



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-204-15**

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

and

FortisBC Energy Inc.
Application for its Common Equity Component and Return on Equity for 2016

BEFORE: K. A. Keilty, Panel Chair/Commissioner
D. A. Cote, Commissioner December 15, 2015
N. E. MacMurphy, Commissioner

O R D E R

WHEREAS:

- A. On October 2, 2015, FortisBC Energy Inc. (FEI) filed an application for its Common Equity Component and Return on Equity for 2016 (Application) pursuant to the British Columbia Utilities Commission (Commission) decision for the Generic Cost of Capital (GCOC) Stage 1 proceeding;
- B. FEI believes that the amalgamated FEI, the amalgamation of FortisBC (Vancouver Island) Inc. and FortisBC (Whistler) Inc. with FEI, continues to be the logical choice to serve as the benchmark utility;
- C. By Order G-177-15, the Commission established a regulatory proceeding for review of the Application;
- D. By letter dated November 30, 2015, the Commission sought submissions from all parties with respect to, among other things, whether existing rates of regulated entities that use the benchmark to establish rates should be made interim;
- E. Five submissions were received from ratepayer groups, namely: the Association of Major Power Customers of BC, British Columbia Municipal Electrical Utilities, British Columbia Old Age Pensioners' Organization *et al.*, Commercial Energy Consumers Association of British Columbia and the Industrial Customers Group of FortisBC Inc.;
- F. Six submissions were received from utilities, namely: FEI, FortisBC Alternative Energy Services Inc., FortisBC Inc. (FBC), Corix Multi-Utility Services Inc., Pacific Northern Gas Ltd. and River District Energy. Both FEI and FBC filed reply submissions;

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- G. Order G-148-12 issued in the GCOC Stage 1 proceeding determined FEI as the benchmark utility. FEI's return on equity of 8.75 percent determined in the GCOC Stage 1 Decision will cease being effective ending December 31, 2015;
- H. In Commission Order G-193-15, FEI's existing common equity component and return on equity was made interim effective January 1, 2016 and will remain in force until otherwise directed by the Commission in this proceeding; and
- I. The Commission has reviewed the submissions and reply submissions and determines that it is appropriate to set an interim benchmark common equity component and return on equity, effective January 1, 2016.

NOW THEREFORE for the reasons for decision attached as Appendix A to this order, the Commission orders as follows:

- 1. FortisBC Energy Inc.'s existing common equity component and return on equity will remain the benchmark common equity component and return on equity on an interim basis, effective January 1, 2016.
- 2. A regulated utility that uses the benchmark to establish its rates must apply to the Commission if it wishes to have its rates made interim pending the outcome of this proceeding.

DATED at the City of Vancouver, in the Province of British Columbia, this 15th day of December 2015.

BY ORDER

Original Signed By:

K. A. Keilty
Commissioner/Panel Chair

Attachment

FortisBC Energy Inc.
Application for its Common Equity Component and Return on Equity for 2016

REASONS FOR DECISION

1.0 BACKGROUND

During 2012 to 2014, the British Columbia Utilities Commission embarked on a public hearing, the Generic Cost of Capital (GCOC) Stage 1 and Stage 2 proceeding, to review, among other things, the setting of the appropriate cost of capital for a benchmark utility as well as the possible return to an Automatic Adjustment Mechanism (AAM) for setting the return on equity (ROE). Stage 1 of the proceeding determined the cost of capital for the benchmark utility and Stage 2 established the cost of capital for other utilities as compared to the benchmark.

The GCOC Stage 1 Decision was issued on May 10, 2013. In that proceeding, the Commission determined that FortisBC Energy Inc. (FEI) in its pre-amalgamation state would serve as the benchmark utility for the GCOC Stage 1 proceeding.¹ In the GCOC Stage 1 Decision, the Commission awarded a 38.5 percent common equity ratio to FEI effective January 1, 2013,² and a ROE of 8.75 percent effective January 1, 2013 until December 31, 2015,³ subject to variation by the AAM formula. The AAM formula would operate until December 31, 2015 and its implementation was subject to conditions which had not been triggered.⁴ Pursuant to Order G-75-13, FEI was directed to file an application for the review of the common equity component and the ROE by no later than November 30, 2015.

