British Columbia Utilities Commission

Sixth Floor, 900 Howe Street
Vancouver, BC Canada V6Z 2N3
TEL: (604) 660-4700
BC Toll Free: 1-800-663-1385
FAX: (604) 660-1102

ORDER NUMBER
G-162-16

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

and

FortisBC Energy Inc.
Application for Approval of 2017-2018 Revenue Requirements and Rates
for the Fort Nelson Service Area

BEFORE:
B. A. Magnan, Panel Chair/Commissioner
D. J. Enns, Commissioner

on November 9, 2016

ORDER

WHEREAS:

A. On June 30, 2016, FortisBC Energy Inc. (FEI) submitted its 2017-2018 Revenue Requirements and Rates Application for the Fort Nelson service area to the British Columbia Utilities Commission (Commission), pursuant to sections 59 to 61 of the *Utilities Commission Act*, seeking, among other things, Commission approval of delivery rates for the 2017 and 2018 test periods (Application);

B. FEI forecasts a revenue deficiency of $301 thousand in 2017 and a revenue surplus of $146 thousand in 2018, which, without rate smoothing, results in a delivery rate increase of approximately 13.50 percent in 2017 and a delivery rate reduction of approximately 6.44 percent in 2018;

C. FEI proposes to smooth the delivery rate impact over the two-year test period by recording $148 thousand of the 2017 revenue deficiency in a non-rate base deferral account for recovery in 2018, resulting in a revenue deficiency of $153 thousand in 2017 and an incremental revenue deficiency of $150 thousand in 2018, and delivery rate increases of 6.86 percent in 2017 and an additional 6.94 percent in 2018;

D. Pursuant to Order G-108-16, the Commission established a regulatory timetable which included one round of Commission and intervener information requests followed by written final and reply arguments;

E. The British Columbia Old Age Pensioners' Organization *et al.*, the Fort Nelson & District Chamber of Commerce, and the Northern Rockies Regional Municipality registered as interveners in the proceeding; and

F. The Commission considered the evidence and submissions of the parties, and for the reasons attached as Appendix A to this order concludes that approval of the Application is warranted.

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act*, and for the reasons attached to Appendix A of this order, the British Columbia Utilities Commission orders as follows:

1. FortisBC Energy Inc.'s requested delivery rate increase of 6.86 percent effective January 1, 2017 and an additional delivery rate increase of 6.94 percent effective January 1, 2018 for the Fort Nelson service area are approved.

2. The Revenue Stabilization Adjustment Mechanism Rate Rider is approved to be set at $0.268 per gigajoule effective January 1, 2017.

3. Adoption of updated depreciation and net salvage rates as provided in the Application, effective January 1, 2017, are approved.

4. The establishment of the following deferral accounts are approved:

    a. A rate base deferral account for the 2017-2018 Revenue Requirement Application costs with an amortization period of two years commencing in 2017;
    b. A rate base deferral account for the 2016 Cost of Capital Application costs with an amortization period of three years commencing in 2017;
    c. A rate base deferral account for the 2017 Rate Design Application costs; and
    d. A non-rate base deferral account to transfer a portion of the 2017 revenue deficiency to 2018.

5. FortisBC Energy Inc. is approved to delay the disposition of the non-rate base Fort Nelson First Nations Right-of-Way Agreement deferral account to the next revenue requirement proceeding.

6. The British Columbia Old Age Pensioners' Organization *et al.*'s proposal to record in a deferral account the annual variances between forecast and actual Shared Services fees allocated from FortisBC Energy Inc. to the FortisBC Energy Inc. Fort Nelson service area is rejected.

7. FortisBC Energy Inc. is directed to file the supporting calculations for the residential and small commercial use per customer and customer additions forecasts in its future revenue requirement applications for the Fort Nelson service area.

8. FortisBC Energy Inc. is directed to file as a compliance filing the finalized financial schedules for the 2017 and 2018 test periods no later than 60 days from the date of this order.

DATED at the City of Vancouver, in the Province of British Columbia, this 9th day of November 2016.

BY ORDER

Original signed by:

B. A. Magnan
Commissioner

Attachment

FortisBC Energy Inc.
Application for Approval of 2017-2018 Revenue Requirements and Rates
for the Fort Nelson Service Area

REASONS FOR DECISION

1.0 BACKGROUND AND REGULATORY PROCESS

On June 30, 2016, FortisBC Energy Inc. (FEI) submitted its 2017-2018 Revenue Requirements and Rates Application (Application) for the Fort Nelson service area (FEFN) to the British Columbia Utilities Commission (Commission), pursuant to sections 59 to 61 of the *Utilities Commission Act*.

