IN THE MATTER OF

FortisBC Energy (Vancouver Island) Inc.

2014 Revenue Requirements

DECISION

MAY 23, 2014

Before:

D.M. Morton, Panel Chair / Commissioner
D.A. Cote, Commissioner
B.A. Magnan, Commissioner

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EXECUTIVE SUMMARY

On September 25, 2013, FortisBC Energy (Vancouver Island) Inc. (FEVI) submitted its 2014 Revenue Requirements Application (RRA) for approval of permanent rates, at the same level as 2013 rates, effective January 1, 2014, pursuant to sections 59 to 61 of the *Utilities Commission Act* and section 2.1 of the *Vancouver Island Natural Gas Pipeline Act Special Direction*. The Application also sought, among other things, approval of Operations & Maintenance (O&M) expenditures of $36.755 million and total capital expenditures of $28.022 million. In addition, FEVI sought various changes to its accounting policies, approval for two new rate base deferral accounts, the discontinuation of twelve deferral accounts that are no longer used and approval to set or change the amortization period of various deferral accounts.

Other proceedings impacting this Application include:

1. Recent British Columbia Utilities Commission (Commission) approval for amalgamation of FortisBC Energy Inc. (FEI), FEVI, FortisBC Energy (Whistler) Inc. and Terasen Gas Holdings Inc. on a three year phase-in basis.
2. An Application by FEI for Approval of a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018 (PBR Application). That application has proceeded by way of, in part an oral hearing and in part a written hearing. The proceeding is now in the Final Arguments stage which is scheduled to end on June 12, 2014.

In the Application, FEVI states that if the amalgamation and adoption of common rates is approved, FEVI plans to implement the PBR Plan that is approved for FEI in the PBR Decision, starting in 2015.

Some of the accounting policy changes that FEVI applies for are consistent with requests made by FEI in the PBR proceeding. Given the likelihood of the amalgamation proceeding, the Panel declines to approve changes to these accounting policies in this proceeding. Two of the requested accounting changes would have enabled FEVI to capitalize a larger portion of its O&M expenses. As a result of the Panel declining to approve certain of FEVI's accounting policy changes, the O&M budget will increase by approximately $586 thousand and the capital expenditures budget will decrease by the same amount.

The Panel approves the continued rate freeze and FEVI's proposal that the difference between the net revenues received and the actual cost of service, excluding O&M variances from allowed, be allocated to the Rate Stabilization Deferral Account (RSDA).

In reviewing forecast O&M expenditures, of particular concern to the Panel is consistent underspending to forecast and approved budgets. The Commission Panel considers whether this trend of over forecasting is likely to continue or whether, as FEVI asserts, the O&M amounts requested are needed to allow it to carry out its utility services appropriately. The Panel finds that O&M expenses are overstated and directs that they be reduced by $1 million.

The Panel also approves the requested capital expenditures, subject to adjustment to account for the determinations of accounting policy changes regarding capitalization in section 6.2 of this Decision. In approving the proposed sustainment capital expenditures, the Panel noted significant underspending relative to the approved budget for the two previous years. However, as the Panel has approved the rate freeze, and directed that only the variance between revenues received and actual cost of service expenditures, excluding O&M variances from allowed, be recorded in the RSDA, the Panel approves the forecast sustainment capital expenses. This approval is only provided in the context of these unique circumstances of this Application. The Panel is of the view that if this sustainment capital budget were to be used in another proceeding, it should be reduced to more closely reflect likely actual expenditures. In that circumstance, a more fulsome analysis of the sustainment capital budget, including an analysis of the timing of projects, would be more appropriate.

The Panel approves the two rate base accounts requested by FEVI – the 2014 RRA deferral account and the Generic Cost of Capital Application deferral account. The Panel notes that its approval is based on historical practice, but considers that the issue of approved return on FEVI's accounts warrants further exploration by the Commission. The Panel also approves the discontinuance of various deferral accounts as submitted by FEVI in the Application.

The Panel declines to approve the accounting policy changes and to set the amortization periods requested by FEVI at this time. However, in all cases, FEVI's requests are mirrored by FEI in its PBR Application. The Panel approves the adoption by FEVI, effective January 1, 2014, of the accounting policy changes and amortization periods approved for FEI in that proceeding.

1 INTRODUCTION

1.1 Background

FortisBC Energy (Vancouver Island) Inc. (FEVI), along with FortisBC Energy Inc. (FEI) and FortisBC Energy (Whistler) Inc. (FEW) is part of FortisBC Energy Utilities (FEU). Since 1995, FEVI has been operating under the *Vancouver Island Natural Gas Pipeline Act Special Direction* (Special Direction)[1]. The Special Direction is appended to the Vancouver Island Natural Gas Pipeline Agreement (VINGPA), an agreement between Centra Gas Vancouver Island Inc., a predecessor company to FEVI, the Province of British Columbia, and (by assignment from Westcoast Energy Inc.) FortisBC Holdings Inc. (FHI). (Exhibit B-1, p. 1)

Pursuant to the VINGPA, FEVI received gas royalty revenues from the Provincial Government of British Columbia through 2011. Additionally, as part of the Special Direction and the VINGPA, FEVI was approved to establish the Revenue Deficiency Deferral Account (RDDA) to hold annual revenue shortfalls through 2002. Thereafter, the British Columbia Utilities Commission (Commission) was directed by the Special Direction to set rates so as to permit the recovery of the RDDA as expeditiously as possible. The RDDA balance was fully eliminated by the end of 2009. (Exhibit B-1, p. 1)

The Special Direction states that it shall cease to have any application after the latest of three conditions occurring: (a) the time when the balance of the RDDA has been reduced to zero; (b) the expiration/termination of the Joint Venture Transportation Service Agreement, but no later than January 1, 2011; or (c) the date of the termination of the Squamish Gas Transportation Service Agreement. As condition (c) continues to be in effect, FEVI is still operating under the Special Direction. (Exhibit B-1, p. 2)

As part of the 2010-2011 FEVI Revenue Requirements and Rate Design Decision[2], the Commission approved FEVI's request to freeze rates for 2010 and 2011 for Core Market customers. The Commission also approved the surplus revenue that resulted from this rate freeze to be captured in

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[1] OIC No. 510 (Dec. 13, 1995) made pursuant to the *Vancouver Island Natural Gas Pipeline Act*, R.S.B.C. 1996, c. 474.
[2] Order G-140-09

a newly established Rate Stabilization Deferral Account (RSDA). The purpose of the RSDA was to accumulate revenue which would later be used to offset the loss of royalty revenues and mitigate the impact of forecast rate increases. (Exhibit B-1, pp. 1-2)

As part of the 2012-2013 FEU Revenue Requirements and Rates Decision,[3] the Commission approved rates to remain frozen for FEVI's Core Market customers.

2 THE APPLICATION

2.1 Original Application

On September 25, 2013, FEVI submitted its 2014 Revenue Requirements Application (RRA) for approval of permanent rates, at the same level as 2013 rates, effective January 1, 2014, pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA)[4] and section 2.1 of the Special Direction. The Application requests approval of rates for Core Market sales and transportation customers, other than those who have specified rates in their transportation service agreements (Exhibit B-1, p. 4). If approved as submitted, the rate freeze will result in a forecast revenue deficiency of $10.431 million which would be allocated to the RSDA as a reduction to its accumulated surplus. FEVI projects an ending 2013 accumulated surplus in the RSDA of $73.154 million, net of tax. (Exhibit B-1, Table A1-1, p. 2)

2.2 Application Amendment

On December 13, 2013, FEVI filed an Application Amendment to reflect changes to the approvals sought as a result of the Province of British Columbia issuing Special Direction No. 5[5] to the Commission. Sections 3(a) and 3(b) of Special Direction No. 5 state:

> "In setting rates under the Act for a utility, the Commission must do all of the following:

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[3] Order G-44-12
[4] R.S.B.C. 1996, c. 473.
[5] Order in Council No. 557, November 27, 2013. In force, November 28, 2013 (B.C. Reg. 245/2013).

(a) treat CNG service and LNG [liquefied natural gas] service, and all other costs and revenues related to those services, as part of the utility's natural gas class of service;

(b) allocate all costs and revenues related to CNG service and LNG service to all applicable customers."

The amendment removed the original request for approval of the creation of a Greenhouse Gas Reductions Regulation (GGRR) Compressed Natural Gas (CNG) class of service. The amendment also included an updated cost of gas forecast based on the five-day average forward prices used in the FEVI 2013 Fourth Quarter Report. (Exhibit B-1-2, p. 1)

2.3 Evidentiary Update

On January 10, 2014, FEVI filed an Evidentiary Update with the Commission to reflect changes to the forecast revenue deficiency resulting from the Application Amendment, as well as certain revisions made to the 2013 Projection and 2014 Forecast which were identified in FEVI's responses to the first round of Information Requests (IRs). The resulting revised forecast revenue deficiency for 2014 is $8.370 million and the revised forecast 2014 closing RSDA balance, net of tax, is $68.232 million. (Exhibit B-7, Tables 1 and 2, pp. 1-3)

2.4 Approvals Sought

FEVI seeks the following approvals in its Application Amendment:

a) Approval of permanent rates for FEVI effective January 1, 2014 for Core Market sales and transportation customers, other than customers who have applied rates in their transportation service agreements, at the same level as 2013 rates.

b) Approval of FEVI's forecast Cost of Service for 2014, as set out in Attachment 1 of Exhibit B-7 and amended to $195.348 million in response to BCUC IR 2.16.3.

c) Approval of FEVI's forecast capital expenditures for 2014.

d) Approval of FEVI's forecast revenue for 2014 based on its proposed rates, as set out in Attachment 1 of Exhibit B-7.

e) Approval of the revised forecast gross Operations and Maintenance (O&M) expenditures for 2014 of $36.643 million, subject to adjustment to the corporate and shared services allocations as may be determined by the Commission.

f) Approval of the 2014 forecast cost of gas.

g) Approval for the difference between the net revenues received and the actual cost of service, excluding O&M variances from allowed, to be allocated to the RSDA.

h) Approval of the discontinuance, modification, and creation of deferral accounts, and the amortization and disposition of balances of deferral accounts.

i) Approval of changes in accounting policies to be used in the determination of revenue requirements for FEVI effective January 1, 2014.

j) Approval of the allocation of costs for corporate services between FortisBC Holdings Inc. and FEVI and for Shared Services as between FEI and FEVI, as reflected in the Corporate Services Agreement and Shared Service Agreements in accordance with the Commission's Decision on these allocations in FEI's 2014-2018 Multi-Year Performance-Based Ratemaking proceeding.

3 THE PROCEEDING

3.1 Regulatory Framework

FEVI applies for Commission approval of FEVI's forecast Cost of Service and forecast capital expenditures for 2014 pursuant to section 2.10(a)(i) of the Special Direction and for its forecast revenue for 2014 pursuant to section 2.10(a)(ii) of the Special Direction. In addition, FEVI applies, pursuant to sections 59 to 61 of the UCA, for approval of forecast gross O&M expenditures and forecast cost of gas. (Exhibit B-1, pp. 4-5)

Sections 2.10(a)(i) and 2.10(a)(ii) of the Special Direction states:

> "Subject to Part 4 of this Special Direction, the BCUC shall determine Centra's [FEVI's] cost of service and shall make the various associated determinations, all as described in, and in accordance with, the following directions.
>
> (a) <u>General Principles</u>
> For each year in the period beginning January 1, 1996, Centra [FEVI] shall be regulated on a forecast test year basis and shall be required to apply to the BCUC for approval of its:
>
> I. (i) cost of service for each year and in conjunction therewith the BCUC shall determine the allowable capital additions to be made during such year and such other matters as the BCUC may deem appropriate for the determination of Centra's [FEVI's] cost of service; and
>
> II. (ii) projected revenue for such year inclusive of all Royalty Revenue Payments payable by the Province in respect of that year."

Sections 59-61 of the UCA contain provisions with respect to the Commission's rate setting powers. Whereas the Commission is given discretionary power in determining just and reasonable rates, that discretion is not without limits. For example, section 59(5) defines a rate as "unjust" or "unreasonable" if the rate is:

(a) more than a fair and reasonable charge for service of the nature and quality provided by the utility,

(b) insufficient to yield a fair and reasonable compensation for the service provided by the utility, or a fair and reasonable return on the appraised value of its property, or

(c) unjust and unreasonable for any other reason.

And in addition, pursuant to section 60(1)(b), in setting a rate under the UCA:

(b) the commission must have due regard to the setting of a rate that

- (i) is not unjust or unreasonable within the meaning of section 59,
- (ii) provides to the public utility for which the rate is set a fair and reasonable return on any expenditure made by it to reduce energy demands, and
- (iii) encourages public utilities to increase efficiency, reduce costs and enhance performance.

