14 related to FEFN's Application for Approval of Deferral Account Treatment for 2014 gave approval for the adoption of accounting changes resulting from the FEI PBR Decision. Consistent with this, FEI has updated amounts in the Application to reflect any impacts arising as a result of the FEI PBR Decision. These include the following:

- Changes in the capitalized overhead rate from 14 percent to 12 percent;
- Changes in the timing of the commencement of depreciation so that depreciation now commences the year after an asset is put into service rather than at the time the asset is placed into service; and
- Changes to lead/lag days for calculation of cash working capital.¹⁵

The Panel notes that the change in the capitalized overhead rate from 14 to 12 percent has a direct impact on FEFN's revenue requirements and rates. The decrease of 2 percent in the overhead capitalization rate results in an approximate \$18 thousand increase in the 2015 revenue deficiency and an approximate \$17 thousand increase in the 2016 revenue deficiency. This translates into a 0.92 percent increase to the delivery portion of the rate in 2015 and a 0.86 percent increase in 2016.¹⁶

The change in the timing of depreciation for major projects like the Muskwa River Crossing provide some short term rate relief as the depreciation impact has been delayed until the start of the year following the asset going into service. Nonetheless, the rate impact will be felt from the beginning of the following year going forward.

2.4 Options to reduce the magnitude of the rate increase

Given the size of the increase in rates, BCOAPO's position is that consideration should be given to a rate smoothing mechanism to reduce the potential for rate shock related to the Muskwa River Crossing Project. BCOAPO suggests two proposals for consideration:

1. FEFN could recover one half of the total final approved revenue deficiencies for the two years with a deferral account being established to hold the balances through the end of 2016. Referring to FEI's response to BCUC IR 1.3.1, BCOAPO suggests that the updated two-year total deficiency of \$617 thousand could be split in two with \$308.5 thousand recovered each year. BCOAPO notes that this would result in a rate increase of approximately 15 percent in 2015 and again in 2016.
2. In the event that proposal #1 is not appropriate, BCOAPO proposes that the major drivers of the increase, namely depreciation and amortization and rate base growth and financing, be aggregated and split over the two-year period. This would result in roughly a 19 percent increase in 2015 and a further 12 percent increase in 2016.¹⁷

¹⁵ Exhibit B-1, pp. 3–4.

¹⁶ Exhibit B-2, BCUC IR 1.11.1.

¹⁷ BCOAPO Final Submission, pp. 3–4.

FEI submits that it is not opposed to a rate smoothing mechanism and that a deferral account could be used to smooth the rate impact over a two-year period. However, FEI points out that the proposed burner tip increase (13.68 percent over two years) is not an uncommon occurrence and FEI therefore does not consider there to be a need for a rate smoothing mechanism. Moreover, pursuing this option would result in higher overall customer costs due to the accrual of financing costs on the deferral account balance.¹⁸

Commission determination

The Panel considers there to be no benefit to pursuing a rate-smoothing proposal and therefore, rejects BCOAPO's proposals. The impact of the increase in rates is more moderate when the size of the burner tip increase is considered and large rate changes are not uncommon to FEFN customers. Further, the assignment of a deferral account, as suggested by BCOAPO, would result in additional costs to ratepayers due to increased finance charges.

3.0 DEMAND FORECASTS

3.1 Background

The demand forecast is used to determine the revenue surplus or deficiency each year. Existing approved rates are applied to the demand forecast to determine revenue at existing rates. The variance between the revenue at existing rates and the forecast revenue requirement determines the revenue deficiency or surplus in a given year. Gas sales and transportation volumes are based on forecasts of total energy demand from three customer groups: residential, commercial, and industrial. FEI relies upon a variety of methods to determine forecast demand which vary by customer type.

FEI forecasts a slight decrease in total energy demand for 2015 and 2016 compared to projected 2014 demand. The forecast normalized demand for 2015 is 648.4 terajoules (TJ), which is a decrease of 7.9 TJ from projected 2014. The forecast normalized demand for 2016 is 652.9 TJ, which is a decrease of 3.4 TJ from projected 2014. Based on 2014 approved rates, the 2015 and 2016 revenue forecasts are \$4,474 thousand and \$4,509 thousand, respectively, and the 2015 and 2016 delivery margin forecasts are \$1,950 thousand and \$1,966 thousand, respectively.¹⁹ Of the total 2015 forecast revenue deficiency of \$496 thousand, demand forecast customer additions and use rate changes represent only \$25 thousand of this deficiency. The 2016 demand forecast contributes positively to the \$121 thousand deficiency, as FEI forecasts a surplus of \$16 thousand due to customer growth.²⁰

Demand forecasts for residential and commercial customers are driven by forecasts for net customer additions and use per customer (UPC). To derive energy consumption, the average UPC for customers in Rate Schedules 1, 2.1 and 2.2 is forecast and then multiplied by the corresponding number of customers in these rate classes.

¹⁸ FEI Reply, pp. 6–7.

¹⁹ Exhibit B-1, pp. 17, 19–20.

²⁰ Exhibit B-2, BCUC IR 1.3.1.

Forecast industrial demand is based on survey results from FEI's one remaining industrial customer in the Fort Nelson service area which is served at two locations under Rate Schedule 25.²¹

FEI utilizes a Commission-approved RSAM to capture variances in the delivery margin for residential, commercial and industrial rate classes. These variances are amortized into rates over a two-year period.²²

3.2 Average UPC – residential and commercial

In developing individual UPC projections for each residential and commercial rate class, FEI relies upon the most recent three-year historical weather-normalized UPC.²³ FEI states that UPC forecasts are developed from an average percent change based on the latest three years' normalized billing data on a year over year basis, which is consistent with the accepted methodology.²⁴

Table 1 shows the forecast and actual UPC for each rate class in gigajoules (GJ) for the years 2009 through 2013.

Table 1 – Historical Forecast and Actual UPC by Rate Class (GJ)²⁵

UPC (GJs)	2009		2010		2011		2012		2013	
	Actual	Forecast								
RATE 1 - Residential	138	140	141	136	138	133	139	140	139	140
RATE 2.1 - Small Commercial	464	474	468	435	476	435	465	466	460	465
RATE 2.2 - Large Commercial	3,371	3,157	3,388	3,385	3,326	3,385	3,228	3,609	3,555	3,726

Table 2 shows the forecast UPC for each rate class in GJ for the years 2014 through 2016.

Table 2 – Forecast UPC by Rate Class (GJ)²⁶

UPC Forecast	2014P	2015	2016
Rate Schedule 1	138	136	135
Rate Schedule 2.1	463	453	443
Rate Schedule 2.2	3,487	3,535	3,584

FEI states that the three-year average for Rate Schedule 2.1 (Small Commercial) reflects a decline in UPC whereas it reflects an increase for Rate Schedule 2.2 (Large Commercial).

Intervener submissions

CEC comments that changes in the UPC forecast have a nominal effect on the revenue requirement. Further, based on its review of the evidence, it does not find any areas that warrant concern or justify change.²⁷

²¹ Exhibit B-1, p. 12.

²² Ibid., p. 11.

²³ Ibid., p. 15.

²⁴ Exhibit B-2, BCUC IR 1.7.2.

²⁵ Ibid., BCUC IR 1.4.1.

²⁶ Ibid., BCUC IR 1.7.1.

²⁷ CEC Final Submission, p. 6.

No other interveners commented on the UPC forecasts.