On October 2, 2015, FEI filed an application for a common equity component of 40 percent and ROE of 9.5 percent for 2016 (Application). Since the GCOC Stage 1 Decision, FEI has become amalgamated FEI⁵ and the Application submits that the Commission should continue to treat amalgamated FEI as the benchmark utility.

FEI currently has its delivery rates set as interim, effective January 1, 2016, in its 2016 Annual Review proceeding currently before the Commission. In Commission Order G-193-15, FEI's existing common equity component and return on equity was made interim, effective January 1, 2016, and will remain in force until otherwise directed by the Commission in this proceeding.

By letter dated November 30, 2015, the Commission requested submissions from all parties with respect to interim rates on two matters:

- (1) For all regulated entities that use the benchmark to establish rates, should their existing rates be made interim effective January 1, 2016, pending the Commission's decision on whether FEI should continue to

¹ British Columbia Utilities Commission Generic Cost of Capital Stage 1 (GCOC Stage 1), Exhibit A-21, Order G-148-12.

² GCOC Stage 1, Decision dated May 10, 2013, Executive Summary, pp. (iii), 53.

³ Ibid., Executive Summary, pp. (iii), 80.

⁴ Ibid., p. 90.

⁵ FEI amalgamated with FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc. on February 28, 2014, approved by Order G-21-14.

serve as the benchmark utility and approves an amendment of FEI's equity component and ROE or should new rates be effective only on the date of the decision of this Application?

- (2) Assuming that Amalgamated FEI continues as the benchmark and assuming that the risk profile of amalgamated FEI has changed as a result of amalgamation, should the Commission consider the relative adjustments to utilities that rely on the benchmark to establish rates be heard in a generic hearing or should those utilities' risk profile be reviewed as part of their next revenue requirements proceeding?

2.0 SUBMISSIONS

2.1 Ratepayer group submissions

Five submissions were received from ratepayer groups:

- Association of Major Power Customers of BC (AMPC)
- British Columbia Municipal Electrical Utilities (BCMEU)
- British Columbia Old Age Pensioners' Organization *et al.* (BCOAPO)
- Commercial Energy Consumers Association of British Columbia (CEC)
- Industrial Customers Group of FortisBC Inc. (ICG).

Matter (1)

With respect to Matter (1), BCOAPO did not respond to the question as it was addressing FEI as the benchmark utility rather than the regulated utilities that rely on the benchmark. CEC submitted that the rates of the other regulated utilities should not be set interim as the risks being assessed in the Application are not risks that suddenly appear, or reduce, as of a certain point in time. AMPC submitted that the rates of the other regulated utilities should be made interim but only with respect to the impact of matters related to any changes to the benchmark ROE or capital structure.

The BCMEU, which is composed of customers who are mainly four of the wholesale customers of FortisBC Inc. (FBC), submitted that rates should be made interim, effective January 1, 2016. It further submitted that if the Commission determined otherwise, then the increase should be held in deferral until January 1, 2017 after the final decision on the Application.

ICG which represents industrial customers of FBC, submitted that rates should be made permanent, effective January 1, 2016, and if necessary, new rates should not be effective before the date of the decision on this Application, preferable at the time of the next rate increase.

Matter (2)

With respect to Matter (2), BCOAPO, CEC and BCMEU support a generic process. AMPC submitted that assessment of relative risk to the benchmark utility is best considered in each utility's rate case. ICG submitted that a revenue requirements application (RRA) proceeding is the forum to review the timing of the relative adjustments. It also raised the possibility of including the review of FBC's business risk as part of the current proceeding.

2.2 Regulated utilities submissions

Six submissions were received from regulated utilities:

- FEI
- FBC
- FortisBC Alternative Energy Services Inc. (FAES)
- Corix Multi-Utility Services Inc. (Corix)
- Pacific Northern Gas Ltd. (PNG)
- River District Energy (RDE).

Both FEI and FBC also filed reply submissions.