3.2 The Written Hearing Process

Pursuant to Order G-161-13 dated October 2, 2013, the Commission established a Preliminary Regulatory Timetable which contemplated one round of IRs followed by submissions from FEVI and Registered Interveners on further regulatory process. The Commission also approved FEVI's existing delivery rates to be set as interim effective January 1, 2014.

On December 17, 2013, the Commission issued Order G-217-13 establishing the Final Regulatory Timetable for review of the Application, which included the provision for a second round of IRs followed by a written hearing process.

FEVI submitted its Final Argument on February 20, 2014, and the British Columbia Pensioners' and Seniors' Organization *et al*. (BCPSO) and the Commercial Energy Consumers Association of British Columbia (CEC) submitted their Final Arguments on February 27, 2014. FEVI filed its Reply Argument on March 6, 2014.

3.3 Other Proceedings Impacting this Proceeding

3.3.1 Amalgamation

On February 26, 2014 by Order G-21-14, the Commission approved the amalgamation of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., FortisBC Energy (Whistler) Inc. and Terasen Gas Holdings Inc. on a three year phase-in basis, effective upon confirmation that:

(1) The Lieutenant Governor in Council has, by order, consented to amalgamation; and
(2) The amalgamation has been effected.

The Commission also approved FEU's proposal to adopt common rates for natural gas delivery in the service areas of FEI, FEVI and FEW, but excluding the service area of Fort Nelson.

In the Application, FEVI states that if the amalgamation and adoption of common rates is approved, FEVI plans to implement the PBR Plan that is approved for FEI in the PBR Proceeding, starting in 2015. (Exhibit B-1, p. 3)

3.3.2 FEI Performance Based Ratemaking Revenue Requirements 2014-2018

On June 10, 2013, FEI filed an Application for Approval of a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018 (PBR Application). That application has proceeded by way of, in part an oral hearing and in part a written hearing. The Final Arguments in the proceeding are due on June 12, 2014.

In its PBR application, FEI states that:

> "[t]he proposed PBR Plan establishes incentives for those elements of cost of service over which the Company has the greatest control: operating and maintenance (O&M) and capital expenditures. The formula results in targeted levels of spending in these areas that are lower than FEI's forecast of O&M and capital costs over the five year period…… This provides the Company with an incentive to invest in new efficiencies to meet the targets under the formulas. In addition, the PBR Plan includes a sharing mechanism that provides an opportunity for customers to share in the benefit to the extent that FEI exceeds the formula-based targets. For those items over which FEI has limited or no control, the PBR Plan maintains the same

> regulatory treatment as was used in the 2004 Plan through the use of flowthroughs and Annual Reviews. The PBR Plan provides 'off-ramps' should financial results or performance fall outside a band of reasonableness.[6]"

The formula-based approach to rate setting for 2014 through 2018 proposed in the PBR Application is based on approved expenditures in the "base year" of 2013. FEI submits that the "O&M Base for the 2014-2018 formula should be an O&M number that has undergone a full review in a public hearing.[7]"

Similarly, FEI has used the approved capital expenditures for 2013 from the FEU 2012-2013 RRA Decision as the starting point for the capital formula.[8]

In this application, FEVI has applied for approval of accounting policy changes and deferral account amortization periods that are intended to align with similar approval sought by FEI in the PBR proceeding.

Interveners in this proceeding commented on the use of expenditures approved in this proceeding in a subsequent PBR for FEVI. In particular, BCPSO "objects to the approved FEVI 2014 revenue requirement being used as FEVI's base costs in any PBR plan applicable to the amalgamated entity without further consideration and updating of those costs" (BCPSO Final Argument, p. 2). CEC "recommends that since PBR is out of scope in this proceeding, that the BCUC ensure the opportunity for full examination of all the costs and history in the context of PBR such that it may be included in the analysis and consideration of a PBR proposal under Amalco." (CEC Final Argument, p. 3)

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[6] FEI Performance Based Ratemaking Revenue Requirements 2014-2018, Exhibit B-1, p. 1
[7] FEI Performance Based Ratemaking Revenue Requirements 2014-2018, Exhibit B-1, p. 54
[8] FEI Performance Based Ratemaking Revenue Requirements 2014-2018, Exhibit B-1, p. 60

4 RATE FREEZE AND RATE STABILIZATION DEFERRAL ACCOUNT

As previously noted, FEVI seeks the Commission's approval to maintain current rates for 2014, with the difference between the net revenues received and the actual cost of service, excluding O&M variances from allowed, to be allocated to the RSDA (FEVI Final Argument, p. 1).

FEVI submits that maintaining the rate freeze is in the public interest and is the most reasonable option due to its unique circumstance of operating under the Special Direction since 1995. FEVI further submits that a continued rate freeze will maintain rate stability in the short-term and is the most appropriate course of action for 2014, given that unfreezing rates would require FEVI to conduct an updated cost of service allocation (COSA) study. (FEVI Final Argument, pp. 3, 5)

FEVI originally forecast a 2014 revenue deficiency of $10.431 million (Exhibit B-1, Table A1-1, p. 2). In the Evidentiary Update, the forecast revenue deficiency was revised downwards to $8.370 million. The major revision was a $2.086 million reduction to the Cost of Gas to reflect the five-day average forward prices used in the FEVI 2013 Fourth Quarter Gas Cost Report. (Exhibit B-7, Table 1, p. 3) FEVI forecasts an ending 2014 accumulated surplus in the RSDA of $68.232 million, net of tax. (Exhibit B-7, Table 2, p. 3)

4.1.1 <u>Intervener Arguments</u>

CEC agrees with FEVI that given the pending PBR proposal for FEI and the lack of information available from a COSA study, it is appropriate to continue the rate freeze for 2014. CEC further submits that a rate freeze is cost effective and provides for a smoother transition for ratepayers to common rates. (CEC Final Argument, p. 2)

BCPSO argues that FEVI's rationale that rates must remain frozen because a COSA study is required prior to unfreezing them, and that FEVI has not conducted a COSA study, is an "unacceptable interference" in the Commission decision-making process. BCPSO submits that FEVI has provided estimates regarding the rate impacts of unfreezing rates in response to BCUC IR 1.4.1 and updated estimates in response to BCUC IR 2.3.1 and these estimates are preferable to maintaining the historical rate which is known to be inaccurate and results in the under-recovery of the 2014 revenue requirements. (BCPSO Final Argument, p. 3)

BCPSO further submits that notionally, the RSDA now belongs to FEI ratepayers due to the Commission's decision in the Amalgamation Reconsideration[9] that directed the RSDA to be allocated to FEI ratepayers to smooth the transition to common rates. BCPSO states that in light of the Amalgamation Reconsideration Decision it cannot support using the RSDA to stabilize 2014 rates for FEVI ratepayers because this will deplete the RSDA and thus reduce the rate smoothing benefit for FEI ratepayers. (BCPSO Final Argument, pp. 2-3)

4.1.2 FEVI Reply Arguments

FEVI submits that because it had sought amalgamation and common rates with FEI effective January 1, 2014, and was seeking reconsideration of the Commission's initial decision of that matter when it filed this Application, it has been constrained in its ability to prepare a COSA study. In its view, "given that amalgamation and common rates were a possibility - and indeed have now been approved - it would not have been reasonable to invest the money to conduct a COSA study for FEVI alone." (FEVI Reply Argument, p. 2)

FEVI also argues that BCPSO's statement that the RSDA now belongs to FEI ratepayers is "factually incorrect." FEVI submits that the balance in the RSDA has accrued based on revenues collected from FEVI customers. Further, the Amalgamation Reconsideration Decision does not provide any direction on the use of the balance of the RSDA prior to amalgamation. Therefore, the RSDA can be used to stabilize rates for FEVI up to the time of amalgamation and common rates. (FEVI Reply Argument, p. 3)

Commission Determination

The Commission Panel approves FEVI's request to maintain the rate freeze for 2014. The Commission Panel further approves FEVI's request that the difference between the net revenues

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[9] In the Matter of FortisBC Energy Utilities (comprising FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc.), Application for Reconsideration and Variance of Commission Order G-26-13 on the FortisBC Energy Utilities' Common Rates, Amalgamation and Rate Design Application; Decision and Order G-21-14, February 26, 2014 (Amalgamation Reconsideration Decision).

received and the actual cost of service, excluding O&M variances from allowed, be allocated to the RSDA.

The Panel concurs with the view of FEVI that the RSDA does not now belong to FEI ratepayers. The RSDA has accrued from revenues collected from FEVI ratepayers that have been in excess of the cost of service incurred by FEVI. Accordingly, at this time, it is appropriate that the RSDA be used to supplement the cost of service, in the event that revenues are insufficient to cover those costs.

The Panel does not agree with BCPSO that FEVI's rationale for maintaining the rate freeze is an unacceptable interference in the Commission's ratemaking process. FEVI has provided sufficient rationale for not conducting a COSA study at this time. The Panel notes that the Commission directed FEU to file a Rate Design Application for the amalgamated entity no later than two years after the effective date of the amalgamation.[10] Given the likelihood of the amalgamation, and the subsequent COSA study, the Panel finds no compelling reason to direct a study at this time.

With regard to setting rates based on the estimates provided by FEVI, the Panel is not persuaded of the merit to this approach. In all likelihood, rates for FEVI customers will change as a result of the amalgamation and the subsequent COSA study and it is in the interest of FEVI customers that rates remain stable until that time.

In making this determination, the Panel notes that the projected 2013 accumulated surplus of $73.130 million, net of tax, is far in excess of the expected 2014 forecast revenue deficiency of $8.370 million. (Exhibit B-7, Table 2, p. 3)

5 REVENUE REQUIREMENTS

FEVI is applying for approval of its forecast cost of service of $195.348 million. The Panel approves this forecast cost with the exception of the following as further discussed in this Decision:

1. Reduction of $495,000 to the forecast Transportation Demand Charges.

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[10] Order G-21-14, Directive 5.

2. Reduction of $1,000,000 to the forecast O&M expenditures.
3. Increase of $586,000 to the forecast O&M expenditures related to proposed accounting policy changes which have not been approved by the Commission Panel.

5.1 Demand Forecast

FEVI submits that its demand forecast relies on three primary inputs:

- Forecast use per customer by customer class;
- Forecast customer additions by customer class; and
- Forecast demand from Industrial customers classes as determined by their annual contracts.

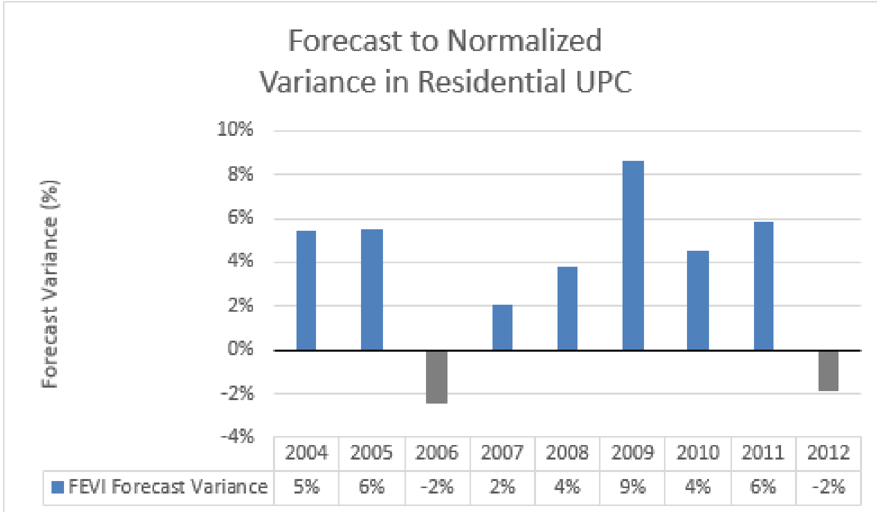
(Exhibit B-1, pp. 11-12)

FEVI states that its forecast of demand for natural gas is based upon a methodology that is consistent with that used in prior years, and provides a reasonable estimate of future natural gas demand for 2014. (Exhibit B-1, pp. 11-12)

FEVI's forecast overall volume for 2014 of 33.4 Petajoules (PJs) in the Original Application is comparable to 2012 and 2013 (Exhibit B-1, p. 11). This forecast demand was revised upwards to 34 PJs as part of FEVI's Evidentiary Update to take into account an increase in Industrial demand of 0.62 PJ (FEVI Final Argument, p. 6). For 2014, 91.2 percent or 95,858 of FEVI's customers are forecast to be in the residential rate class, 8.7 percent or 9,176 customers are forecast to be in the commercial rate classes, and 0.1 percent or 50 customers are forecast to be in the Industrial rate classes. FEVI forecasts that for 2014, the residential and commercial rate classes will account for 13 percent and 19 percent, respectively, of the demand, while the Industrial rate classes are forecasted to account for 68 percent. (Exhibit B-1, pp. 14-15)

5.1.1 Use per Customer (UPC)

Figure 1 - 2014 Residential UPC Historic Demand Forecast



(Source: Exhibit B-4, BCUC IR 1.8.3)