Commission determination

The Panel approves FEFN's residential and commercial UPC forecasts as filed. FEI relies on the same forecast methodology for FEFN it uses for its other service areas including FEI, and the Panel considers consistency of methodologies between FEI and FEFN to be reasonable given the small size of the Fort Nelson service area. We also agree with CEC that the evidence does not raise any concerns regarding the efficacy of these forecasts and note that any variances between actual and forecast UPC will be recovered from or returned to customers through the RSAM rate rider.

3.3 Residential and commercial net customer additions

FEI states that it relies on the Conference Board of Canada (CBOC) housing starts forecast as a proxy for residential net customer additions. Commercial additions are based on the average of the actual additions over the last three years for which a full year of actual data is available.²⁸

FEI reports that the residential customer additions have been minimal since 2007 and that in 2013 there were 12 net additions. Based on the CBOC housing starts forecast, FEI anticipates residential additions to be consistent with 2013 levels for the 2015 and 2016 test period.²⁹ In response to BCUC IR 1.5.1, FEI states that it has reviewed the BC Stats forecasts for population growth for Local Health Area 81 (Fort Nelson) which projects a growth rate of +2 percent in 2015 and +2.1 percent in 2016. FEI submits that the 2016 BC Stats forecast aligns well with the CBOC forecast, but the 2015 BC Stats forecast is lower than the CBOC forecast. Further, FEI states that if it were to adopt the BC Stats forecast rather than the CBOC, the impact would be a reduction of one customer to the 2015 forecast (12 customer additions instead of 13), and no impact for 2016.³⁰

Commercial customer additions have been generally low in recent years, with the one exception of 2011, where there were 29 additions. In comparison, commercial additions for 2012 and 2013 were four and three, respectively. Since FEI uses a three-year average based on actual additions, 2011 has been included in the forecast calculation for 2015 and 2016, which results in forecast customer additions of 12 for both 2015 and 2016.³¹

Intervener submissions

CEC submits that the CBOC is not a reliable proxy for forecasting residential customer additions, but due to the specific circumstances of this forecast there is limited impact. It submits that FEFN's capture rate indicates its market is 100 percent single family housing, so the service area does not have the same single family/multifamily ratio profile as that of the rest of BC. CEC asserts that to the extent FEFN remains a separate entity without postage stamp rates, the BC Stats forecast may be more appropriate for forecasting residential

²⁸ Exhibit B-1, p. 13.

²⁹ Ibid.

³⁰ Exhibit B-2, BCUC IR 1.5.1.

³¹ Exhibit B-1, p. 14.

additions and recommends that the Commission request FEFN to use the Local Health Area 81 forecasts in future customer additions forecasts.³²

With regards to commercial customer additions, CEC finds the existing forecast methodology to be acceptable and recommends that the Commission accept the forecast for the test period.³³

No other interveners commented on the customer additions forecasts.

FEI reply

FEI submits that from an “actual additions” perspective, the CBOC forecast matches the historic residential customer additions very reasonably, pointing out that with the exception of 2011, the largest variance between forecast and actual additions has been three. FEI further submits that given the immaterial impact of using the BC Stats forecasts for population growth and the reasonable match between actual additions and the CBOC forecast, CEC’s request to switch forecasting methodologies should be denied. In FEI’s view, it is preferable to maintain the current forecast methodology to remain consistent with past practice and the methodology used for the other FEI regions, as the same software and models are utilized for all regions.³⁴

Commission determination

The Panel approves FEFN’s residential and commercial net customer additions forecasts as filed and accepts the use of FEFN’s current forecasting methodologies for both customer classes.

We agree with FEI that it is preferable to maintain consistent forecasting methodologies amongst all the FEI regions. Adopting a different forecast methodology for FEFN would result in higher costs which would then be borne by the FEFN ratepayers. In the Panel’s view, the cost of implementing a new forecast methodology outweighs any potential benefits given that the impact on the residential additions forecast from using the BC Stats forecasts instead of the CBOC is immaterial.

With regards to the forecast methodology for commercial customer additions, the Panel considers consistency amongst all FEI regions to be an important element of the methodology and notes that no interveners took issue with the commercial additions forecasts or methodology.

3.4 Industrial demand

FEFN has only one industrial customer served under Rate Schedule 25. In 2008, this customer’s two facilities in Fort Nelson were closed and now only consume gas for heating. The 2015 and 2016 industrial demand forecasts are 55.8 TJ for each year, which is a decrease of 11.3 TJ from the 2014 forecast.³⁵ These forecasts are based on

³² CEC Final Submission, pp. 3–5.

³³ Ibid.

³⁴ FEI Reply, pp. 1–2.

³⁵ Exhibit B-1, pp. 18–19.

the industrial customer's response to the annual industrial survey which indicates that the two plants will only maintain heat load consumption over the test period.

Intervener submissions

CEC submits that it is satisfied with the industrial demand forecast and recommends the Commission accept the forecast as proposed.³⁶

No other interveners commented on the industrial demand forecast.

Commission determination

The Panel approves FEFN's 2015 and 2016 industrial demand forecasts as filed. Based on our review of the evidence provided, the forecasts appear reasonable. As a further consideration, variances in industrial forecast demand are captured in the RSAM which mitigates the results of any forecast discrepancies.

3.5 Demand forecast information

As part of the FEI Annual Review of 2015 Delivery Rates Decision, the Commission directed FEI to provide additional demand forecast information in its future applications, particularly information which is generally requested by Commission staff and/or interveners through information requests during each revenue requirement proceeding. The Commission stated that "inclusion of this information...will lead to a reduction in the number of information requests resulting in increased regulatory efficiency...[and] will allow the Panel to better understand the rationale behind FEI's demand forecasts."³⁷

Commission determination

The Panel considers the directive in the FEI Annual Review of 2015 Delivery Rates Decision regarding demand forecast information to be equally applicable to FEI Fort Nelson's revenue requirement applications.

Accordingly, the Panel directs FEI to include the following information in its future revenue requirements applications for the Fort Nelson service area:

- **Historical forecast and actual data broken down by customer classes, as provided in FEI's response to the BCUC IR 1.4 series of questions. FEI must include the most recent 10 years of historical data as part of its analysis; and**
- **Calculations and accompanying explanations showing how the residential and commercial UPC and customer additions forecasts are calculated.**

³⁶ CEC Final Submission, p. 6.

³⁷ FEI Annual Review of 2015 Delivery Rates Decision, p. 14.

4.0 REVENUE REQUIREMENTS

Two key components of FEFN's revenue requirements are capital expenditures and operations and maintenance (O&M) expenses. Various issues were raised through IRs and in parties' final submissions related to capital expenditures and O&M. These issues with accompanying Panel determinations are addressed in the following section.

4.1 Capital expenditures

Table 3 provides a summary of FEFN's gross plant additions for the period 2013 through the end of the test period in 2016, excluding the Muskwa River Crossing project. Included in this summary are 2013 approved and actuals, 2014 projections, and forecasts for 2015 and 2016. FEI forecasts capital additions of \$1,560 thousand in 2015 and a much lower amount of \$320 thousand in 2016.