Pursuant to Order G-108-16 dated July 11, 2016, the Commission established a regulatory timetable which provided for intervener registration, one round of information requests (IRs), and written final and reply arguments. By letter dated July 27, 2016, the Commission extended the deadline for intervener registration to August 2, 2016.

The following interveners registered in the proceeding:

- British Columbia Old Age Pensioners' Organization *et al.* (BCOAPO);
- Northern Rockies Regional Municipality (NRRM); and
- Fort Nelson & District Chamber of Commerce (FNDCC).

BCOAPO was the sole intervener to actively participate in the IR process; however, both BCOAPO and FNDCC submitted final arguments.

FEI's final argument on behalf of FEFN was received by the Commission on September 9, 2016, and its reply argument was received on September 30, 2016.

2.0 APPROVALS SOUGHT

In the Application, FEI seeks the following approvals from the Commission, pursuant to sections 59 to 61 of the *Utilities Commission Act*:

- A delivery rate increase of 6.86 percent effective January 1, 2017, to recover the forecast revenue deficiency of $153 thousand in 2017;
- An additional delivery rate increase of 6.94 percent in 2018 to recover the incremental forecast revenue deficiency of $150 thousand in 2018;
- The Revenue Stabilization Adjustment Mechanism (RSAM) rider to be set to $0.268 per gigajoule (GJ), which is an increase of $0.190 per GJ compared to 2016, as set out in Section 2.4, Table 2-2 of the Application, effective January 1, 2017;
- Adoption of FEI's approved depreciation and net salvage rates starting in 2017; and
- The following deferral account requests as described in Sections 7.4.1 and 7.4.2 of the Application:

- The creation of a rate base deferral account for the 2017-2018 Revenue Requirement Application costs with an amortization period of two years beginning 2017;
- The creation of a rate base deferral account for the 2016 Cost of Capital Application costs with an amortization period of three years beginning 2017;
- The creation of a rate base deferral account for the 2017 Rate Design Application costs;
- The creation of a non-rate base deferral account to transfer a portion of the 2017 revenue deficiency to 2018 to help smooth customer rates; and
- To delay disposition of the non-rate base Fort Nelson First Nations Right-of-Way Agreement deferral account to the next revenue requirement proceeding.[1]

FEI states that based on its forecast energy demand for FEFN, FEFN's forecast revenue at the currently approved rates is not sufficient to recover FEFN's revenue requirement over the 2017-2018 test period. Based on FEFN's 2016 Approved rates, FEI forecasts a revenue deficiency for 2017 of $301 thousand followed by an incremental revenue surplus of $146 thousand in 2018.[2]

FEI further states that without its proposed creation of a non-rate base deferral account to transfer a portion of the 2017 revenue deficiency to 2018, the rate impact of the forecast revenue deficiency/surplus over the test period is an increase to the delivery rates in 2017 of 13.50 percent followed by an incremental decrease to the delivery rates in 2018 of 6.44 percent. Thus, FEI instead proposes to smooth rates over the test period by applying a delivery rate increase of 6.86 percent in 2017 and recovering the remainder of the 2017 revenue deficiency in 2018 through an incremental delivery rate increase of 6.94 percent in 2018.[3]

The largest contributor to the 2017 revenue deficiency is the forecast reduction in customer demand, which accounts for approximately 90 percent of the 2017 revenue deficiency. FEI attributes the decrease in demand primarily to a decline in the energy use per customer, particularly in the commercial customer rate class. FEI forecasts a small incremental decrease in demand in 2018; however, this is more than offset by reduced amortization expense in 2018. The reduced amortization expense in 2018 contributes $149 thousand to the forecast revenue surplus.[4]

FEI forecasts a two percent increase to FEFN's operating and maintenance (O&M) expenses in 2017 compared to the Approved 2016 amount and a further increase of 2.2 percent in 2018 compared to the 2017 forecast amount.[5]

Intervener arguments

BCOAPO supports the approvals sought by FEI in the Application. However, BCOAPO argues that variations in the O&M allocated to FEFN from FEI resulting from the approval of FEI's 2017 and 2018 O&M should be recorded in the existing Fort Nelson Revenue Surplus/Deficit deferral account.[6]

---

[1] Exhibit B-1, pp. 5–6.
[2] Ibid., p. 1.
[3] Ibid., p. 2.
[4] Ibid., pp. 8–9.
[5] Ibid., p. 7.
[6] BCOAPO Final Argument, p. 1.