Figure 1 suggests that the magnitude and frequency of over forecasts in Residential UPC are greater than under-forecasts in UPC. FEVI asserts that it does not intentionally prepare an optimistic forecast for any particular rate class, states: "We have and continue to use a regression based forecast if a significant trend exists, and in the absence use a three year average." (Exhibit B-4, BCUC IR 1.8.3.1)

FEVI also states that Figure 1 shows an average variance from 2004 through 2012 of 3.5 percent. In its view, a historical 3.5 percent forecast variance in residential use per customer is satisfactory. In support of its position that its forecast is satisfactory, FEVI states that "due to the existence of the RSDA, there is no reason for FEVI to be either optimistic or pessimistic in its forecast. FEVI does not benefit in any way by either over or under forecasting. This statement is true whether or not a statistical bias in historical forecast variances can be determined when utilizing different tests." (Exhibit B-4, BCUC IR 1.8.3.1; Exhibit B-10, BCUC IR 2.6.1)

FEVI also points out that the forecast is used for the Annual Contracting Plan (ACP), RRA/PBR forecasts filed with the Commission, the Long Term Resource Plan and other requirements. It submits that calculations are consistent from forecast to forecast and from company to company and that a *"naïve"* forecast could not fulfill all these forecasting requirements, nor could it reasonably be applied to forecasts that exceed one year. (Exhibit B-10, BCUC IR 2.6.1)

FEVI is of the view that:

> "maintaining multiple forecasts for different purposes and companies, each using different methods, would require more staff and increase costs while leading to conflicting results, all of which would have no benefit for customers. In response to the question of statistical bias, inferential statistics such as t-tests rely heavily upon the assumption of normality." (Exhibit B-10, BCUC IR 2.6.1)

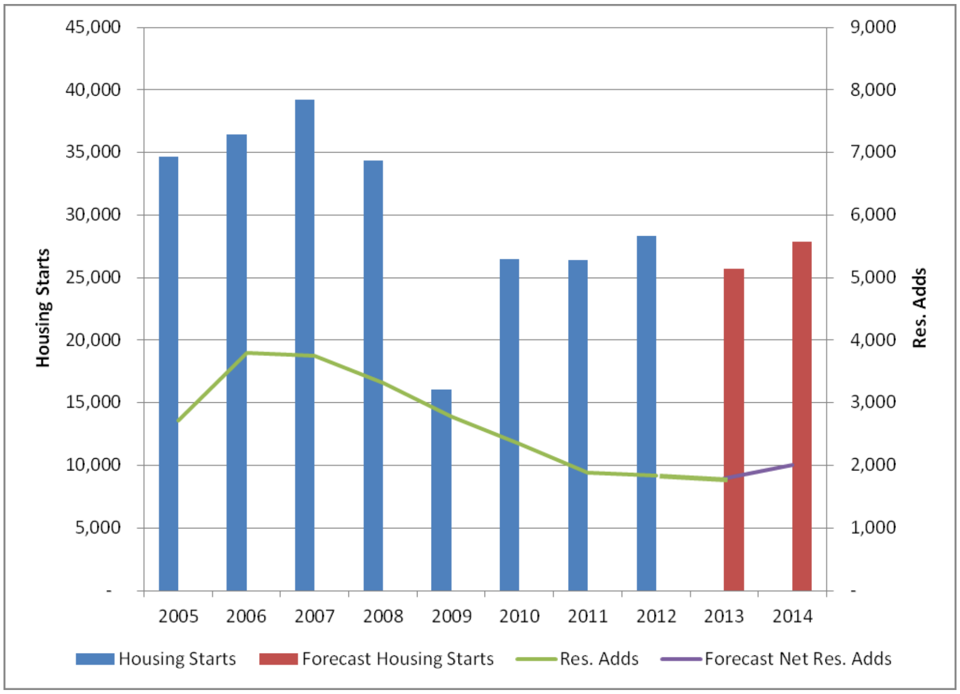
In addition, FEVI takes issue with the number of data points in the "*naïve*" forecast. It submits that:

> "given a total of 9 data points, the normality assumption is violated and thus, the resulting analysis is invalid. In other words, there are not enough data points to provide a statistically valid result. FEVI conducted the small sample runs test to deal with the small sample size issue. While this test is more appropriate given the small sample size, the analysis was inconclusive with regards to the presence of forecast bias." (Exhibit B-10, BCUC IR 2.6.1)

5.1.2 Customer Additions

With regard to customer additions, FEVI states that long term housing starts forecast data by housing type is only available at the provincial level from Conference Board of Canada (CBOC) so Provincial housing starts are used as a proxy for future customer growth across all regions, including FEVI (Exhibit B-9, CEC IR 2.1.1). Figure 2 shows the correlation provided by FEVI in the Application.

Figure 2 - Customer Additions and Housing Starts



(Source: Exhibit B-1, p. 19, Figure B1-6)

FEVI states that the correlation statistic for the data shown in Figure 2 is over 90 percent. For this reason, the CBOC housing starts forecast is an appropriate proxy of the Company's customer additions forecast. However, when asked to provide the full data set and the method of calculation that result in this correlation statistic of 90 percent, FEVI stated that Figure B1-6 incorrectly shows the FEVI net residential customer additions compared to Provincial housing starts. To provide the appropriate comparison, FEVI intended to show the FEU (not FEVI) net residential customer additions compared to Provincial housing starts, where the correlation statistic is over 90 percent. (Exhibit B-1, p. 19; Exhibit B-9, CEC IR 2.1.1)

FEVI states that correlation analysis was conducted using the Excel analysis tool:

> "Correlation analysis conducted is based on Pearson correlation statistics of correlation coefficient. The correlation analysis is useful to examine each pair of measurement variables to determine whether the two measurement variables tend to move together and how strong the association is between the measurement variables tend to move together and how strong the association is between the two." (Exhibit B-9, CEC IR 2.1.1)

5.1.3 Industrial Demand

For the 2014 test year, FEVI forecasts no customer growth for the Industrial customers (Exhibit B-1, p. 24). Demand from the Industrial rate classes is forecast to remain at approximately 23.2 PJs based on current contracts (Exhibit B-10, BCUC IR 2.5.1). FEVI states in response to CEC IR 1.5.4 that in the Industrial rate group, a very small number of customers account for the majority of the load, which is why the Industrial customer group did not experience a corresponding increase in demand relative to customer additions (Exhibit B-3, p. 9). FEVI further states in response to CEC IR 1.4.3 that it is heavily reliant on throughput and revenue from two major Industrial customers: (i) the Vancouver Island Gas Joint Venture and (ii) BC Hydro for Island Generation in Campbell River (Exhibit B-3, p. 6).

FEVI submits in its response to BCUC IR 2.5.2 that it will review the methodology for its Industrial demand forecast in its next rate design (Exhibit B-10, p. 20).

5.1.4 Intervener Arguments

CEC submits that given the variation in the accuracy of many of the components of the demand forecast, it is most suitable to view the FEVI demand forecast with caution. In its view, such variances in forecasting are indicative of relatively poor forecasting and are illustrative of a less than appropriate demand forecast. CEC expresses a specific concern that FEVI's forecasting, which is consistent with and used for several purposes, results in a 3.5 percent variance (or 4.3 percent variance for RGS) and -17 percent variance for commercial customers. CEC submits that regardless of whether or not a statistical bias is identifiable or beneficial to the company, a variance of such magnitude is cause for concern. In this instance, CEC does not recommend a different UPC to be included in the demand calculation and as such accepts FEVI's UPC for these purposes at this time. (CEC Final Argument, pp. 4-5)

CEC is also critical of FEVI's customer additions forecast, noting that the correlation between Provincial housing starts and FEVI net residential customer additions does not appear to be as well correlated as that for FEU. CEC provides its own analysis of the correlation between Provincial housing starts and FEVI net residential additions "from the evidence on the record." CEC submits: "While the calculation uses fewer data points than those used in the FEU analysis, the correlation between provincial housing starts and FEVI net residential additions is only 60.6% over the course of seven years." (CEC Final Argument, p. 5)

CEC submits that such variances in forecasting are indicative of relatively poor forecasting. CEC submits that the variances demonstrated in the UPC are illustrative of a less than appropriate demand forecast. However, it also submits that given that the demand forecast will not influence the cost to ratepayers given the rate freeze, nor the revenue requirement as a result of the RSDA, CEC considers the demand forecast to be acceptable in this context. (CEC Final Argument, pp. 4-5)

5.1.5 FEVI Reply Arguments

With regard to customer additions, FEVI responds that its use of CBOC provincial forecast as the basis of forecasting demand in 2014 is the best evidence on the record and is consistent with past practice.

It argues that the calculated correlation between Provincial housing starts and FEVI net residential additions using the Pearson correlation program provided by CEC is new evidence and submits that "CEC should have filed this analysis and calculation prior to the close of the evidentiary record so that its veracity could have been tested and responded to by FEVI. FEVI submits that the evidence should be disregarded by the Commission." (FEVI Reply Argument, p. 4)

Commission Determination

The Panel accepts the demand forecasts submitted by FEVI for 2014. The Commission Panel agrees with CEC that the demand forecast may be subject to inaccuracies and should be viewed with caution. However, the Panel has previously determined that the rate freeze will remain in effect. The demand forecast is not required in order to set rates. Accordingly, the Panel accepts the demand forecast in the unique circumstances of this Application, namely the rate freeze.

FEVI seeks approval for the difference between the net revenues received and the actual cost of service, excluding O&M variances from allowed, to be allocated to the RSDA. Inaccuracies in the demand forecasts may impact forecast O&M expenditures and could also potentially impact forecast growth capital spending. In the case of potential O&M forecast inaccuracies, the RSDA would be impacted as it is the forecast as opposed to the actual O&M expenditures which are recorded in the RSDA. The Panel will deal with these issues in sections 5.4 and 5.5.2 of this Decision.

5.2 Other Revenues

FEVI states that the levels of Other Revenue and Transportation Costs for 2014 are expected to be consistent with prior years, with no major variations expected. Any variations that do occur will be captured in the RSDA for future refund to, or recovery from, customers. (Exhibit B-1, p. 37)

Table 1 shows FEVI's 2014 forecast Other Operating revenue along with Actual, Approved and Projected for 2012 and 2013.

Table 1 - 2012 to 2014 Other Revenue Components

Other Operating Revenue, ($ thousands)					
	Actual 2012	**Approved 2012**	**Projected 2013**	**Approved 2013**	**Forecast 2014**
Late Payment Charges	$447	$223	$224	$224	$226
Connection Charge	328	339	393	409	400
NSF Returned Cheque Charges	7	3	3	3	3
Other Recoveries	36				
CNG Compression Revenue					153
FEVI LNG Costs transferred to Commodity	2,102	2,102	2,102	2,102	2,103
NGT Overhead and Marketing Recovery					8
Langford Operations CNG Pump Charges					
LNG Mitigation Revenue from FEI	15,947	15,937	15,937	15,937	15,936
Total Other Operating Revenue	**$18,867**	**$18,864**	**$18,659**	**$18,675**	**$18,829**

(Source: Exhibit B-10, BCUC IR 2.1.4)

No Intervener commented on FEVI’s Other Revenue forecast.

Commission Determination

The Panel approves FEVI’s Other Revenue forecast.

5.3 Cost of Gas

FEVI's projected cost of gas is shown in Table 2.

Table 2 - Cost of Gas

	Amounts in $ Thousands				
	2012 Actual	2012 Approved	2013 Projected (per FEVI Q4)	2013 Approved	2014 Forecast (updated)
Commodity	$ 31,945.9	$ 32,490.2	$ 36,953.0	$ 39,696.2	$34,262.0
Transportation Demand Charges	6,508.9	7,200.6	7,786.2	7,438.3	10,881.6
Storage Demand Charges	5,354.7	5,543.1	5,393.7	5,581.0	5,435.8
Hedging Cost / (Gain)	22,735.0	22,200.3	18,830.9	17,535.2	15,060.1
Gas Supply Management Costs	629.1	657.7	673.8	673.3	691.8
Total Cost of Gas	**$ 67,173.6**	**$ 68,091.9**	**$ 69,637.6**	**$ 70,924.0**	**$66,331.3**
Sales Volumes *(in TJ)*	11,489.2	11,773.9	11,319.3	11,860.5	10,993.0
Unit Cost of Gas *($/GJ)*	**$ 5.85**	**$ 5.78**	**$ 6.15**	**$ 5.98**	**$ 6.03**

(Source: Exhibit B-1-2, Table B2-1, p. 32)

5.3.1 Unit Cost of Gas

FEVI seeks approval of a unit cost of gas of $6.03/GJ for 2014. It states that forecast gas costs included in the Application Amendment for 2014 are based on the NYMEX natural gas futures five-day average forward prices at November 8, 11, 12, 13 and 14 (November 14, 2013 Five-Day Average Forward Prices). The November 14, 2013 Five-Day Average Forward Prices align with the commodity forward prices used in the FEVI 2013 Fourth Quarter Report on the Gas Cost Variance Account (GCVA) and the RSDA, submitted to the Commission on November 20, 2013. (Exhibit B-1-2, p. 32)

FEVI further states that variances between the actual incurred unit cost of gas and the approved forecast unit cost of gas are captured in the GCVA for amortization through future rates. Other variances in cost of gas flow through the RSDA. The FEVI forecast gas costs are also required to determine a number of revenue requirement line items that form part of this Application. (Exhibit B-1, p. 32)

5.3.2 Intervener Arguments

CEC submits that it is appropriate to approve the cost of gas, as set out in the application, subject to the approved forecast for the cast of gas being adjusted, if required, to reflect the Core Market Administration Expense (CMAE) budget approved by the Commission (CEC Final Argument, p. 9).