Table 3 Summary of Gross Plant Additions (exc. Muskwa River Crossing project) (\$000s)³⁸

	Approved 2013	Actual 2013	Projected 2014	Forecast 2015	Forecast 2016
INTANGIBLE PLANT	-	64	62	62	62
TRANSMISSION PLANT	10	20	601	845	63
DISTRIBUTION PLANT	256	229	381	449	119
GENERAL PLANT	10	75	61	204	76
TOTAL ADDITIONS	\$ 276	\$ 389	\$ 1,105	\$ 1,560	\$ 320

4.1.1 Transmission Plant

2015 Transmission Plant forecast

FEI forecasts \$845 thousand in transmission plant capital expenditures to be incurred in 2015. These are described as follows:

- \$410 thousand for an updated right-of-way agreement with Fort Nelson First Nations allowing transmission pipelines to be located within their lands;
- \$210 thousand for replacement of a worn and aging complex valve assembly;
- \$150 thousand for a pipeline replacement across a road to maintain operating pressure and ensure code compliance; and
- \$75 thousand for installation of pipeline protection over a pipeline within a creek.³⁹

³⁸ Exhibit B-1, p. 30.

³⁹ Ibid.

a) Updated Right-of-Way Agreement

A right-of-way agreement needs to be in place to maintain FEFN's right to operate its pipelines on the Fort Nelson Reserve. FEI submits that the right-of-way agreement has not been updated since 1968 and is needed because it is necessary to clarify the current land status and consolidate tenure due to various asset acquisitions, transfers and abandonments over time. FEI states that it has calculated fees for the new permit based on assessments provided by an independent real estate appraisal firm. In response to BCUC IR 2.3.2 requesting detailed information about the agreement, FEI indicated it would be supportive of having a deferral account approved to capture actual costs associated with the agreement as opposed to going with the current capital estimate.⁴⁰

None of the interveners provided submissions on this specific issue.

Commission determination

The Panel rejects the \$410 thousand capital expenditure for the updated right-of way agreement. The Panel directs FEI to record the actual amounts incurred to complete the updated right-of-way agreement in a non-rate base deferral account attracting an allowance for funds used during construction. FEI is directed to apply for disposition of this deferral account at FEFN's next revenue requirements proceeding. The Panel considers this approach to be most appropriate given the uncertainty around the timing and quantum of costs. Further, this approach prevents ratepayers from being prematurely burdened with unknown costs that are subject to future negotiation.

b) Valve Assembly, Road Crossing and Protection at Creek Crossing and Remaining 2015 Capital Expenditures

FEI states that the replacement of the valve assembly, replacement of the road crossing and protection at the Creek crossing were items identified by its Integrity Management Program and is aimed at preventing a pipeline system failure of Fort Nelson's sole supply. Deferring the work increases the risk of pipeline failure thereby interrupting Fort Nelson's supply and posing a risk to public and employee safety. FEI further states that putting off this work "could lead to a determination of non-compliance with provincial legislation".⁴¹ FEI states that while it does not agree there is a necessity, it would not be against capturing any variances in plant additions in the Fort Nelson Revenue Surplus/Deficit deferral account.⁴²

CEC has reviewed FEI's evidence concerning Transmissions Plant Additions and finds the documentation to be satisfactory. CEC notes that FEI does not oppose using the Fort Nelson Revenue Surplus/Deficit deferral account to capture variances and recommends the Commission accept these plant additions subject to any variances being captured in the aforementioned deferral account.⁴³

⁴⁰ Exhibit B-8, BCUC IR 2.3.2.

⁴¹ FEI Final Submission, p. 12.

⁴² Exhibit B-8, BCUC IR 2.2.4.

⁴³ CEC Final Submission, p. 13.

Commission determination

The Panel approves the remaining 2015 forecast Transmission Plant capital expenditures of \$435 thousand.

We are satisfied with the evidence provided by FEI supporting the need and the forecast amounts of these expenditures. The Panel does not consider there to be a need to include any variances on remaining capital expenditures in the Fort Nelson Revenue Surplus/Deficit deferral account.

2016 Transmission Plant forecast

FEI's forecast of \$63 thousand for 2016 transmission plant capital additions is primarily related to the replacement of a valve assembly. Within the valve assembly, valves are either inoperable or are difficult to operate, with some leaking. FEI considers this work to be prudent as the current state poses a safety risk to employees and reduces emergency response options.

None of the interveners provided submissions on 2016 Transmission Plant capital expenditures.

Commission determination

The Panel approves the 2016 forecast Transmission Plant capital expenditures of \$63 thousand. The evidence supports the need for these expenditures to address safety risks.

4.1.2 Distribution Plant

2015 Distribution Plant forecast

The amount forecast for 2015 Distribution Plant additions totals \$449 thousand. Growth-related distribution capital additions for new mains, services and meters are reported to be consistent with 2014 projected amounts. FEI states that new services activity has been between 25 and 35 services annually while new mains activity has been minimal.⁴⁴ In addition to recurring distribution capital expenditures, FEI identifies three projects for 2015:

- The need to install telemetry at the Fort Nelson Gate Station (\$70 thousand) allowing for increased monitoring of safety systems thereby improving response time and facilitating the correct response when an issue has been identified;⁴⁵
- The need for alterations to the distribution system to allow for increased supply for the airport to meet demand (\$85 thousand). FEI states it may be advisable to defer this expenditure due to the installation of modifications to the Fort Nelson Gate Station and the lack of certainty as to an increase in gas usage at the airport;⁴⁶ and

⁴⁴ Exhibit B-1, pp. 13–14.

⁴⁵ Exhibit B-2, BCUC IR 1.20.1.

⁴⁶ Ibid., BCUC IR 1.19.2 and 1.20.1.

- The need to increase tail end pressure ensuring adequate supply to customers (\$60 thousand) and involves the installation of 300 meters of 114 mm diameter main in parallel with the existing 60mm diameter main along the Alaska Highway.⁴⁷

2016 Distribution Plant forecast

FEI forecasts \$119 thousand for 2016 Distribution Plant additions. These costs consist of upgrades to the Fort Nelson Gate Station. The need for this work has been justified as follows:

- Existing pressure regulators are obsolete and need to be replaced as parts and service are no longer available; and
- There are unwarranted greenhouse gas emissions and a possibility of regulators freezing up due to the lack of a station filter bypass requiring regular maintenance to bypass the filter and station heater. This results in high pressure piping being vented to the atmosphere and the gas flowing to the pressure regulators not flowing through the station heater.⁴⁸

Intervener submissions

CEC recommends the Commission “generally approve the total costs for Distribution Plant additions and include a deferral of project costs related to the demand at the airport to 2016.”⁴⁹

Commission determination

Given FEI’s submissions with respect to deferring expenditures due to the installation of modifications to the Fort Nelson Gate Station and the lack of certainty as to an increase in gas usage at the airport, **the Panel rejects the proposal to alter the distribution system for increased supply to the airport and denies the \$85 thousand capital expenditure. The balance of 2015 forecast Distribution Plant capital expenditures totalling \$364 thousand is approved.** The Panel sees no merit in deferring the airport supply project to 2016 because FEI has not requested it nor is there clarity concerning the impact of proposed modifications to the Fort Nelson Gate Station on the need for this project.

The Panel approves the 2016 forecast Distribution Plant capital expenditures of \$119 thousand as proposed.

4.1.3 General Plant

2015 and 2016 General Plant forecast

The 2015 forecast for General Plant capital expenditures is \$204 thousand and the forecast for 2016 is \$76 thousand. The large increase in costs in 2015 is related to the \$153 thousand expenditure for replacement of a

⁴⁷ Ibid.

⁴⁸ Exhibit B-2, BCUC IR 1.20.2.