FNDCC does not comment specifically on the approvals sought in the Application. FNDCC does however make various comments related to storage and transportation costs as well as comments related to employee expenses incurred by FEFN in 2015 and 2016.[7]

Commission determination

The Panel finds the requested approvals to be just and reasonable and accordingly approves them. This determination is based on the evidence provided by FEI in the Application and subsequent clarifications through the IR process. The Panel also notes that while certain issues were raised by BCOAPO and FNDCC in their final arguments, neither party objected to the specific approvals sought by FEI in the Application.

In the remainder of these reasons for decision, the Panel provides discussions and determinations where applicable on the issues raised by interveners in their final arguments.

3.0 ISSUES ARISING

BCOAPO and FNDCC raise a number of issues in their final arguments, each of which is dealt with in this section.

3.1 Treatment of variances in Shared Services fees

FEFN's O&M expenses are forecast to increase from the projected total of $859 thousand for 2016 to $900 thousand in 2017 and to $920 thousand in 2018. Of FEFN's total O&M expenses, Fees and Administration costs constitute approximately 60 percent of O&M expenses. FEI forecasts $533 thousand and $543 thousand in 2017 and 2018, respectively, for Fees and Administration costs.[8] Fees and Administration costs are comprised primarily of the Shared Services fee charged by FEI to FEFN.[9]

The Approved 2016 Shared Services fee was $551 thousand; however FEI projects the actual Shared Services fee to be $513 thousand, producing a variance of $38 thousand from the approved amount.[10] Shared Services fees are allocated to FEFN based on FEFN's proportion of customers to FEI's total customer base.[11] FEI attributes the variance to a decrease in the shared services allocation factor as a result of changes to the average number of customers for FEI and FEFN and changes to FEI's gross O&M.[12]

FEI was asked in BCUC IR 5.5 if it would be appropriate to record variances between forecast and actual annual Fees and Administration costs in a deferral account. FEI responded that it "does not believe it would be appropriate" because "reductions to FEI's O&M are generally the result of efficiency savings under a PBR [Performance Based Ratemaking] mechanism which is not applicable to the Fort Nelson service area. However, FEI would be amenable to recording these variances in the deferral account."[13]

---

[7] FNDCC Final Argument, pp. 2–3.
[8] Exhibit B-1, Table 5-1, p. 27.
[9] Ibid., p. 28.
[10] Ibid.
[11] Ibid., p. 26.
[12] Ibid., p. 28.
[13] Exhibit B-3, BCUC IR 5.5.

FEI explained that it “does propose deferral account treatment for some items that are non-controllable – where they are outside of the Company’s control or where the Company has limited ability to influence the costs. Examples of these items are income tax rates, interest rates, property taxes.” However, FEI also submitted that “Under FEI’s PBR Plan, the specific costs that are being allocated to Fort Nelson have been defined as controllable and therefore subject to the PBR formula.” Thus, FEI submitted “[i]n the circumstance of the O&M costs being allocated to Fort Nelson, the costs would not meet the non-controllable definition that FEI applies in considering whether deferral account treatment is appropriate.”[14]

BCOAPO states in its final argument that “variations in the allocated O&M that result from the approval of FEI’s 2017 and 2018 O&M should be recorded to the Fort Nelson Revenue Surplus/Deficit Account” and points out that “[t]his was done in 2015 in response to Order G-97-15, and FEI has indicated that it is amenable to taking the same approach for 2017 and 2018.” However, BCOAPO also notes that FEI objects to recording variances between forecast and actual Fees and Administration Costs in the FEFN Revenue Surplus/Deficit Deferral Account on the basis that the costs allocated to FEFN are generally controllable and reductions to FEI’s controllable O&M are generally the result of efficiency savings under PBR, which does not apply to FEFN. In response to this noted objection, BCOAPO submits that it “accepts this rationale.”[15]