Commission Determination

The Panel accepts FEVI's projected unit cost of gas of $6.03/GJ for 2014 as the basis for its Cost of Gas calculations, with the exception of the Panel's requirement for FEVI to reduce the 2014 Transportation Demand Charges forecast, as discussed in section 5.3.3 of the Decision.

5.3.3 Transportation Demand Charges

As shown in Table B2-1 of the Application Amendment, Transportation Demand Charges increased from $7.786 million (2013 Projected per FEVI Q4) to $10.882 million (2014 Forecast updated), a net increase of $3.095 million. (Exhibit B-1-2, p. 32)

FEVI explains that Transportation Demand Charges are related to tolls set by Spectra for service on its T-South System. The determination of the tolls is based on Spectra's cost of service (rather than market prices) and the level of contracted capacity. (Exhibit B-4, BCUC IR 1.14.1; BCUC IR 1.14.4)

FEVI further explains that there are two reasons for the increase in Transportation Demand Charges:

i. additional transportation service in sourcing FEVI's seasonal supply at Station 2 instead of Huntingdon as set out in the 2013/2014 Annual Gas Contracting Plan; and

ii. increased Westcoast tolling charges on July 1, 2013 and again on January 1, 2014.

With regard to the first reason, FEVI notes that the incremental cost for the 2014 calendar year forecast associated with the additional transportation capacity FEVI contracted on Westcoast's T-South system for sourcing additional seasonal supply at Station 2 is approximately $2.0 million. (Exhibit B-10, BCUC IR 2.13.1)

With regard to the second reason, FEVI notes that the incremental cost for the 2014 calendar year forecast associated with Westcoast's increased tolling charges is as follows: an increase of approximately $0.4 million for the tolls effective July 1, 2013, and a further increase of $0.2 million for the tolls effective January 1, 2014. The toll change on July 1, 2013 affected T-South only, while the toll change on January 1, 2014 affected both the T-South and T-North systems. (Exhibit B-10, BCUC IR 2.13.1)

There were no Intervener comments on the issue of Transportation Demand Charges.

Commission Determination

The impacts of additional transportation capacity of T-South and increased tolling charges total $2.6 million. However, the net increase of Transportation Demand Charges from 2013 Projected to 2014 Forecast is $3.095 million as noted above. There is no evidence of any other incremental Transportation Demand Charges to account for the remaining incremental amount of $0.495 million [$3.095-$2.6 million]. Accordingly, the Panel rejects FEVI's proposed Transportation Demand Charges of $10.882 million as the incremental increase of $3.095 million from $7.786 to $10.882 million is not reconcilable. **The Panel directs FEVI to reduce its Updated 2014 Forecast for Transportation Demand Charges by $495 thousand, which would result in a revised Transportation Demand Charge amount of $10.387 million.**

5.3.4 Unaccounted for Gas

Unaccounted for gas (UAF) refers to gas that is not specifically accounted for in the gas energy balance of receipts, deliveries, and operations use. UAF includes measurement variances and line loss of gas that is flowing in the transmission and distribution systems. Consistent with past practice, the forecast UAF is calculated based on the average historical recorded UAF percentages and the forecast cost of UAF is included in the cost of gas and recovered as part of Core Market rates. (Exhibit B-1, p. 33)

FEVI forecasts the cost of UAF gas as 1.9 percent of Sales in 2014, based on a five-year average recorded UAF percentage. FEVI states that "The Commission has accepted UAF forecasts based on this methodology for many years" (Exhibit B-10, BCUC IR 2.15.2). Table 3 shows UAF Quantities (in TJ) for the years 2008 to 2014.

Table 3 - Historic UAF Quantities

	UAF (TJ) (1)	Sales (TJ) (2)	UAF as % of Sales (3)=(1)/(2)		UAF (TJ) (4)	Sales (TJ) (5)	UAF as % of Sales (6)=(4)/(5)	Variance (TJ) (7)=(4)-(1)	Variance (%) (8)=(7)/(1)
2008 Approved	128.1	12,465.6	1.0%	2008 Recorded	400.5	12,420.2	3.2%	272.4	213%
2009 Approved	133.1	12,635.9	1.1%	2009 Recorded	199.8	12,270.3	1.6%	66.7	50%
2010 Approved	134.4	12,241.2	1.1%	2010 Recorded	143.6	11,551.5	1.2%	9.2	7%
2011 Approved	136.4	12,432.6	1.1%	2011 Recorded	264.0	12,526.2	2.1%	127.6	94%
2012 Approved	198.0	11,773.9	1.7%	2012 Recorded	169.7	12,049.5	1.4%	(28.3)	(14%)
2013 Approved	199.4	11,860.5	1.7%	2013 Projected [a]	152.8	11,206.7	1.4%	(46.6)	(23%)
2014 Forecast	208.9	10,993.0	1.9%	2014 Forecast	208.9	10,993.0	1.9%	-	0%

Notes: (a) The projected UAF includes January-June actual UAF of 60.9 TJ (or 1.0% of sales), and July-December forecast UAF of 91.9 TJ (or 1.9% of sales).

(Source: Exhibit B-4, BCUC IR 1.17.2)

A UAF study of 161 American natural gas utilities conducted by the American Gas Association (AGA) indicates that there is a wide range in UAF percentages experienced. The study shows that of the 161 utilities, the maximum UAF was plus 5.95 percent and the minimum was minus 7.5 percent. The weighted average of lost and unaccounted for gas in 2011 is 0.90 percent and the non-weighted median is 0.42 percent, with the first quarter of 0.42 percent and third quartile of 1.64 percent. (Exhibit B-10, BCUC IR 2.15.1, Attachment 15.1)

FEVI submits that its UAF as a percentage of sales is well within the range experienced by other utilities. UAF is caused by many factors, which FEVI does not fully control. Given the uncontrollable nature of UAF and wide variations from year-to-year, FEVI states that its method of forecasting UAF is based on a five-year average and is reasonable. (FEVI Final Argument, p. 12)

BCPSO and CEC did not raise any issues with the FEVI's UAF forecast or FEVI's forecasting methodology.

Commission Determination

FEVI's estimate of UAF gas, at 1.9 percent, is more than twice the weighted average of 0.9 percent found in the AGA study. Further, it is an increase over the previous year. The Panel notes that at no time in the past five years has FEVI's UAF gas been less than 0.90 percent - the lowest it has been is 1.2 percent.

The Panel is concerned about the amount of FEVI's UAF gas, from both an economic and a potential safety perspective. However, there is no evidence in this proceeding as to what could potentially account for this UAF level. **The Panel directs FEVI to file with the Commission, within six months of the date of this Decision, a further analysis of this issue, along with a mitigation strategy, if warranted**.

In these circumstances, the Panel accepts FEVI's estimate of UAF gas for the purpose of this Application.

5.3.5 Company Use Gas

The Vancouver Island system requires company use gas to fuel line heaters and compressors in order to deliver natural gas to customers in a safe and efficient manner. Company use gas consumed as FEVI line heater and compressor fuel is included in the cost of gas, consistent with past practice. Company use gas that is used within FEVI's offices and buildings is a Facilities' cost and is included in O&M. (Exhibit B-1, p. 33)

No Interveners commented on FEVI's company use gas forecast for 2014.

Commission Determination

The Panel accepts FEVI's forecast for company use gas as put forth in the Application.

5.3.6 Gas Supply Management Costs

FEVI states that the gas supply management costs cover the gas supply and gas control functions to provide reliable, secure and cost effective supplies of gas for FEVI core customers. These costs include an allocation of the consolidated CMAE and the charges for gas control services related to operating the FEVI transmission system. The FEI Gas Control group provides the labour resources and Supervisory Control and Data Acquisition system used for monitoring and operating the Vancouver Island transmission system. (Exhibit B-1, p. 33)

The CMAE forecast included in the FEVI 2014 cost of gas is approximately $461 thousand based on the estimated 2014 consolidated CMAE budget, which will be submitted for Commission review and approval as part of the FEI 2013 Fourth Quarter Gas Cost Report. FEVI states that the Commission has previously approved an allocation to FEVI cost of gas of 10 percent of the consolidated CMAE. The forecast annual gas control services charge to FEVI for 2014 is approximately $229 thousand; the gas control services charge is subject to increase by an inflation factor over time. (Exhibit B-1, p. 33)

No Interveners commented on FEVI's Gas Supply Management Costs.

Commission Determination

The Panel notes that the 2014 consolidated CMAE budget is subject to review by the Commission. Accordingly, the Panel makes no determination on this issue at this time.

For the limited purpose of this Application, the Panel accepts FEVI's Gas Supply Management Costs as reasonable.

5.4 Operations & Maintenance Expenses

In recent years, FEVI's O&M expenditures have been well below what has been forecast and approved by the Commission. The question the Commission Panel must address is whether this trend of over forecasting is likely to continue or whether, as FEVI asserts, the O&M amounts requested are needed to allow it to carry out its utility services appropriately.

FEVI requests approval of its gross O&M expenditures for 2014 of $36.643 million, subject to adjustment to the corporate and shared service allocations as may be determined by the Commission (Exhibit B-10, Attachment 2.16.3, p. 5). FEVI's 2014 O&M forecast represents an increase of $459 thousand over 2013 Approved amounts, and an increase of $2.815 million over 2013 Actual amounts (Exhibit B-10, BCUC 2.16.3). FEVI submits that approximately $442 thousand of the increase in O&M is due to Provincial Sales Tax (PST) and pension adjustments, which represent costs that are outside of its control, or accounting changes that adjust the allocation of costs between O&M and capital (Exhibit B-1, Table B4-2, p. 39; FEVI Final Argument, p. 13).

Table 4 - FEVI Forecast O&M Reconciliation ($ thousands)

	2013 Actual	PST (full year)	Pension/ OPEB	Pension/ Retiree	Capitalization Software Costs	Inflation	Other	2014 Forecast
Operations	12,441	75	794	391		293	12	14,006
Customer Service [1]	4,154	-	-	-		85	347	4,586
Energy Solutions & External Relations	2,353	3	108	53		51	240	2,808
Energy Supply & Resource Dev	94	-	-	-		2	6	102
Information Technology	381	0	11	5		8	34	441
Engineering Services & PM	517	1	18	9		9	(111)	442
Operations Support	199	-	8	4		5	106	322
Facilities	509	3	-	-		10	60	582
Finance & Regulatory Services	491	0	-	-		8	(29)	471
Governance	1,023	-	-	-		1	276	1,300
Corporate	11,665	1	7	(849)	(200)	29	930	11,583
	-							
	33,828	82	946	(386)	(200)	501	1,872	36,643

1 2013 Actual excludes Customer Service deferred O&M

(Source: Exhibit B-10, BCUC IR 2.16.3, p. 70)

Table 4, provided in response to BCUC IR 2.16.3, characterizes $1.872 million of the increase between 2013 Actual and 2014 Forecast as “Other.” In its Reply Argument, FEVI submits that of this $1.872 million, $677 thousand is related to customer growth, which it calculates by multiplying the 2013 Actual O&M of $33.828 million by the 2014 customer growth forecast of 2 percent. FEVI further submits that $185 thousand of the “Other” increase to O&M is related to insurance that was captured in a deferral account in 2013 and $600 thousand is related to an increased shared services allocation that is subject to separate approval in the FEI PBR Application (FEVI Reply Argument, p. 6).

In response to BCUC IR 2.17.1, FEVI provides a table which shows the historical Actual and Approved O&M extending back to 2007. FEVI notes that the 2007 to 2009 Approved O&M are excluded from the table as O&M was determined by a formula that year with no breakdown by department.