⁴⁹ CEC Final Submission, p. 14.

septic system at Fort Nelson’s office. FEI states that the system has recently failed and while having a temporary toilet, a permanent solution is required to meet the BC Building Code and WorkSafe BC regulation. FEI is currently reviewing options for a solution and notes that the cost estimates will be similar regardless of the option finally decided upon.⁵⁰

Intervener submissions

CEC accepts that the capital costs for the septic system replacement are a reasonable expense. However, concerning other General Plant capital CEC has raised concerns. CEC considers the increase of \$22 thousand in General Plant from 2014 to 2016 due mainly to computer hardware and software allocations from FEI is significant and higher than necessary. CEC recommends the Commission reduce these expenditures to \$60 thousand to be more in line with a 10 percent increase over 2014.⁵¹

FEI reply

FEI argues that CEC has no evidentiary support for the position it has taken with respect to a reduction in General Plant additions. FEI states that the \$76 thousand proposed is consistent with the 2013 actual amount of \$75 thousand and significantly lower than the 2015 forecast of \$204 thousand. FEI points out that it provided an explanation for General Plant expenditures in response to BCUC IR 1.16.2 and submits “there is simply no grounds for reducing the 2016 Forecast General Plant additions as asserted by CEC.”⁵²

Commission determination

There is no disagreement among the parties with respect to the need to address the replacement of the septic system in Fort Nelson’s office. **The Panel agrees and approves the proposed amount of \$153 thousand to complete this project.**

CEC has raised an issue with respect to the growth in General Plant expenditures, attributing this to computer hardware and software allocated by FEI to FEFN. FEI’s responses to BCUC IRs 1.16.2 and 1.16.2.1 provide some clarity on this issue. In response to BCUC IR 1.16.2 FEI states:

The General Plant additions in the updated Table 7-2 for Actual 2013, Preliminary Actual 2014, Forecast 2015 and Forecast 2016 are for the purchase and sustainment of System Computer Software and Computer Hardware as well as Structures and Improvements and Transportation Equipment.⁵³

⁵⁰ Exhibit B-1, p. 31.

⁵¹ CEC Final Submission, p. 14.

⁵² FEI Reply, p. 5.

⁵³ Exhibit B-2, BCUC IR 1.16.2.

The information in the updated Table 7-2 referred to by FEI is provided in Table 4 below.

Table 4 – Updated Gross Plant Additions (000s)⁵⁴

	Actual 2013	Actual* 2014	Forecast 2015	Forecast 2016
INTANGIBLE PLANT				
Comuter S/W-Applic 8y	47	50	31	31
Comuter S/W-Applic 5y	16	26	31	31
Total Intangible Plant	64	76	62	62
GENERAL PLANT				
Land	-	-	-	-
Frame Structures & Improvements	(29)	11	153	25
Computer H/W	49	38	41	41
Computer S/W System	5	5	-	-
Transportation Equipment	50	-	10	10
Total General Plant	75	54	204	76

FEI's response clearly indicates that the computer software and hardware referred to under General Plant are for "the purchase and sustainment of System Computer Software and Computer Hardware" [emphasis added]. Therefore these are not an allocated cost from FEI, as suggested by CEC, but an actual forecast cost of expenditures made for FEFN. Based on the Panel's interpretation of the evidence, the allocated costs referred to by CEC are the costs in Intangible Plant. These will be addressed under the Intangible Plant forecast section which follows.

Our review of the information in Table 4 indicates that the forecast increase in 2016 General Plant expenditures is in two areas: (i) Frame Structures & Improvements and (ii) Transportation Equipment. When combined these are \$24 thousand higher than 2014 preliminary actual expenditures. The information indicates that forecast expenditures for computer equipment in General Plant are consistent with past purchases and given the history do not appear unreasonable. Further, there is no evidence to suggest that the \$25 thousand forecast for Frame Structures & Improvements in 2016 and the \$10 thousand for transportation equipment are not required.

Therefore, the Panel approves the 2015 and 2016 forecasts of \$204 thousand for 2015 and \$76 thousand, respectively, for General Plant capital expenditures.

4.1.4 Intangible Plant

FEI forecasts \$62 thousand in intangible plant additions for both 2015 and 2016. FEI was requested in BCUC IR 1.16.2.1 to explain why, prior to actual 2013 results, there were no Intangible Plant additions. FEI responded as follows:

Prior to 2013, the total cost of Intangible Plant was included under FEI Intangible Plant. A review of the fixed asset records in 2014 identified some additions that should have been allocated and

⁵⁴ Ibid.

transferred to FEFN, as has been done historically for both FEVI and FEW. As such, the opening balances in 2013 were adjusted to reflect the correct Intangible Plant balances prior to 2013, with the allocation to Fort Nelson based on customers.⁵⁵

Commission determination

The Panel is not persuaded that the allocated amounts being charged to FEFN for Intangible Plant additions are appropriate. Moving these costs from FEI to FEFN is based on the premise that a review of fixed asset records indicates that these costs have been inappropriately charged to FEI in the past and moving them to FEFN reflects the correct allocation of costs between FEI and FEFN. The Panel may have been inclined to accept this reasoning were FEI operating under a two-year cost of service regime. However, this is not the case. FEI is operating under a six-year PBR Plan which, among other things, has established a level of base capital under which FEI is to operate. This base capital amount includes the 2013 Intangible Plant additions of \$64 thousand and these costs will remain in FEI's Base Capital, escalating based on the PBR formula, for the entire six-year PBR term. Therefore, allowing FEI to allocate these costs to FEFN would be effectively facilitating "double dipping." First, by allocating the Intangible Plant expenditures to FEFN, FEI is recovering these costs from the FEFN customer base; and second, since the reallocated costs still remain in the FEI Base Capital amount (i.e. the Base Capital has not been adjusted downwards for the PBR period), the FEI ratepayers are also paying for this same amount in every year of the PBR regime. FEI's shareholders thus benefit through the Earnings Sharing Mechanism despite the fact that no actual "savings" have occurred. **Given these unique circumstances, the Panel considers the reallocation of capital between the entities to be inappropriate at this time and denies the inclusion of the forecast \$62 thousand of plant additions in FEFN's 2015 and 2016 Intangible Plant capital. The Panel further directs FEI to remove the 2014 Intangible Plant additions from FEFN's rate base and to reverse the revenue requirement impact of adding these amounts. Any costs that have been incurred in 2014 as a result of the Intangible Plant additions, including depreciation expense and financing costs, must be credited to the Fort Nelson Revenue Surplus/Deficit deferral account and returned to ratepayers in 2015. FEI is directed to include these adjustments as part of its compliance filing.**

FEI is further ordered to address this issue in its Annual Review of 2016 Delivery Rates Application and to provide a proposal as to how these costs can be most appropriately and equitably handled going forward given the current PBR Plan in place.

4.1.5 Operations and Maintenance expenses

To determine forecast and actual O&M costs for FEFN, FEI relies on the following process:

- i) Determination of FEFN's direct costs which consist of labour for two employees, vehicle usage and direct materials and services costs;

⁵⁵ Exhibit B-2, BCUC IR 1.16.2.1.

- ii) Allocation of O&M costs from FEI departments as outlined in Section 2.2 of this Decision. Given that at the time of filing the Application a determination on FEI's 2015 and 2016 O&M had not been made, FEI proposes that "any variation in the allocated O&M to FEFN that results from the approval of the FEI O&M is accounted for in the existing Fort Nelson Revenue Surplus/Deficit Account and to be refunded or collected from customers in future years"; and
- iii) Application of an overhead capitalization rate. Changes in this rate were addressed in Section 2.3 of this Decision.⁵⁶

The 2015 and 2016 forecast O&M costs for FEFN are listed in Table 5 below.