Matter (1)

FBC submitted that it has already proposed to have its rates interim in its 2016 Annual Review proceeding. FBC further submitted that it supported the alternative approach raised by interveners ICG and BCMEU in the FBC 2016 Annual Review proceeding that the Commission would approve permanent rates, effective January 1, 2016, and also approve a deferral account to capture the impact of the 2016 cost of capital decision. In addition, FBC submitted that this Panel should defer to the FBC 2016 Annual Review panel and refrain from making any determination with respect to FBC in this proceeding. At the same time, FBC also indicated that the impact of any change in the benchmark ROE should flow through one of the mechanisms, i.e., interim rates or permanent rates with deferral account.

FAES submitted that it sees no reason to make the market rates of Delta School District (DSD), which is its only thermal energy project whose ROE is set relative to the benchmark utility, interim.

PNG submitted that its existing rates should be made interim, effective January 1, 2016. In its submission, PNG noted that it had filed its 2016/2017 RRA on November 30, 2015 and submitted that it might request deferral account treatment of the impact of this Application's decision on its revenue requirement for 2016 to be amortized the following year.

Corix submitted that it is of the view that a utility's rates should remain in effect until the utility makes application to the Commission to change its rates based on the interests of its customers and shareholders.

RDE submitted that new rates should be made interim, effective January 1, 2016, pending the Commission's decision on the Application.

FEI made no comments in its initial submission but filed a reply submission with the Commission. In its reply, FEI noted that the Commission has set interim rates for FEI pending the outcome of this Application as part of the FEI 2016 Annual Review process.

FBC, in reply, noted that although it is not an applicant in this proceeding, it is directly affected by the Commission's determination on Matter (1).

Matter (2)

FBC submitted that it is appropriate and efficient for the Commission to defer a comprehensive assessment of FBC's business risk until at least 2017. It also submitted that the utility-specific risks for utilities like FBC should be assessed in utility-specific hearings, rather than a generic process.

FAES submitted that it is open to its DSD project's risk profile review as part of the annual DSD revenue requirement if the costs of regulating the DSD do not exceed the benefits.

PNG submitted that there is no need for a process to review its relative risk to the benchmark and should the Commission determine that an additional process is required, it would prefer that the review process form part of the utilities' next revenue requirements proceeding.

Corix submitted that there is little to be gained to revisit the cost of capital issue at this time. RDE submitted that adjustments to affected utilities should occur at the next revenue requirement proceeding should the risk profile of the amalgamated FEI has changed.

In reply, FEI responded to ICG's suggestion of the possibility of addressing FBC's cost of capital in this proceeding and submitted that it is impractical and inefficient to take ICG's approach as the process is well underway.

In reply, FBC responded to the positions of CEC, BCOAPO and BCMEU for their support for a generic hearing. FEI submitted that holding a generic proceeding so soon after the last one would be inefficient and costly.

3.0 COMMISSION DETERMINATIONS

The Panel is cognizant of the interim rates requested by FEI in its 2016 Annual Review proceeding and the setting of interim rates in that proceeding pending the outcome of this Application. The Panel recognizes that FEI was the designated benchmark utility in the GCOC Stage 1 proceeding and that the benchmark ROE will be expiring December 31, 2015. In this context, the Panel determines that FEI will remain the benchmark utility on an interim basis and FEI's current common equity component and the ROE will remain the benchmark common equity component and ROE on an interim basis, effective January 1, 2016.

With respect to the submissions on Matter (1), the Panel notes that while the ratepayer groups and regulated utilities are split over the appropriateness of setting interim rates effective January 1, 2016 for regulated utilities that rely on the benchmark, FEI and FBC have already addressed this issue in other proceedings. PNG currently has an RRA before the Commission and has taken the position that its rates should be made interim and that it may request deferral account treatment for 2016 to be amortized the following year. FAES and Corix do not require interim rates.

The Panel determines that it is not necessary in this proceeding to set interim rates for the regulated utilities that use the benchmark to establish their rates. A regulated utility that uses the benchmark to establish its rates must apply to the Commission if it wishes to have its rates made interim pending the outcome of this proceeding.

On Matter (2), the Panel does not consider it necessary to make a decision at this time on whether to use a generic process or each utility's RRA to set relative risk compared to the benchmark. It is possible that the outcome of this proceeding will further inform this decision.