Table 5 - Departmental O&M Summary ($ thousands)

Departmental O&M Summary ($ thousands)

Department	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2010 Approved	2011 Actual	2011 Approved	2012 Actual	2012 Approved	2013 Actual	2013 Approved	2014 Forecast
Operations	8,521	9,389	9,380	9,780	10,476	10,770	11,513	11,478	12,570	12,441	13,460	14,006
Customer Service [1]	4,464	4,566	4,635	4,936	5,281	5,280	5,459	4,541	5,257	4,154	5,599	4,586
Energy Solutions & External Relations	1,508	1,689	1,462	1,417	1,410	1,381	1,464	1,937	2,124	2,353	2,161	2,808
Energy Supply & Resource Dev	-	(4)	-	-	-	-	100	45	100	94	100	102
Information Technology	484	452	420	387	423	413	421	390	422	381	426	441
Engineering Services & PM	348	456	456	869	510	814	505	309	523	517	520	442
Operations Support	175	150	131	114	172	169	175	145	154	199	157	322
Facilities	1,404	1,424	1,521	1,460	1,521	1,590	1,618	1,442	1,463	509	539	582
Finance & Regulatory Services	260	302	312	381	381	431	383	461	474	491	472	471
Governance	719	723	742	870	899	1,148	921	960	1,063	1,023	1,114	1,300
Corporate	6,866	6,876	7,454	9,636	10,158	9,527	10,144	11,395	11,946	11,665	11,636	11,583
Total O&M	24,748	26,022	26,514	29,852	31,231	31,522	32,702	33,103	36,095	33,828	36,184	36,643

1 Excludes deferred Customer Service O&M for 2012 and 2013 Actual

(Source: Exhibit B-10, BCUC IR 2.17.1, p. 73)

Based on the information in Table 5, FEVI's Actual O&M results for the years 2010 through 2013 have averaged $1.977 million less than Approved amounts.

As outlined in Table 6 below, FEVI separates savings into those that are temporary and those that are sustainable and will apply to future periods. In response to BCUC IR 2.20.2, FEVI states that it "considers lower actual spending that is sustainable to be a productivity improvement, since it results in a lower cost base going forward, all else being equal." Temporary savings are those that will not be applied to future periods. FEVI states that forecast errors are always a possibility, but are usually of a temporary or timing nature. Such "variances may be caused by any number of events that cause spending to temporarily vary from normalized levels that form the basis of O&M funding requirements." (Exhibit B-10, BCUC IR 2.20.2)

When asked to separate the variances between Approved and Actual O&M results for 2012 and 2013 into temporary and sustainable savings, FEVI provided Table 6 and Table 7:

Table 6 - 2012 Department O&M Review ($ thousands)

2012 Department O&M Review ($ thousands)

	2012 Actual	Customer Service Deferral	2012 Sustainable Savings	2012 Temporary Savings	2012 Approved
Operations	11,478		616	476	12,570
Customer Service	4,541	754	-	(38)	5,257
Energy Solutions & External Relations [1]	1,937		-	187	2,124
Energy Supply & Resource Dev	45		-	55	100
Information Technology	390		11	21	422
Engineering Services & PM	309		114	100	523
Operations Support	145		-	9	154
Facilities	1,442		-	21	1,463
Finance & Regulatory Services	461		12	1	474
Governance	960		-	103	1,063
Corporate	11,395		-	551	11,946
Total O&M [1]	33,103	754	752	1,487	36,095

1 2012 Approved amount for ES&ER and Total O&M has been been reduced by $37 thousand for non-reg community involvement

(Source: Exhibit B-4, BCUC IR 1.19.1, p. 78)

Table 7 - 2013 Department O&M Review ($ thousands)

2013 Department O&M Review ($ thousands)

	2013 Actual	2013 Customer Service Deferral - Sustainable Savings	2013 Customer Service Deferral- Temporary Savings	2012 Sustainable Savings	2013 Sustainable Savings	2013 Temporary Savings	2013 Approved
Operations	12,441			616	264	139	13,460
Customer Service [1]	4,154	1,013	189		98	145	5,599
Energy Solutions & External Relations	2,353			-	(138)	(54)	2,161
Energy Supply & Resource Dev	94			-	-	6	100
Information Technology	381			11	-	34	426
Engineering Services & PM	517			114	-	(111)	520
Operations Support	199			-	(62)	20	157
Facilities	509			-	-	30	539
Finance & Regulatory Services	491			12	(8)	(23)	472
Governance	1,023			-	-	91	1,114
Corporate	11,665			-	(404)	375	11,636
Total	33,828	1,013	189	753	(250)	652	36,185

(Source: Exhibit B-10, BCUC IR 2.18.2, p. 77)

According to Table 6, FEVI reports that it achieved sustainable savings of $0.752 million and temporary savings of $1.487 million in 2012. In 2013, FEVI reports no sustainable savings and temporary savings totalling $0.652 million. Based on the information in Tables 6 and 7, it is apparent that much of the savings, notwithstanding amounts allocated to the Customer Service Deferral Account, have been described by FEVI as "Temporary."

In its response to BCUC IR 1.21.1, FEVI states that it does not have a formalized policy on productivity, but a productivity focus is considered a priority throughout the Company. FEVI further states that departments are not expected to formally document and quantify all productivity initiatives and related savings. FEVI submits: "FEI and FEVI believe productivity improvements and their sustainment should be measured and tracked at the highest and most beneficial level which is the company's total O&M spending year-over-year." (Exhibit B-4, BCUC IR 1.21.1, p. 84)

5.4.1 Intervener Arguments

CEC submits that FEVI's history of O&M spending is not "satisfactorily illustrative of appropriate utility productivity" (CEC Final Argument, p. 10).

CEC takes issue with FEVI's statement in response to BCUC IR 1.10.4 that there is alignment between O&M and total customers, noting that from 2008 to 2010 the customer count increased by 6.5 percent while costs increased by 4 percent. By contrast, in the period between 2010 and 2012, the customer count increased by 6 percent and total costs by 17 percent and in the 2012 to 2014 period, a customer increase of 2 percent and a cost increase of 22 percent. CEC submits "such a pattern is more indicative of O&M being only peripherally related to customer count, and is certainly not an appropriate designation as correlated driver." (CEC Final Argument, p. 11)

CEC also submits:

> "Whether or not this consistent underspending is the result [of] productivity gains, the forecasting methodology utilized (e.g. justifying an inflation provision against previously approved amounts rather than previous spending), or some other factor, it is not appropriate to continually allow for inflated budgets to be approved." (CEC Final Argument, p. 11)

CEC's position is that significant weight should be given to FEVI's history of under spending by the Commission in approving FEVI's 2014 O&M forecast. (CEC Final Argument, p. 11)

CEC submits that FEVI's 2014 O&M forecast should be reduced by $636 thousand. In its view, the budget for each department should be adjusted to reflect productivity improvements. Most significant of these are Operations at a reduction of $293 thousand, Governance at a reduction of $90 thousand, Customer Service with a reduction of $85 thousand and Energy Solutions and External Relations with a reduction of $51 thousand. (CEC Final Argument, p. 2)

BCPSO notes that the evidence in the proceeding shows for the test periods inclusive of 2010 to 2013: "FEVI's actual O&M spending has been lower than the BCUC approved O&M spending, which has in turn been lower than FEVI's applied-for O&M." The evidence in this proceeding indicates that by spending less than the approved O&M, the shareholder has received $2.2 million in 2012 and a further 0.5 million in 2013. BCPSO submits: "It is evident that FEVI is strongly incented to overstate O&M forecasts because both the Shareholder and FEVI Management gain if actual O&M is less than BCUC approved O&M." After adjusting for the 2014 proposed accounting changes, in the view of BCPSO, it means that FEVI is effectively requesting an increase of 10.14 percent over 2013 Actual expenditures. BCPSO describes this as an excessive increase which is likely to result in the shareholder once again benefitting due to over forecasting. (BCPSO Final Argument, pp. 4-5)

BCPSO seeks a reduction to FEVI's 2014 Approved O&M Forecast in the amount of $2.62 million. It submits that "[i]t is evident that FEVI is strongly incented to overstate O&M forecasts because both the Shareholder and FEVI Management gain if actual O&M is less than BCUC approved O&M." BCPSO's calculation of this amount is based upon the application of FEVI's historical under expenditure against the applied for 2014 O&M expenditures plus the effect of applied for accounting changes. (BCPSO Final Argument, pp. 1, 3)

5.4.2 FEVI Reply Arguments

FEVI replies that its forecast is reasonable and correctly based on evidence of FEVI's requirements for 2014. FEVI states that it has provided evidence of cost pressures in each of its departments and provided explanations of spending increments over 2013 Projection or Actual. FEVI also states that the BCPSO and CEC's claims that its O&M forecast is excessive are "unsubstantiated." (FEVI Reply Argument, p. 9)

FEVI submits that BCPSO has presented no evidence to support the view that its suggested budget reductions would result in sufficient remaining amounts to appropriately carry out its utility services or bear any relation to FEVI's 2014 Revenue Requirements. (FEVI Reply Argument, p. 5)

With respect to CEC, FEVI submits that it "cannot be seriously disputed that both inflation and increases in the number of customers provide upward pressure on variable costs." FEVI states that it has presented evidence concerning its forecast for inflation and its impact on 2014 requirements. FEVI also submits that it has discussed the successful implementation of product improvements by some departments which has offset inflation but points out that there is no basis for assuming that this can always be achieved regardless of the cost pressures it faces. In FEVI's view, this evidence has in no way been rebutted by CEC. (FEVI Reply Argument, p. 7)

Commission Determination

The Commission Panel has reviewed the submissions of the parties and is not persuaded that the O&M amounts as proposed by FEVI are required. **The Panel finds that FEVI has established a pattern of over forecasting O&M requirements significantly and has continued this practice in its**

2014 Revenue Requirements Application. Accordingly, the Panel has determined that a total reduction of $1 million in O&M costs from the proposed $36.643 million is warranted. This $1 million reduction is independent of the changes to FEVI's O&M forecast which will be required as a result of the Panel's determinations on certain requested accounting policy changes, which are discussed in section 6 of the Decision.

Both CEC and BCPSO have expressed concern with respect to the historical pattern of over forecasting O&M expenditures. This pattern is borne out by FEVI's response to BCUC IR 2.17.1 which shows that for the four year period extending from 2010-2013, the average actual expenditures were $1.977 million less than amounts approved. Over this period the minimum annual shortfall of actual expenditures, as compared to amounts approved, was in 2011 at $1.180 million. This comparative information was also requested for the period extending from 2007-2009 but FEVI excluded approved amounts stating that in those years, the O&M was formula driven with no breakdown by department and a departmental comparison against actual was not possible. The Panel notes that FEVI made no comment as to comparisons of total actual expenditures as compared to approved expenditures on a total basis over this period.

FEVI has downplayed the importance of historical average variances in costs. Instead, as noted earlier, it has categorized savings as being either sustainable or temporary in nature and has taken steps to include savings which are described as sustainable in future budget projections. Temporary savings are handled differently as they can be caused by any number of events resulting in a variance from normalized levels although FEVI acknowledges that forecast errors are always a possibility but are usually temporary or time related.

The Commission Panel does not take issue with the assertion that there are times when forecast errors may be timing related. However, it would be expected that such variances would balance out over time and continual significant under expenditures would not occur. The evidence provided by FEVI provides examples and some insight as to why some of these continue to occur.

- The variance in the Operations Department Actual to Approved expenses over the 2010-2013 period has averaged close to $900 thousand annually. In response to BCUC IR 1.24.1 concerning this variance, FEVI submits that there are three main areas which have produced the variance. These are Emergency Standby, Pipeline Operations/Maintenance and Compression Operations/Maintenance. In each of these areas, FEVI acknowledges there were contingency estimates built into the forecasts. FEVI states that these were based on historical experience and comments upon the predictability of experience and that costs have declined in recent years. (Exhibit B-4, pp. 90-91)

- Actual 2012 Administration and General Expenses in the Corporate Department were $476 thousand lower than approved. In response to BCUC IR 1.32.3, FEVI states that these are to fund a variety of general corporate initiatives and typically require external expertise provided by contracted resources. Such expenses "occur from time to time, or of a one-time nature." FEVI goes on to explain that because of the low 2012 expenses, the 2014 funding requirements were reduced by $200 thousand to $304 thousand. Actual expenses in 2012 were $68 thousand. (Exhibit B-1, p. 57; Exhibit B-4, BCUC IR 1.32.3)

These examples serve to demonstrate that FEVI relies significantly on contingency estimates to cover events that may or may not occur in a given year but could occur. In the case of the Operations department, FEVI states that the requested amounts were based on historical experience but provides no evidence as to how this historical experience was determined. Based on the last four years, Operations expense estimates have been significantly overstated.

The Administration and General Expenses are another example of unsubstantiated cost estimates. The proposed reduction from the projection in 2013 of $528 thousand to $304 thousand in 2014 appears directionally reasonable but the only evidence on the record is an Actual expenditure of $68 thousand in 2012. This leads the Panel to the conclusion that the 2014 proposed amounts may be unsupported by past experience. Given this, the Commission Panel is persuaded that FEVI's savings experience in the Temporary category of $1.487 million in 2012 and $652 thousand in 2013 are not anomalies but rather are indicative of a continuing trend.