Table 5 – O&M Resources Required for FEFN (\$000s)⁵⁷

Particulars	2013	2013	2014	2015	2016
	Approved	Actual	Projected	Forecast	Forecast
M&E Costs	\$ 32	\$ 30	\$ 15	\$ 15	\$ 15
COPE Costs	-	1	-	-	-
COPE Customer Services Costs	-	-	-	-	-
IBEW Costs	270	289	324	334	344
Labour Costs	302	321	339	349	359
Vehicle Costs	47	43	43	43	44
Employee Expenses	11	14	18	29	29
Materials and Supplies	4	74	1	1	1
Computer Costs	0	-	-	-	-
Fees and Administration Costs	512	514	506	540	551
Contractor Costs	9	201	5	5	5
Facilities	11	18	36	37	37
Recoveries & Revenue	(2)	(2)	(2)	(2)	(2)
Non-Labour Costs	592	862	606	652	665
Total Gross O&M Expenses	894	1,183	945	1,001	1,024
Less: Capitalized Overhead	(125)	(125)	(113)	(120)	(123)
Total O&M Expenses	\$ 769	\$ 1,058	\$ 831	\$ 881	\$ 901

FEI states that operations staffing at FEFN is inclusive of two full-time IBEW employees supported periodically by management, specialized technicians and clerical from Prince George. In addition, \$15 thousand from the Prince George Operations management team salary expense is allocated to FEFN to account for oversight of operations, maintenance and capital expenditures. Travel expenses for this group are forecast to be higher during the test period to allow for additional trips to provide oversight of planned operating and capital activities. Labour costs are forecast to grow by \$10 thousand over 2014 projected amounts and by a further \$10 thousand in 2016, which is an increase of slightly less than three percent each year.⁵⁸

FEI states that Facilities costs are those for the operation and maintenance of the local office and covers costs for janitorial and telephone services as well as line heater fuel for the distribution station. FEI continues by

⁵⁶ Exhibit B-1, pp. 22–23.

⁵⁷ Ibid, p. 24.

⁵⁸ Ibid.

stating that “the communication costs and the line heater fuel costs were previously centralized and not allocated to FEFN. FEI has since identified these amounts as direct FEFN costs and accordingly included these in the FEFN O&M forecast.”⁵⁹ In response to BCUC IR 1.14.1, FEI states that this was an oversight and has been corrected starting in 2014. Based on the table provided in response to BCUC IR 1.14.2, the 2014 preliminary actual amounts related to the communication and line heater fuel costs are \$24 thousand.

As noted in Section 2.2 of this Decision, the increase in Fees and Administrative costs are formula driven and related to the impact on the allocation formula of the amalgamation of FEVI and FEW with FEI.

Intervener submissions

CEC is generally supportive of O&M costs forecast for FEFN. However, it does raise a concern with the \$11 thousand increase in expenses for travel between Prince George and Fort Nelson for routine O&M and capital activities and recommends the Commission reduce the expense increase by 50 percent. Overall, CEC recommends the Commission accept the O&M expenditures with a small \$5.5 thousand reduction to account for the recommended reduction to travel.⁶⁰

FNDCCOC expresses concern with the increase in employee expenses to provide management oversight on O&M and recurring capital activities. It does not believe the increase has been sufficiently justified and recommends it not receive Commission approval.⁶¹

BCOAPO states that it generally supports the O&M expenses set out in the Application. However, BCOAPO considers the \$11 thousand increase in Employee expenses (for travel) to be too high and FEI has not provided adequate justification for the magnitude of additional costs. It recommends the Commission not approve the entire amount.⁶²

FEI reply

With respect to the increase in Employee travel expenses for additional oversight trips by Prince George management, FEI states that none of the interveners have provided evidence or reasoning to support their position. Further, FEI states that it has provided ample evidence in support of its position in the Application and in IR responses.

FEI has explained that an existing long-term manager performed the oversight function previous to 2012 when the position was eliminated. Therefore, costs were much higher in the past than is presently the case. Further, FEI refers to its response to BCUC IR 2.1.1 where it stated that commencing in 2015 “there is an internal requirement for managers of FEFN resources to conduct more direct field assessments and work observations than in past years to ensure quality, safety, service and productivity objectives are achieved.” This is part of meeting the FEI’s objectives “to focus on and improve safety and the customer experience in addition to being

⁵⁹ Ibid, p. 25.

⁶⁰ CEC Final Submission, pp. 7–11.

⁶¹ FNDCCOC Final Submission, p. 3.

⁶² BCOAPO Final Submission, p. 2.

able to identify productivity improvements.” FEI adds that it fully intends to implement the Fort Nelson direct work observations and field assessments to meet the needs of remote areas and is not considering reducing or deferring planned activities.⁶³

Commission determination

The Panel has considered the evidence and arguments concerning the additional \$11 thousand in Employee Expenses. We agree with FEI that the interveners while expressing concern with the level of increase in expenses, provided little evidence or reasoning as to why the additional costs should be denied. FEI on the other hand laid out specific reasons for why these funds are required which the Panel finds persuasive. **Accordingly, the Panel approves the additional \$11 thousand for Employee Expenses as proposed by FEI.**

Of concern to the Panel is the movement of communication and line heater fuel costs which were previously centralized in FEI to FEFN. In our view this is very similar to the situation involving intangible plant capital additions which have been denied in Section 4.1.4 of this Decision. These communications and line heater fuel costs already form part of FEI’s Base O&M and are being escalated annually in accordance with the PBR Decision. As explained in Section 4.1.4 of this Decision, if the Panel were to accept the transfer of these costs to FEFN as proposed, it would amount to “double dipping.” **Therefore, the Panel considers moving the communication and line heater fuel costs to FEFN to be inappropriate at this time and denies the inclusion of these costs as part of FEFN’s forecast 2015 and 2016 O&M expenses. The Panel also denies the recovery of these costs as part of FEFN’s 2014 O&M expenditures. FEI is directed to revise the actual 2014 O&M costs to remove the actual communication and line heater fuel costs, currently projected to be \$24 thousand, from the Fort Nelson Revenue Surplus/Deficit deferral account, which will result in a larger 2014 surplus to be returned to FEFN customers. FEI is directed to include these adjustments as part of its FEFN compliance filing. In addition, FEI is directed to identify any other cases where FEI Base Capital or O&M amounts have been allocated to FEFN since approval of the PBR Plan.**

FEI is further directed to address this issue in its Annual Review of 2016 Delivery Rates Application and to provide a proposal as to how the communication and line heater fuel costs can be most appropriately and equitably handled going forward given the current PBR Plan.

The Panel approves all remaining O&M costs for FEFN as proposed by FEI.

4.1.6 Other approvals

The following sections address approvals related to deferral accounts, financing costs, and FEI’s requests for permanent delivery rates and the RSAM rate rider.

⁶³ FEI Reply, pp. 2–3.

4.1.7 Deferral accounts

4.1.7.1 2015-2016 Revenue Requirements Application deferral account

FEI requests approval to establish the 2015-2016 Revenue Requirements Application deferral account to capture costs related to this proceeding. FEI anticipates incurring approximately \$50 thousand of application-related costs, which include legal fees, intervener and participant funding costs, Commission costs, required public notifications, and miscellaneous facilities, stationery and supplies costs. FEI proposes to include this deferral account as part of rate base and to amortize the balance over two years commencing in 2015. Any variances between the forecast account balance and the actual costs incurred are proposed to be amortized in rates in 2017.⁶⁴

No interveners commented on this request.