Commission determination

FEI submits that it “does not believe it would be appropriate to record all variances between forecast and actual annual Fees and Administration Costs in the Fort Nelson Revenue Surplus/Deficit Deferral Account.”[16] The Panel agrees and notes that forecasting is a key component of cost of service ratemaking and a certain degree of variability between forecast and actual results is expected. The Panel also agrees with FEI that the Shared Services fees charged to FEFN which comprise the majority of the Fees and Administration costs do not meet the non-controllable definition that is typically applied when considering whether deferral account treatment is appropriate. **The Panel therefore rejects BCOAPO’s proposal to record annual variances between forecast and actual Shared Services fees allocated to FEFN from FEI in a deferral account.**

3.2 Gas, storage and transportation costs

In its final argument, FNDCC raises the following concerns regarding FEI’s gas pricing:

> FEI notes that their operation in FEFN consists of a transmission lateral from Spectra Energy, which is approximately 25 km from Fort Nelson. FNDCC however would like to clarify that gas for Fort Nelson is priced from FEI’s Station 2 in Chetwynd which is approximately 510 km from Fort Nelson and is a directional pipeline, gas cannot flow back to Fort Nelson; it is physically impossible for us to receive gas from station 2. Additionally we are charged for storage although there is no gas stored on FEFN’s behalf. No rate consideration, to our knowledge, is given to the discrepancy in actual versus charged cost for delivery. This is a direct savings to FEI and should be reflected in rate and revenue applications.[17]

FEI “respectfully submits that there are no such ‘direct savings’” and argues that FNDCC’s submissions on gas, storage and transport costs are “outside the scope of this proceeding.” FEI further states: “Consistent with

[14] Ibid., BCUC IR 5.5.1.
[15] BCOAPO Final Argument, p. 3.
[16] FEI Final Argument, p. 7.
[17] FNDCC Final Argument, p. 2.

established Commission practice, FEI will continue to review and report on the gas costs and the gas cost recovery rates for FEFN on a quarterly basis and, as necessary, will apply for any rate changes to recover the cost of gas."[18]

FEI also notes that it will be explaining the allocation of commodity and midstream costs to FEFN in its upcoming Rate Design Application.[19]

Panel discussion

The Panel notes that the gas, storage and transport costs described by FNDCC in its final argument are flow-through costs and are reviewed by the Commission on a quarterly basis through a separate process. The forecast revenues and costs at issue in the current proceeding are those which impact the delivery rates being charged to FEFN customers, not the gas, commodity and midstream costs. The Panel agrees with FEI that the review of gas costs are out of scope in this proceeding and accordingly declines to comment further on this matter.

3.3 Employee expenses

FEI reported that FEFN's Actual 2015 International Brotherhood of Electrical Workers (IBEW) labour costs exceeded the Approved 2015 amount by $18 thousand due to "some overlap in employees and associated training costs." In 2015, two additional employees were added to allow sufficient time for them to be trained prior to replacing departing employees. FEI noted that further cost increases arising from employee overlap are not forecast for 2017. However, the reduced labour and training costs will be partially offset by labour and benefits inflation for all IBEW employees.[20]

FNDCC submits the following in its final argument:

> As provided in FEI's response to the BCUC IR 1.6.5 and 1.6.6 we note that additional employee expenses were incurred in 2015 and 2016 due to the transfer of employees resulting in new hires with the FEFN and the associated training cost. We would submit that these costs should not be repeatedly & directly borne by the rate payer in FEFN as through the transfer FEI received fully trained employees. As with other O&M costs this should be apportioned appropriately.[21]

FEI argues that these costs have been properly allocated and submits the following:

> The employee expenses and training costs were required to train employees for FEFN due to the attrition experienced within FEFN in 2015 and 2016. Attrition can occur for many reasons beyond FEI's control, and the costs to ensure new FEFN employees are appropriately trained is a necessary and prudent cost of serving FEFN customers. Moreover, FEI has not forecast the continuation of attrition over the Test Period.[22]

---

[18] FEI Reply Argument, p. 2.
[19] Ibid.
[20] Exhibit B-3, BCUC IR 6.5.
[21] FNDCC Final Argument, p. 3.
[22] FEI Reply Argument, p. 3.

Panel discussion

The Panel accepts that FEFN will periodically experience staff turnover due to factors beyond its control and that the hiring and training of personnel may vary. The Panel also notes that the increased employees expenses and training costs due to attrition experienced in 2015 and 2016 are not forecast by FEI to continue over the test period; thus, this issue does not impact the test period forecasts or resulting rates. The Panel declines to comment further on this matter.