The Commission Panel notes that the Energy Solutions and External Relations (ES&ER) department has forecasted an increase of $455 thousand in 2014 over 2013 Actuals and $647 thousand over 2013 Approved expenditures. Of this, $200 thousand is to step up customer education and outreach programs to create greater awareness of the benefits of natural gas use for space heating needs to increase demand for natural gas. This amount is in addition to the $133 thousand expended for this purpose in 2013. **Given that the amalgamation of FEU has been recommended but is not likely to occur until sometime beyond the end of 2014, the Commission Panel finds that it is premature to expand the education and awareness program communication at this time.** Once amalgamation has been approved and the effects well understood, it may be more appropriate to consider some level of program expansion. **Accordingly, the Commission Panel**

rejects the FEVI proposal for an additional $200 thousand in expenditures for the natural gas heating awareness initiative.

The remaining $800 thousand of the total $1 million reduction is to be applied across O&M departments as determined by FEVI. The Commission Panel strongly discourages the forecasting of contingencies in operational budgets such as has been undertaken by FEVI. The result of these activities has been a track record of under-expenditures which have all benefited the shareholder at the expense of the ratepayer. In our view, continuing to significantly under-spend approved amounts will only lead to cynicism regarding the efficacy of FEVI's budgeting process.

In making this determination, the Panel is of the view although inaccuracies in the demand forecast could potentially impact O&M expenditures, they are not likely to do so in a material way. Further, there is no evidence concerning whether any potential inaccuracies would cause O&M costs to increase or decrease. Accordingly, the Panel makes no adjustment to the O&M budget to account for any such potential inaccuracies.

5.5 Capital Expenditures

FEVI is requesting approval of its 2014 capital expenditures forecast of $28.022 million, which is net of Contributions in Aid of Construction (CIAC). Consistent with the 2012-2013 FEU RRA, FEVI's capital expenditures are divided into the following three major categories: (i) Sustainment Capital; (ii) Growth Capital; and (iii) Other Capital. FEVI's projected capital expenditures for 2014 are shown in Table 8. (Exhibit B-10, BCUC IR 2.31.3, p. 105)

Table 8 - Capital Expenditures ($ thousands)

	2010 Actual	**2011 Actual**	**2012 Actual**	**2012 Approved**	**2013 Actual**	**2013 Approved**	**2014 Projected**
Sustainment Capital							
Meter Recalls/Exchanges	1,134	1,112	1,345	1,215	1,307	1,250	1,358

Transmission System Reinforcements	3,836	4,016	2,751	8,098	4,102	6,328	7,541
Distribution System Reinforcements	991	1,487	1,000	2,685	1,062	935	2,215
Distribution Mains & Service Renewals & Alt.	1,156	1,289	1,737	4,276	3,800	5,646	4,529
Total Sustainment Capital	**7,117**	**7,903**	**6,833**	**16,274**	**10,271**	**14,159**	**15,643**
Growth Capital							
New Customer Mains	1,836	2,330	1,745	2,758	2,173	2,925	2,518
New Customer Services	5,309	4,833	5,569	4,927	5,774	5,276	5,983
New Customer Meters	430	505	280	480	274	513	300
Total Growth Capital	**7,575**	**7,668**	**7,594**	**8,165**	**8,221**	**8,714**	**8,801**
Other Capital							
Equipment	1,181	1,090	1,357	3,073	3,592	3,591	1,566
Facilities	400	528	1,084	439	452	616	642
IT	1,473	1,545	1,476	2,000	2,282	2,000	2,222
Total Other	**3,054**	**3,163**	**3,917**	**5,512**	**6,326**	**6,207**	**4,430**

Total Gross Capex	**17,746**	**18,734**	**18,344**	**29,951**	**24,818**	**29,079**	**28,875**
CIAC	**(371)**	**(795)**	**1,773**	**(426)**	**(961)**	**(431)**	**(853)**
Total Net Capex	**17,375**	**17,939**	**20,117**	**29,525**	**23,857**	**28,648**	**28,022**

(Source: Exhibit B-10, BCUC IR 2.31.3)

Table 9, provided by FEVI, illustrates the reconciliation of the 2013 Projection to the 2014 Forecast by asset category. FEVI states that it shows how four adjustments have been made in arriving at the 2014 Forecast. (Exhibit B-1, pp. 61-62)

Table 9 - 2014 Forecast 2014 Capital ($000s) Detail

	2013 Projection	**PST (Full Year)**	**Pension /OPEB**	**Pension /retiree**	**IT Cap**	**Inflation and Other**	**2014 Forecast**
Sustainment Capital							
Meter Recalls/Exchanges	1,344	13	223	144		(368)	1,358
Transmission System Reinforcements	6,328	68	126	81		938	7,541
Distribution System Reinforcements	1,296	10	32	21		857	2,215
Distribution Mains and Service Renewals/Alterations	5,803	61	65	42		(1,442)	4,529
Total Sustainment Capital	**14,771**	**152**	**446**	**288**	**0**	**(14)**	**15,643**
Growth Capital							
New Customer Mains	2,400	31	33	21		32	2,518
New Customer	5,162	57	113	73		578	5,983

Services							
New Customer Meters	270	6	6	4		14	300
Total Growth Capital	**7,833**	**94**	**152**	**98**	**0**	**624**	**8,801**
Other Capital							
Equipment	4,230	39				(2,703)	1,566
Facilities	616	7				20	642
IT	2,400	21			200	(399)	2,222
Total Other	**7,246**	**67**	**0**	**0**	**200**	**(3,082)**	**4,430**
Total Gross Capex	**29,850**	**312**	**598**	**386**	**200**	**(2,472)**	**28,874**
CIAC	**(845)**	**(5)**				**(4)**	**(853)**
Total Capex	**29,006**	**308**	**598**	**386**	**200**	**(2,476)**	**28,021**

(Source: Exhibit B-1, p. 61)

FEVI explains that the "inflation and other" column provides the means of reconciling 2013 Projection to 2014 Forecast (it was calculated as the 2014 Forecast column less the adjusted 2013 Projection). There was no separate calculation of inflation and then "other" to create the column. It states that Sustainment and other capital are for the most part project-based estimates. It submits that "[t]he projects that support the 2013 Projection will be different than the projects supporting the 2014 Forecast. Activity levels may differ, kilometers of pipe being maintained may differ, geographic locations may differ, the actual nature of projects may differ, etc." FEVI concludes that there is therefore "no basis to apply an inflation amount to the 2013 Projection to develop the 2014 Forecast." It also explains that growth capital, while somewhat more linear, is still subject to changes in trending analysis, changes to the mix of new versus conversion customer attachments, etc. (Exhibit B-4, BCUC IR 1.35.1)

FEVI summarizes the best categorization of the "Inflation and Other" column as "a combination of:

1. Inflation (2% has been used)
2. Impact of productivity measures

3. Changes in various components of project mix"

(Exhibit B-4, BCUC IR 1.35.1)

FEVI provides the following comments on the reconciliation:

PST (full year)

PST was re-introduced in British Columbia effective April 1, 2013. Although the 2013 impact has been captured in the Vancouver Island Harmonized Sales Tax (HST) Implementation (2010/2011) and Goods and Services Tax (GST)/PST Implementation (2012/2013) deferral account, the 2014 Forecast needs to be adjusted to include the impact of PST on Capital. For the last nine months of 2013, FEVI recorded $236 thousand in the Tax Variance deferral account related to PST on Capital. Grossed up for a full year, the $236 thousand becomes $314 thousand, of which $308 thousand is related to capital expenditures and has been adjusted in the Base Capital above, and the remaining $6 thousand relates to removal costs (captured in a deferral account). (Exhibit B-1, p. 61)

Pension/Other Post Employment Benefits

A total of $1,729 thousand will be captured in the Pension and Other Post Employment Benefits (OPEB) Variance deferral account in 2013. This represents the difference between the Pension and OPEB Expense included in the 2013 Projection (2013 Projection is recorded at the 2013 Approved amount due to the use of the deferral account) and the amount actually incurred. Of this amount, $946 thousand is related to O&M, $598 thousand is related to capital expenditures and has been adjusted in the table above and $185 thousand is related to removal costs (captured in a deferral account). (Exhibit B-1, pp. 61-62)

The difference between the 2013 Projection and the 2014 Forecast is captured in the "Inflation and Other" column. (Exhibit B-1, pp. 61-62)

Pension/Retiree

This column reflects an accounting change that FEVI proposes be effective 2014 for the allocation of retiree pensions and OPEBs and is described in further detail in section C3.1. This adjustment serves to reallocate $386 thousand of costs from O&M to capital. (Exhibit B-1, pp. 61-62)

Information Technology (IT) Capitalization

This column reflects an accounting change that FEVI proposes be effective 2014 to capitalize the upgrade capability portion of annual software costs and is described in further detail in section C3.1. This adjustment serves to reallocate $200 thousand of costs from O&M to capital. (Exhibit B-1, pp. 61-62)

Inflation and Other

This column represents the inflationary and other incremental changes that FEVI is anticipating in 2014. FEVI customers only pay for actual capital expenditures, as the RSDA serves to capture the revenue requirement impact of any variances from the approved capital expenditures. (Exhibit B-1, pp. 61-62)

FEVI submits that customers only pay for the revenue requirement associated with actual capital expenditures due to the existence of the RSDA (Exhibit B-10, BCUC IR 2.31.3, p. 106).

5.5.1 Sustainment Capital Expenditures

FEVI forecasts, and seeks approval for, 2014 sustainment capital expenditures of $15.643 million, an increase of $1.484 million over 2013 Approved and $5.372 million over 2013 Actual. In 2013, Actual Expenditures were $10.271 million, or 73 percent of the approved amounts of $14.159 million. (Exhibit B-10, BCUC IR 2.31.3)

Table 10 - Capital Expenditures ($ thousands)

	2010 Actual	**2011 Actual**	**2012 Actual**	**2012 Approved**	**2013 Actual**	**2013 Approved**	**2014 Projected**
Sustainment Capital							
Meter Recalls/Exchanges	1,134	1,112	1,345	1,215	1,307	1,250	1,358
Transmission System	3,836	4,016	2,751	8,098	4,102	6,328	7,541

Reinforcements							
Distribution System Reinforcements	991	1,487	1,000	2,685	1,062	935	2,215
Distribution Mains & Service Renewals & Alt.	1,156	1,289	1,737	4,276	3,800	5,646	4,529
Total Sustainment Capital	**7,117**	**7,903**	**6,833**	**16,274**	**10,271**	**14,159**	**15,643**

(Source: Exhibit B-1, p. 63)

FEVI submits that during 2012 and 2013, it encountered some challenges in defining scopes, addressing unforeseen complexities and initiating the capital upgrades considered necessary but that it has taken numerous steps to improve its forecasting and budgeting processes. One of these steps includes removing forecasts for large emergency contingencies for pipeline washouts or equipment failures. FEVI states that an additional consideration is that the difference between the 2014 Forecast and the 2012 and 2013 Actuals is primarily made up of a compressor upgrade project and marine crossing inspections which are not incurred on a regular basis. (Exhibit B-10, BCUC IR 2.34.2; BCUC IR 2.34.3)

Although 2013 actual sustainment capital spending is approximately 67 percent lower than 2013 approved amounts, FEVI has not revised its forecast for 2014 downwards. FEVI has, however, provided a breakdown of its proposed sustainment capital expenditures.

Table 11 - Transmission System Reinforcements

	2014 Forecast ($000s)	**Details**
Pipeline, Measurement Station and Right of Way Upgrades	$2,205	Pipeline and right of way upgrades, planned erosion prevention, road crossings, access, pressure control, line heaters and valves.
Compressor Station Upgrades	3,351	Compressor station upgrades to address unit overhauls, significant repairs, security, equipment upgrades and fire suppression
LNG Plant Upgrades	1,275	Upgrades to LNG plant processes, equipment, buildings or site.
Major Pipeline Inspection Projects	660	Inline inspection or underwater inspection projects 134
Cathodic Protection Upgrades	50	Replacement of or supplemental rectifiers or groundbeds
Total	**$7,541**	

(FEVI Final Argument, p. 31)

FEVI provided further detail for some of the line items in Table 11. Table 12 shows FEVI's breakdown of the proposed Pipeline, Measurement Station and Right of Way Upgrades expenditures.