Commission determination

The Panel approves FEI's request to establish the 2015-2016 Revenue Requirement Application deferral account. The Panel further approves a two-year amortization period for this account commencing in 2015 and approves for FEI to earn a return on this account based on its weighted average cost of capital. FEI's proposed treatment is consistent with previously approved application cost deferral accounts.

4.1.7.2 Fort Nelson Revenue Surplus/Deficit deferral account

FEI requests approval to amortize the forecast ending 2014 balance in the Fort Nelson Revenue Surplus/Deficit deferral account of \$55 thousand into delivery rates over one year beginning in 2015. FEI submits that a one-year amortization period is appropriate as it serves to mitigate some of the other rate impacts experienced by FEFN customers in 2015. The 2014 ending balance in this deferral account is comprised of the following:

- (i) A credit balance of \$28 thousand related to the impact of the 2013 Generic Cost of Capital Stage 1 Decision which resulted in changes in equity thickness and return on equity; and
- (ii) The actual realized revenue surplus or deficiency for 2014 which is currently forecast to be a credit of \$27 thousand.⁶⁵

No interveners commented on this request.

Commission determination

The Panel approves FEI's request to amortize the ending 2014 balance in the Fort Nelson Revenue Surplus/Deficit deferral account over a one-year period into rates in 2015. The Panel directs FEI in its final compliance filing to update the balance in this deferral account to reflect the actual 2014 revenue

⁶⁴ Exhibit B-1, pp. 33–34.

⁶⁵ Exhibit B-1, p. 34.

deficiency/surplus, including any adjustments to the 2014 revenue deficiency/surplus directed as part of this Decision. The Panel considers a one-year amortization period to be reasonable given the balance in the account and the fact that it serves to mitigate some of the other rate impacts experienced by FEFN customers in 2015.

4.1.7.3 Gains and Losses on Asset Disposition deferral account

As part of the FEI PBR Decision, the Commission directed FEI to discontinue use of its Gains and Losses on Asset Disposition deferral account and to amortize the 2013 ending balance of this deferral account over 10 years, effective January 1, 2014.⁶⁶

In response to BCUC IR 1.25.1, FEI states that it has also discontinued the use of its Gains and Losses on Asset Disposition deferral account given the FEI PBR Decision. FEI further states that since it has not forecast any additions to this account, discontinuation of the deferral account would not have any impact on the revenue requirement. However, at this point the deferral account continues to be amortized over 20 years due to the other “significant rate challenges” faced by FEFN. FEI submits that it would not be opposed to reducing the amortization period to ten years effective January 1, 2015 to align with the currently approved FEI amortization period, calculating that the impact of changing the amortization period would be an increase of approximately \$7 thousand to both the 2015 and 2016 revenue deficiencies. This translates into an increase in the delivery component of the rate of 0.37 percent for 2015 with no further incremental increase in 2016.⁶⁷

No interveners commented on this issue.

Commission determination

The Panel directs FEI to change the amortization period on the discontinued Gains and Losses on Asset Disposition deferral account to ten years, effective January 1, 2015. The Panel considers this treatment appropriate as it aligns FEI and FEFN’s amortization periods for this deferral account and does not result in a material change to FEFN’s 2015 and 2016 forecast delivery rates.

4.1.8 Financing costs

FEFN’s debt consists of both long-term and short-term (unfunded) debt. Debt financing costs include the interest expense on issued debt as well as the interest expense on new issuances that are forecast. FEFN receives an allocation of FEI’s long-term debt. This allocation is forecast to be \$6,058 thousand in 2015 and \$6,190 thousand in 2016. FEFN’s short-term debt represents the difference between its long-term debt allocation from FEI and 61.5 percent of its rate base. FEI states that due to the uncontrollable nature and forecasting uncertainty associated with interest rates, the impact on interest expense of variances in forecast

⁶⁶ FEI PBR Decision, p. 246.

⁶⁷ Exhibit B-2, BCUC IR 1.25.1.

versus actual interest rates and variances in forecast versus actual debt amounts are captured in the Interest Rate Variance deferral account.⁶⁸

The short-term interest rate forecast utilizes the 3-month Treasury Bill (T-bill) rates. FEI projects an increase in the T-bill rate from approximately 1.05 percent in 2014 to approximately 2.4 percent by 2016.⁶⁹ However, as described by FEI in response to CEC IR 1.14.4, the Bank of Canada announced on January 21, 2015, that it was lowering its target for the overnight rate from 1.00 percent to 0.75 percent. Consequently, 3-month T-bill yields decreased from approximately 0.91 percent to 0.62 percent. FEI has not performed an update to its 3-month T-bill yield forecast since this announcement, but it expects that bank forecasts have decreased to some degree.⁷⁰

Intervener submissions

CEC acknowledges that the Interest Rate Variance deferral account captures the impact on interest expense of variances between forecast and actual interest rates and debt amounts. However, CEC submits that it is preferable to use the most recent information available with respect to interest rates and recommends that the Commission request FEI to adjust its interest expense according to the most recent information available.⁷¹

No other interveners commented on FEI's interest expense forecast.

FEI reply

FEI submits that while unnecessary, it is not opposed to updating its interest expense in its compliance filing to reflect the updated forecast for the short-term debt rate as well as the embedded cost of long-term debt and allocation to Fort Nelson approved for FEI in 2015.⁷²

Commission determination

The Panel directs FEI to update its interest expense as part of its compliance filing to reflect the updated forecast for the short-term debt rate as well as the embedded cost of long-term debt. This is consistent with the treatment proposed by FEI and approved by the Commission in the FEI Annual Review of 2015 Delivery Rates proceeding.

4.1.9 Permanent delivery rates and the RSAM rate rider

FEI requests the following approvals for the Fort Nelson service area:

- (i) An increase to 2015 delivery rates of 25.44 percent, effective January 1, 2015;
- (ii) An additional increase to 2016 delivery rates of 5.94 percent, effective January 1, 2016; and
- (iii) Approval to set the RSAM Rate Rider at \$0.039 per GJ effective January 1, 2015.

⁶⁸ Exhibit B-1, pp. 37–38.

⁶⁹ Ibid.

⁷⁰ Exhibit B-4, CEC IR 1.14.4.

⁷¹ CEC Final Submission, p. 15.

⁷² FEI Reply, p. 5.

Commission determination

In Section 2.4 of this Decision, the Panel denied interveners' requests for rate smoothing and stated that rate increases such as the ones proposed by FEI for the test period are not uncommon for FEFN due to the size of FEFN's customer base.

The requested 2015 and 2016 delivery rate increases are not approved as filed. However, permanent 2015 and 2016 delivery rate increases, as modified to reflect the directives in this Decision, are approved. FEI is directed to collect from/refund to FEFN customers as soon as possible the difference between the 2015 interim rates and permanent rates, with interest at the average prime rate of FEI's principal bank. The Panel approves the RSAM Rate Rider to be set at \$0.039 per GJ, effective January 1, 2015.

FEI is directed to re-calculate the 2015 and 2016 delivery rates and file revised financial schedules with the Commission reflecting the changes outlined in the Decision by July 10, 2015.