Table 12 - Pipeline, Measurement Station and Right of Way Upgrades

Line Heater Connections	$600,000
Valve Upgrades	$425,000
Road Crossing upgrade	$100,000
Upgrades to transducers and flow computers at measurement stations to ensure reliable remote monitoring capabilities	$250,000
Reconstruction or replacement of closed access roads to provide access to transmission pipelines and rights of way	$425,000
Installation of protection for pipeline at a stream crossing to prevent potential damage caused by debris	$200,000
Miscellaneous upgrades to pipeline valves (including telemetry for remote monitoring and control) to ensure reliable operation	$205,000
Total	**$2,205,000**

(Source: Exhibit B-10, BCUC IR 2.34.4; 2.34.4.1)

Table 11 shows a 2014 forecast of $3.351 million for Compressor Station Upgrades. In response to BCUC IR 2.34.5, FEVI further breaks down the $3.351 million forecast for compressor station upgrades into the following components: $2.3 million for the Compressor Station V1, Unit 2 High and Low Pressure Compressor Gas Seal Upgrade, $206 thousand for updates to various controls, $400 thousand for updates to a fire suppression system and $445 thousand for project initiation costs. (Exhibit B-10, BCUC IR 2.34.5)

FEVI summarizes the work forecasted with regard to the LNG Plant Upgrades in Table 13.

Table 13 - LNG Plant Upgrades

Item	Forecast Cost
Security upgrades required to prevent vandalism and theft	$100,000
Electrical system upgrades to address electrical code deficiencies	$75,000
Purchase of critical spare parts having long lead times so that upon operating part failure, plant downtime will be minimized	$325,000
Treatment systems upgrades to improve effectiveness of contaminant removal prior to liquefaction	$200,000
Fuel Gas system upgrade to allow for more accurate fuel consumption measurement and process allocation	$330,000
Storage and send-out piping upgrades to improve reliability of equipment such as pumps	$245,000
Total	$1,275,000

(Exhibit B-10, BCUC IR 2.34.6)

FEVI's breakdown of forecast capital for Distribution System Reinforcements is shown in Table 14.

Table 14 - for Distribution System Reinforcements

	2014 Forecast ($000s)	**Detail**
Cathodic Protection Upgrades	$52	Rectifier and groundbed replacements or additions.
Stations Upgrades	$927	Upgrades to stations to address measurement, pressure regulation, over pressure protection, valves, line heaters and telemetry
Scheduled System Improvements	$1,236	Upgrades to buried piping systems to improved capacity or emergency isolation
Total	**$2,215**	

(Source: FEVI Final Argument, p. 33)

5.5.1.1 Intervener Arguments

In its Final Argument, CEC acknowledges that FEVI has provided documentation for many of the projects contained in FEVI's sustainment capital budgets and that this information is valuable. However, CEC also states that it does not consider it reasonable to expect that 2014 sustainment capital spending will increase by more than 100 percent from 2012 spending levels and by approximately 50 percent from 2013 spending levels. CEC recommends that FEVI's sustainment capital budget be reduced by $1 million. (CEC Final Argument, p. 18)

BCPSO submits that FEVI's 2014 forecast for sustainment capital expenditures is a "very substantial increase" over actual annual expenditures, and seeks a reduction in the amount of sustainment capital approved. In the view of BCPSO, an appropriate reduction is in the range of $2 million based on prior years Actual versus Approved expenditures. (BCPSO Final Argument, p. 6)

BCPSO further submits that it does not believe the RSDA should be used to allocate the difference between 2014 approved and actual sustainment capital expenditures. Instead, BCPSO proposes the introduction of a separate deferral account to capture variances between Approved and Actual capital spending. (BCPSO Final Argument, p. 6)

5.5.1.2 FEVI Reply Argument

FEVI responds that "considering the changes FEVI has made in developing the capital plan and that much of the difference between the 2014 Forecast and the 2012 and 2013 actuals is due to non-routine capital upgrades, it would not be appropriate to reduce the 2014 Forecast for Sustainment Capital." (FEVI Reply Argument, p. 9)

Commission Determination

For 2014, FEVI forecasts a significant increase over the previous year's actual expenditure in spite of significant underspending relative to the Approved Sustainment Capital budget for the past two years. The Panel is concerned about the amount of spending relative to previous years, in particular 2013. FEVI has provided little detail concerning the timing of these projects. Given the amount of the proposed budget and the number of projects, the Panel considers it highly likely that this budget may not be fully required in 2014. Interveners also express concern about the relative size of the sustainment capital forecast and recommend that it be reduced. The Panel is not persuaded that this approach is necessary. Given the rate freeze, and that FEVI will only recover capital related costs for what it actually spends, an under-spend will have no impact on either rates or the RSDA.

Accordingly, the Panel approves FEVI's proposed sustainment capital budget of $15.643 million, subject to adjustment to account for the determinations of accounting policy changes regarding capitalization in section 6.2 of this Decision. However, this approval is only provided in the context of the unique circumstances of this Application, namely the rate freeze and FEVI's Application to recover only actual capital expenditures. The Panel is of the view that if this sustainment capital budget were to be used in any other proceeding, it should be reduced to more closely reflect likely actual expenditures. In that circumstance, a more fulsome analysis of the sustainment capital budget, including an analysis of the timing of projects, would be more appropriate**.**

5.5.2 Growth Capital Expenditures

FEVI forecasts 2014 Growth Capital expenditures of $8.801 million, which is $87 thousand greater than 2013 Approved and $570 thousand greater than 2013 Actual. Based on the updated table provided by FEVI in response to BCUC IR 2.31.3, FEVI's Actual growth capital expenditures for 2012 and 2013 were $571 thousand and $493 thousand, respectively, lower than Approved. (Exhibit B-10, BCUC 2.31.3, p. 105)

Growth Capital expenditures are required to attach new customers to the gas distribution system. These expenditures are for the installation of new mains, services, and meters and regulators. Growth Capital expenditures for Services and Mains are dependent on the customer additions forecast while Mains capital expenditures are forecast using historical activity levels. (Exhibit B-1, p. 71)

Table 15 – Growth Capital Expenditures ($ thousands)

	2012 Actual	2012 Approved	2013 Projected	2013 Approved	2014 Projected
Growth Capital					
New Customer Mains	1,745	2,758	2,400	2,925	2,518
New Customer Services	5,569	4,927	5,162	5,276	5,983
New Customer Meters	280	480	270	513	300
Total Growth Capital	**7,594**	**8,165**	**10,271**	**8,714**	**8,801**

In response to BCUC IR 1.45.2, FEVI states that since a key driver of Growth Capital is gross customer additions, an inaccurate forecast of customer additions would lead to an inaccurate Growth Capital forecast. FEVI further states that customers are protected from any forecast error in capital expenditures because FEVI has approval to continue using the RSDA to capture the differences between Actual and Approved capital expenditures. (Exhibit B-4, BCUC IR 1.45.2)

5.5.2.1 Intervener Arguments

In its Final Argument, CEC submits that "there is no appropriate correlation between growth capital and customer additions, and further that the capital additions are not well correlated to the housing starts forecast for FEVI… the evidence does not support the forecast increase in housing starts that are predicted by the CBOC." Accordingly, it submits that the growth capital budget should be reduced by $236,000. (CEC Final Argument, p. 18)

BCPSO made no submissions on this matter.

5.5.2.2 FEVI Reply Arguments

FEVI responds: "quite simply, when a new customer is added, new mains, services and meters are required… therefore… there is no logical basis to the CEC's submission that 'there is no appropriate correlation between growth capital and customer additions.'" FEVI further submits that no material issues were raised in information requests with respect to the methodology and that the methodology is reasonable. (FEVI Reply Argument, pp. 10-11)

Commission Determination

The Panel does not agree with CEC's position that there is no correlation between growth capital and customer additions. In the Panel's view, FEVI has provided sufficient evidence to support a correlation between growth capital and customer additions.

The Panel also does not agree with CEC that the evidence does not support the forecast increase in housing starts that are predicted by the CBOC. In its demand forecast, FEVI used CBOC's housing starts forecast as a proxy for customer additions, based on a correlation coefficient of 0.90. CEC disagreed, instead suggesting that 0.60 is a more appropriate correlation coefficient. FEVI argues that CEC is presenting new evidence in its argument and that this evidence should be disregarded. The Panel disagrees as CEC used a subset of FEVI's data and FEVI's worksheet to calculate the coefficient. As such, it does not constitute new evidence.

However, the Panel is not persuaded that it should reject FEVI's customer addition forecast because of CEC's calculated correlation coefficient of 0.60. A correlation coefficient of 0.60 is a positive correlation, even if it is not as strong a correlation as 0.90. Further, a somewhat lesser correlation coefficient than 0.90 does not point to a direction in which the customer additions should be adjusted, if they are to be adjusted at all. Accordingly, the Panel considers the CBOC forecast the best available evidence and is prepared to accept the FEVI's customer additions forecast for the basis of its growth capital budget. **The Panel approves the Growth Capital expenditure of $8.801 million, subject to adjustment to account for the determinations of accounting policy changes regarding capitalization in section 6.2 of this Decision.**

5.5.3 Other Capital Expenditures

FEVI's 2014 forecast for Other Capital Expenditures is $4.430 million, which is $1.777 million less than 2013 Approved and $1.896 million less than 2013 Actual expenditures. (Exhibit B-10, BCUC IR 2.31.3, p. 105)

Other Capital Expenditures include Equipment, Facilities, and Information Technology (IT). IT expenditures comprise $2.2 million of the proposed Other Capital expenditures. FEVI provides a breakdown of IT expenditures, along with comparisons to previous years in Table 15.

Table 15 - IT Capital Expenditures ($ thousand)

IT Capital Expenditures ($ thousands)

IT Capital	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2012 Approved	2013 Projection	2013 Approved	2014 Forecast
Business Technology Transformation						214	650	700	650	672
Business Technology Enhancements						371	350	500	350	350
Infrastructure Sustainment						595	600	500	450	425
Desktop Infrastructure Sustainment						96	150	300	250	175
Application Sustainment						201	250	400	300	600
	408	1,367	1,789	1,473	1,545	1,477	2,000	2,400	2,000	2,222

(Source: Exhibit B-10, BCUC IR 2.37.1)

No issues were raised by Interveners with respect to FEVI’s forecast for Other Capital Expenditures.

Commission Determination

The Panel approves FEVI’s forecast of “Other Capital” expenditures of $4.430 million, subject to adjustment to account for the determinations of accounting policy changes regarding capitalization in section 6.2 of this Decision.

6 OTHER APPROVALS SOUGHT

6.1 Deferral Accounts

FEVI requests approval for two new rate base deferral accounts, the setting of, or modification to, the amortization period or contents of three rate base deferral accounts, and the discontinuation of twelve deferral accounts. (Exhibit B-1, pp. 122-123)

6.1.1 <u>New Deferral Accounts</u>

FEVI requests approval to establish the following two new rate base deferral accounts: (i) 2014 Revenue Requirements Application (2014 RRA) deferral account; and (ii) Generic Cost of Capital (GCOC) Application deferral account. FEVI proposes to amortize the 2014 RRA deferral account over a one year period commencing January 1, 2014 and proposes to amortize the GCOC

Application deferral account over a two year period commencing January 1, 2014. (Exhibit B-1, pp. 117-118)

FEVI states in response to BCUC IR 1.55.1 that it forecasts a total pre-tax deferral account balance for the 2014 RRA of $150 thousand (Exhibit B-4, p. 222). FEVI further states that it incurred $239 thousand in regulatory costs (before tax) for its 2010-2011 Revenue Requirements and Rate Design Application, and that it was allocated $150 thousand in regulatory costs (before tax) for the 2012-2013 FEU RRA (Exhibit B-4, BCUC IR 1.55.2; BCUC IR 1.55.3, pp. 222-223).

FEVI forecasts an opening 2014 balance for the GCOC Application deferral account of $228,000, which is comprised of approximately $101,000 related to the GCOC Stage 1 costs, $200,000 of GCOC Stage 2 costs, and a credit of approximately $73,000 in taxes (Exhibit B-4, BCUC IR 1.54.1, p. 219).

No Interveners commented on this issue.

Commission Determination

The Commission Panel approves FEVI's proposal to establish the two new requested rate based deferral accounts and approves the amortization of the 2014 RRA deferral account, commencing January 1, 2014, over a one year period and the GCOC Application deferral account, over a two year period also commencing January 1, 2014.

These approvals are consistent with previous approvals for deferral accounts that either allowed for the deferral account to attract AFUDC or inclusion of the deferral account in FEVI's rate base. There were no Intervener comments on whether these accounts should be included in the rate base. The Panel has approved these deferral accounts based on historical practice, but considers that the issue of the approved return on FEVI's deferral accounts as warranting further exploration by the Commission.

6.1.2 Setting or Change in Amortization Period or Contents of Accounts

(a) Amalgamation and Rate Design Application Costs

As part of the Common Rates, Amalgamation and Rate Design Reconsideration Decision, FEU was approved to capture costs related to the application and proceeding in a non-rate base deferral account within FEI attracting Allowance for Funds Used during Construction. A portion of these costs will be allocated to FEVI on the basis of average customers. FEVI requests approval to amortize the balance transferred to FEVI's rate base deferral on January 1, 2014 to its delivery rates over three years beginning in 2014, consistent with the amortization period requested for FEI in its PBR Application. (Exhibit B-1, p. 119)

No Interveners commented on the Amalgamation and Rate Design Application Costs.