5.0 SUMMARY OF DIRECTIVES

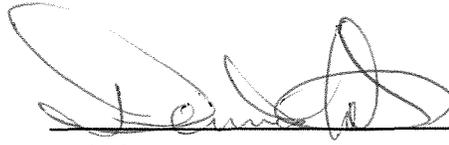
This summary is provided for the convenience of readers. In the event of any difference between the Directions in this summary and those in the body of the decision, the wording in the decision shall prevail.

	Directive	Page
1.	The Panel approves FEI's proposal to continue to use FEFN customers served as a proportion of its total customers served as a means of allocating costs to FEFN customers. In addition, any variances in the O&M allocation resulting from the FEI Annual Review of 2015 Delivery Rates proceeding are to be accounted for in the Fort Nelson Revenue Surplus/Deficit Account.	4
2.	The Panel considers there to be no benefit to pursuing a rate-smoothing proposal and therefore, rejects BCOAPO's proposals.	6
3.	The Panel approves FEFN's residential and commercial UPC forecasts as filed.	8
4.	The Panel approves FEFN's residential and commercial net customer additions forecasts as filed and accepts the use of FEFN's current forecasting methodologies for both customer classes.	9
5.	The Panel approves FEFN's 2015 and 2016 industrial demand forecasts as filed.	10
6.	The Panel directs FEI to include the following information in its future revenue requirements applications for the Fort Nelson service area: <ul style="list-style-type: none"> • Historical forecast and actual data broken down by customer classes, as provided in FEI's response to the BCUC IR 1.4 series of questions. FEI must include the most recent 10 years of historical data as part of its analysis; and • Calculations and accompanying explanations showing how the residential and commercial UPC and customer additions forecasts are calculated. 	10
7.	The Panel rejects the \$410 thousand capital expenditure for the updated right-of way agreement. The Panel directs FEI to record the actual amounts incurred to complete the updated right-of-way agreement in a non-rate base deferral account attracting an allowance for funds used during construction. FEI is directed to apply for disposition of this deferral account at FEFN's next revenue requirements proceeding.	12
8.	The Panel approves the remaining 2015 forecast Transmission Plant capital expenditures of \$435 thousand.	13
9.	The Panel approves the 2016 forecast Transmission Plant capital expenditures of \$63 thousand.	13
10.	The Panel rejects the proposal to alter the distribution system for increased supply to the airport and denies the \$85 thousand capital expenditure. The balance of 2015 forecast Distribution Plant capital expenditures totalling \$364 thousand is approved.	14

11.	The Panel approves the 2016 forecast Distribution Plant capital expenditures of \$119 thousand as proposed.	14
12.	The Panel agrees and approves the proposed amount of \$153 thousand to complete this project.	15
13.	The Panel approves the 2015 and 2016 forecasts of \$204 thousand for 2015 and \$76 thousand, respectively, for General Plant capital expenditures.	16
14.	<p>Given these unique circumstances, the Panel considers the reallocation of capital between the entities to be inappropriate at this time and denies the inclusion of the forecast \$62 thousand of plant additions in FEFN's 2015 and 2016 Intangible Plant capital. The Panel further directs FEI to remove the 2014 Intangible Plant additions from FEFN's rate base and to reverse the revenue requirement impact of adding these amounts. Any costs that have been incurred in 2014 as a result of the Intangible Plant additions, including depreciation expense and financing costs, must be credited to the Fort Nelson Revenue Surplus/Deficit deferral account and returned to ratepayers in 2015. FEI is directed to include these adjustments as part of its compliance filing.</p> <p>FEI is further ordered to address this issue in its Annual Review of 2016 Delivery Rates Application and to provide a proposal as to how these costs can be most appropriately and equitably handled going forward given the current PBR Plan in place.</p>	17
15.	The Panel approves the additional \$11 thousand for Employee Expenses as proposed by FEI.	20
16.	<p>The Panel considers moving the communication and line heater fuel costs to FEFN to be inappropriate at this time and denies the inclusion of these costs as part of FEFN's forecast 2015 and 2016 O&M expenses. The Panel also denies the recovery of these costs as part of FEFN's 2014 O&M expenditures. FEI is directed to revise the actual 2014 O&M costs to remove the actual communication and line heater fuel costs, currently projected to be \$24 thousand, from the Fort Nelson Revenue Surplus/Deficit deferral account, which will result in a larger 2014 surplus to be returned to FEFN customers. FEI is directed to include these adjustments as part of its FEFN compliance filing. In addition, FEI is directed to identify any other cases where FEI Base Capital or O&M amounts have been allocated to FEFN since approval of the PBR Plan.</p> <p>FEI is further directed to address this issue in its Annual Review of 2016 Delivery Rates Application and to provide a proposal as to how the communication and line heater fuel costs can be most appropriately and equitably handled going forward given the current PBR Plan.</p> <p>The Panel approves all remaining O&M costs for FEFN as proposed by FEI.</p>	20
17.	The Panel approves FEI's request to establish the 2015-2016 Revenue Requirement Application deferral account. The Panel further approves a two-year amortization period for this account commencing in 2015 and approves for FEI to earn a return on this account based on its weighted average cost of capital.	21

18.	The Panel approves FEI's request to amortize the ending 2014 balance in the Fort Nelson Revenue Surplus/Deficit deferral account over a one-year period into rates in 2015. The Panel directs FEI in its final compliance filing to update the balance in this deferral account to reflect the actual 2014 revenue deficiency/surplus, including any adjustments to the 2014 revenue deficiency/surplus directed as part of this Decision.	21
19.	The Panel directs FEI to change the amortization period on the discontinued Gains and Losses on Asset Disposition deferral account to ten years, effective January 1, 2015.	22
20.	The Panel directs FEI to update its interest expense as part of its compliance filing to reflect the updated forecast for the short-term debt rate as well as the embedded cost of long-term debt.	23
21.	<p>The requested 2015 and 2016 delivery rate increases are not approved as filed. However, permanent 2015 and 2016 delivery rate increases, as modified to reflect the directives in this Decision, are approved. FEI is directed to collect from/refund to FEFN customers as soon as possible the difference between the 2015 interim rates and permanent rates, with interest at the average prime rate of FEI's principal bank.</p> <p>The Panel approves the RSAM Rate Rider to be set at \$0.039 per GJ, effective January 1, 2015.</p> <p>FEI is directed to re-calculate the 2015 and 2016 delivery rates and file revised financial schedules with the Commission reflecting the changes outlined in the Decision by July 10, 2015.</p>	24

DATED at the City of Vancouver, in the Province of British Columbia, this 10th day of June 2015.



D. A. Cote
Panel Chair/Commissioner



H. G. Harowitz
Commissioner



I. F. MacPhail
Commissioner



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-97-15**

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

FortisBC Energy Inc.
Application for Approval of 2015-2016 Revenue Requirements and Rates
for the Fort Nelson Service Area

BEFORE: D. A. Cote, Panel Chair/Commissioner
H. G. Harowitz, Commissioner June 10, 2015
I. F. MacPhail, Commissioner

O R D E R

WHEREAS:

- A. On December 3, 2014, FortisBC Energy Inc. (FEI) submitted its 2015-2016 revenue requirements and rates application for the Fort Nelson service area (FEFN) with the British Columbia Utilities Commission (Commission) pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA), seeking, among other things, Commission approval to increase delivery rates (Application);
- B. FEI forecasts a 2015 revenue deficiency for FEFN of approximately \$473 thousand and a 2016 revenue deficiency of approximately \$153 thousand, which results in an approximate 24.26 percent increase to delivery rates in 2015 and a further increase of 7.58 percent in 2016;
- C. Pursuant to Order G-192-14, the Commission approved on an interim and refundable basis the delivery rates and Revenue Stabilization Adjustment Mechanism rate rider as set forth in the Application, effective January 1, 2015. The Commission also established a regulatory timetable which provided for intervener and interested party registration and one round of Commission and intervener information requests (IRs), followed by written submissions from all parties on further regulatory process;
- D. By letter dated February 17, 2015, the Commission established the remainder of the Regulatory Timetable, which included a second round of IRs and final written and reply submissions;
- E. On March 3, 2015 in response to a letter filed by FEI on February 26, 2015, the Commission issued Order G-34-15 amending the Regulatory Timetable to extend the deadlines for FEI responses to Commission and intervener IR No. 2 and the timing of final and reply submissions;
- F. FEI filed its Final Submission on April 14, 2015, which included, among other things, revised 2015 and 2016 forecast delivery rate increases;

BRITISH COLUMBIA
UTILITIES COMMISSION

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G. The following interveners filed Final Submissions on April 28, 2015:

- British Columbia Old Age Pensioners' Organization, *et al*;
- Commercial Energy Consumers Association of British Columbia; and
- Fort Nelson & District Chamber of Commerce;

H. FEI filed its Reply Submission on May 7, 2015; and

I. The Commission considered the Application, evidence and submissions of the parties as set forth and discussed in the Decision issued concurrently with this order.

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act*, for the reasons set out in the Decision that is issued concurrently with this order, the British Columbia Utilities Commission orders as follows:

1. FortisBC Energy Inc.'s requested permanent delivery rate increases for 2015 and 2016 for the Fort Nelson Service Area are not approved as filed. Permanent 2015 and 2016 delivery rate increases, as modified to reflect the directives in the Decision, are approved.
2. The Revenue Stabilization Adjustment Mechanism rate rider is approved on a permanent basis at \$0.039 per gigajoule, effective January 1, 2015.
3. FortisBC Energy Inc. is directed to re-calculate the 2015 and 2016 revenue deficiencies and delivery rate increases and to file revised financial schedules with the Commission reflecting the changes outlined in the Decision by July 10, 2015.
4. FortisBC Energy Inc. is directed to collect from/refund to customers as soon as possible the difference between the 2015 interim rates and permanent rates, with interest at the average prime rate of the Company's principal bank, by way of a bill adjustment reflecting customers' consumption from January 1, 2015.
5. FortisBC Energy Inc. must comply with all determinations and directives as set out in the Decision.

DATED at the City of Vancouver, in the Province of British Columbia, this 19th day of June 2015.

BY ORDER



D. A. Cote
Panel Chair/Commissioner

LIST OF ACRONYMS

BCOAPO	British Columbia Old Age Pensioners' Organization, <i>et al.</i>
CBOC	The Conference Board of Canada
CEC	Commercial Energy Consumers Association of British Columbia
Commission or BCUC	British Columbia Utilities Commission
CPCN	Certificate of Public Convenience and Necessity
FEFN	FortisBC Energy Inc. – Fort Nelson service area
FEI	FortisBC Energy Inc.
FEU	FortisBC Energy Utilities
FEVI	FortisBC Energy (Vancouver Island) Inc.
FEW	FortisBC Energy (Whistler) Inc.
FNDCOG	Fort Nelson & District Chamber of Commerce
GJ	Gigajoules
IR	Information Request (s)
O&M	Operations and Maintenance
PBR	Performance Based Ratemaking
Project	The Muskwa River Crossing Project
RSAM	Revenue Stabilization Adjustment Mechanism
TJ	Terajoules
UPC	Use Per Customer

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

FortisBC Energy Inc.
Application for Approval of 2015-2016 Revenue Requirements and Rates
for the Fort Nelson Service Area

EXHIBIT LIST

Exhibit No.	Description
<i>COMMISSION DOCUMENTS</i>	
A-1	Letter dated December 10, 2014 – Appointing the Commission Panel for the review of the FortisBC Energy Inc. Application for Approval of 2015-2016 Revenue Requirements and Rates for the Fort Nelson Service Area
A-2	Letter dated December 10, 2014 - Commission Order G-192-14 establishing a regulatory timetable
A-3	Letter dated January 15, 2015 – Commission Information Request No. 1 to FEI
A-4	Letter dated February 11, 2015 – Request to FEI for Reply Submission
A-5	Letter dated February 17, 2015 – Regulatory Timetable
A-6	Letter dated February 25, 2015 – Commission Information Request No. 2 to FEI
A-7	Letter dated March 3, 2015 – Commission Order G-34-15 amending the Regulatory Timetable
<i>COMMISSION STAFF DOCUMENTS</i>	
A2-1	Letter dated January 15, 2015– Commission Staff filing Excerpt from the FortisBC Energy Inc. - Fort Nelson Service Area Deferral Account Treatment for 2014 and Changes to the RSAM Rider
<i>APPLICANT DOCUMENTS</i>	
B-1	FORTISBC ENERGY INC. (FEI) Letter dated December 3, 2014- Application for Approval of 2015-2016 Revenue Requirements and Rates for the Fort Nelson Service Area
B-2	Letter dated February 5, 2015 – FEI Responses to BCUC IR No. 1

Exhibit No.	Description
B-3	Letter dated February 5, 2015 – FEI Response to BCOAPO IR No. 1
B-4	Letter dated February 5, 2015 – FEI Response to CEC IR No. 1
B-5	Letter dated February 5, 2015 – FEI Response to FNDCOC IR No. 1
B-6	Letter dated February 16, 2015 – FEI Comments on further process
B-7	Letter dated February 26, 2015 – FEI Request for Amendment to Regulatory Timetable
B-8	Letter dated March 31, 2015 - FEI Responses to BCUC IR No.2
B-8-1	CONFIDENTIAL Letter dated March 31, 2015 - FEI Confidential Response to BCUC IR No.2
B-9	Letter dated March 31, 2015 - FEI Response to CEC IR No.2

INTERVENER DOCUMENTS

C1-1	FORT NELSON & DISTRICT CHAMBER OF COMMERCE (FNDCOC) Letter dated December 17, 2014 and Online Registration – Request for Intervener Status by Bev Vandersteen
C1-2	Letter dated January 22, 2015 – FNDCOC Information Request No. 1 to FEI
C1-3	Letter dated February 10, 2014 – FNDCOC Submitting Comments on Process
C2-1	THE BRITISH COLUMBIA OLD AGE PENSIONERS ORGANIZATION ET AL. (BCOAPO) Letter dated December 22, 2014 - Request for Intervener status by T. Braithwaite
C2-2	Letter dated January 21, 2015 – BCOAPO Information Request No. 1 to FEI
C2-3	Letter dated February 10, 2014 – BCOAPO Submitting Comments on Process
C2-4	Letter dated February 13, 2014 – BCOAPO Submitting Updated Comments on Process
C3-1	COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF BRITISH COLUMBIA (CEC) Letter dated January 5, 2015 – Request for Intervener Status by C. Weafer
C3-2	Letter dated January 22, 2015 – CEC Information Request No. 1 to FEI
C3-3	Letter dated February 10, 2014 – CEC Submitting Comments on Process
C3-4	Letter dated February 25, 2014 – CEC Information Request No. 2
C4-1	INTERVENTION WITHDRAWN EXHIBIT REMOVED