(b) Customer Service Variance Deferral Account

FEVI requests approval to amortize the Customer Service Variance Deferral Account over a five year period commencing in 2014. This deferral account was approved in Order G-44-12 as part of the 2012-2013 FEU RRA Decision to capture variances in forecast and actual costs resulting from the implementation of the new customer service delivery module. FEVI submits that a five year amortization period is appropriate because it aligns the amortization of this deferral account with the remaining amortization in the 2010/2011 Customer Service O&M and Cost of Service deferral account. (Exhibit B-1, p. 119) The same amortization period is being requested by FEI for its Customer Service Variance Deferral Account as part of the PBR Application.

Commission staff outlined two scenarios in BCUC IR 1.57.2 and requested that FEVI discuss which scenario it considered to be optimal. Scenario 1 outlined the approach of deferring a decision on the appropriate amortization for this deferral account to the PBR Application and Scenario 2 outlined the reverse approach. In response to BCUC IR 1.57.2, FEVI stated that it considers Scenario 1 to be the most optimal solution given the importance of having aligned amortization periods between FEI and FEVI for administrative efficiency and, in the event of amalgamation of the FEU, to provide a common starting point for all similar FEU deferral accounts. (Exhibit B-4, BCUC IR 1.57.2, p. 227)

No Interveners commented on the proposed amortization period for the Customer Service Variance deferral account.

(c) Pension and OPEB Variance Deferral Account

FEVI maintains a Pension and OPEB Variance deferral account which captures the difference between the actual and forecast amounts, regardless of whether the expense was forecast in O&M or capital. FEVI requests approval to change the amortization period of this account from the currently approved one year period to the Expected Average Remaining Service Life (EARSL) of the benefit plans, which FEVI states is currently 12 years based on the most recent accounting valuation performed. FEVI states that the EARSL amortization period more appropriately allocates the costs over the future period to which they are applicable. FEVI submits that it would use the 12-year amortization period for at least the 2014 test year and that it may propose adjustments in future revenue requirement applications based on the calculation of EARSL at that time. (Exhibit B-1, p. 118; Exhibit B-4, BCUC IR 1.20.2)

FEVI provides the following additional reasons for the requested change:

> "[A]s the nature of these costs is uncontrollable, large fluctuations in this account can occur from year to year. A longer amortization period allows for a slower drawdown of the RSDA balance for customers in future years that follow a year with high volatility in pension and OPEB costs. Lastly, adopting the EARSL amortization period would align with the EARSL amortization request in the FEI 2014-2018 PBR Application. Conversely, a shorter amortization period has the benefit of recovering costs from customers sooner rather than later." (Exhibit B-4, BCUC IR 1.56.1)

FEVI submits that:

> "Pension and OPEB expense has been and will continue to be a significant challenge in managing increases in costs for FEVI. For 2013, the actuarial estimate that was recently completed is more than 80 percent higher than the actuarial estimate that was done in 2011 to support the 2012-2013 RRA forecasts and approved amounts. The difference between these two amounts is captured in a deferral account in 2013 for recovery from customers in future rates. However, the 2014 Pension/OPEB O&M Forecast is approximately $112 thousand less than the 2013 amount and has been included in the 2014 forecasts for O&M." (Exhibit B-1, p. 42)

With regard to the impact of the amortization rate on FEVI's revenue requirement, FEVI states:

> "the impact of using the currently approved same year amortization period or the requested 12 year amortization period is the same for 2014 on a forecast basis. This is because there is no opening 2014 balance or 2014 forecasted additions to amortize. Therefore, the forecast revenue requirement would be unchanged regardless of the amortization period approved. To the extent actual additions occur in 2014, the impact to the RSDA balance would depend on the amortization method approved in this Application." (Exhibit B-4, BCUC IR 1.56.3)

No Interveners commented on the proposed change to the amortization period of the Pension and OPEB Variance Deferral Account.

Commission Determination

Rate Based Deferral of Amalgamation Application Costs

The Panel approves FEVI's request to move the portion of FEU's captured costs, related to the amalgamation application allocated to FEVI to a rate based FEVI deferral account. In making this determination, the Panel notes that the carrying costs of this rate based account is effectively the same as the cost of the current AFUDC treatment, but reiterates its comments on the need for further exploration of the approved return deferral accounts.

Deferral Account Amortization Periods

The Panel notes that given the rate freeze previously approved, the amortization period of FEVI's deferral accounts will not affect rates. In these circumstances, amounts amortized from any deferral account flow to the RSDA. As such, all else equal, the aggregate of the deferral account balances are not affected by the amortization policy.

FEVI requests that the Commission approve an amortization period for the deferral account containing the amalgamation application costs that is "consistent with the amortization period requested for FEI in its PBR Application." The Commission Panel recognizes the importance of ensuring consistency between FEVI's and FEI's amortization policies, but considers it premature to approve an amortization period based on an amortization period that is requested in another proceeding. **Accordingly, the Panel directs FEVI to adopt, beginning January 1, 2014, the amalgamation application costs amortization period approved for FEI in the PBR proceeding.**

With regard to the Customer Service Variance deferral account, FEVI has indicated that, in the interest of having aligned amortization periods between FEVI and FEI, and in the event of amalgamation of the FEU, it considers "the most optimal solution" a deferral of the decision on the appropriate amortization to the PBR proceeding. **Accordingly the Panel directs FEVI to adopt, beginning January 1, 2014, the Customer Service Variance deferral account amortization period, approved for FEI in the PBR proceeding.**

With regard to the Pension and OPEB Variance deferral account, the Panel is not persuaded that the evidence supports a change in the amortization period from one year to the EARSL, which is currently 12 years. While there may be some benefit to extending the amortization period beyond one year, the Panel is of the view that that it is not appropriate to align the amortization period with the EARSL at this time. In making this determination, the Panel notes that, given the rate freeze, there will be no rate impact for FEVI customers regardless of the amortization period.

The Commission Panel recognizes the importance of ensuring consistency between FEVI and FEI with regards to the adoption and application of amortization policies, but considers it premature to approve an amortization period based on an amortization period that is requested in another proceeding. **Accordingly, while the Panel declines to approve this requested change in amortization period at this time, FEVI may adopt the Pension and OPEB Variance deferral account amortization period, beginning January 1, 2014, approved for FEI in the PBR proceeding.**

6.1.3 Discontinuance of Deferral Accounts

Table 13 outlines the requests made by FEVI related to the discontinuance of various deferral accounts:

Table 13 – Proposed Deferral Accounts for Discontinuance

Discontinuance	Vancouver Island HST Implementation (2010/2011) and GST/PST Implementation (2012/2013)	FEVI	Section C4.4.1; amortization period of 1 year commencing January 1, 2014 and then discontinuance of this account effective January 1, 2016
	Olympic Security Costs	FEVI	Section C4.4.2; discontinuation of this account effective January 1, 2015
	IFRS Implementation Costs	FEVI	Section C4.4.2; discontinuation of this account effective January 1, 2015
	2009 ROE and Cost of Capital Application	FEVI	Section C4.4.2; discontinuation of this account effective January 1, 2015
	2010-2011 Revenue Requirement Application	FEVI	Section C4.4.2; discontinuation of this account effective January 1, 2014
	2012-2013 Revenue Requirement Application	FEVI	Section C4.4.2; discontinuation of this account effective January 1, 2015
	CCE CPCN Application	FEVI	Section C4.4.2; discontinuation of this account effective January 1, 2015
	Victoria Regional Centre CPCN	FEVI	Section C4.4.2; discontinuation of this account effective January 1, 2015
	Deferred Removal Costs	FEVI	Section C4.4.2; discontinuation of this account effective January 1, 2015
	US GAAP Conversion Costs	FEVI	Section C4.4.2; discontinuation of this account effective January 1, 2015
	Mark to Market – LNG Facility	FEVI	Section C4.4.2; discontinuation of this account effective January 1, 2014
	West Coast Road Main Extension	FEVI	Section C4.4.2; discontinuation of this account effective January 1, 2014

(Source: Exhibit B-1, Table C4-3, pp. 122-123)

The total forecasted balance at the end of 2013 for all of the above deferral accounts is approximately $155 thousand, with the majority of this balance related to the Vancouver Island HST Implementation costs. This debit balance of $155 thousand will be collected from customers in 2014 as part of FEVI's 2014 amortization expense. (Exhibit B-1, p. 121)

Notwithstanding the Vancouver Island HST Implementation Costs deferral account, FEVI expects the above-listed deferral accounts to have no remaining balance or to be fully amortized by December 31, 2014. The deferral accounts with no remaining balance at the end of 2013 will be discontinued effective January 1, 2014. The deferral accounts with a residual balance remaining to be amortized in 2014 will be discontinued effective January 1, 2015. (Exhibit B-1, p. 121)

FEVI forecasts an ending 2013 balance in the Vancouver Island HST Implementation deferral account of $111,000. This balance will be amortized over one year in the 2014 test year, and any differences between the 2013 forecasted and actual amounts will be subsequently amortized in 2015. The deferral account will then be discontinued effective January 1, 2016. (Exhibit B-1, p. 121)

Commission Determination

The Commission Panel finds that unused deferral accounts should be discontinued and approves FEVI's request to discontinue the twelve deferral accounts listed in the Table above as outlined in the Application.

The Panel also approves FEVI's proposal to amortize the ending balances in these deferral accounts.

6.2 Accounting Policies

FEVI requests approval for changes to five of its accounting policies to be used in the determination of rates, effective January 1, 2014. Certain of these accounting policy changes mirror the approvals sought by FEI in its PBR Application.

6.2.1 Modification to the Approved Lead Lag Days for Cash Working Capital

FEVI requests approval to modify the lead lag days for cash working capital to remove HST and Residential Energy Credit lead days from the cash working capital calculation and update them to show the PST and GST lead days. FEVI states that the PST and GST lead days are the same ones that were used in FEVI's 2010-2011 RRA, as approved in Order G-140-09. FEVI further states that the modification of the lead days to reflect PST and GST does not materially impact FEVI's cash working capital or cost of service. (Exhibit B-1, p. 100)

In response to BCUC IR 1.51.1, FEVI states that it assessed the need to perform an updated Lead Lag Study based on the reversion in April 2013 from HST back to PST/GST and determined that the lead lag days for PST and GST remained very similar to those that were updated as part of the 2010-2011 FEVI RRA and therefore remain applicable for the 2014 test year (Exhibit B-4, p. 213).

Commission Determination

The Commission Panel approves FEVI's request to modify the lead lag days for cash working capital as outlined in the Application. These modifications are appropriate given the conversion back to PST/GST from HST as mandated by the Provincial Government. The Panel considers it appropriate to use the lead lag days previously approved in the FEVI 2010-2011 RRA Decision, given that there are no material changes to these days that would warrant the need for an updated Lead Lag Study at this time.

6.2.2 Discontinuation of the Reconciliation of US Generally Accepted Accounting Principles (GAAP) to Canadian GAAP in future BCUC Annual Reports

Pursuant to Order G-117-11, the Commission approved the adoption of US GAAP by FEVI for regulatory accounting and reporting purposes effective January 1, 2012. As part of that Order, the Commission required FEVI to prepare an annual reconciliation from US GAAP back to Canadian GAAP and submit this reconciliation as part of FEVI's Annual Report to the Commission.

FEVI states that it no longer maintains specific accounting records in compliance with pre-2012 Canadian GAAP since they are not used for any other reporting purpose. FEVI thus submits that it will become increasingly complicated to complete this reconciliation on a prospective basis (Exhibit B-1, p. 99).

Commission Determination

The Panel approves FEVI's request to discontinue the US GAAP to Canadian GAAP reconciliation in future BCUC Annual Reports. The Panel considers the reconciliation to provide limited use going forward due to the fact that the reconciliation relates to pre-2012 Canadian GAAP.

6.2.3 Inclusion of the Retiree Portion of Pension and OPEB Expenses in Benefit Loadings for O&M and Capital

FEVI requests approval to include both the current service and the retiree portion of pension and OPEB in benefit loadings, which is consistent with its practice prior to 2010. FEVI's treatment of the allocation of Retiree Pension and OPEBs prior to 2010 was to include the full Net Benefit Cost as determined by FEVI's third party actuary, not just the Current Service Cost component, in benefit loadings. FEVI changed its policy in 2010 in anticipation of the adoption of International Financial Reporting Standards (IFRS). Subsequently, FEVI adopted US GAAP instead of IFRS starting January 1, 2012. (Exhibit B-1, p. 100)

As shown in Table B4-2 of the Application, FEVI forecasts that the impact of this proposed accounting policy change for the 2014 Test Year is a re-allocation of approximately $386 thousand from O&M to Capital (Exhibit B-1, p. 39).

FEVI states in response to BCUC IR 1.49.4 that while the proposed change is not explicitly required under US GAAP, the primary intent of the change is to better align with the relevant US GAAP guidance (Exhibit B-4, p. 208). FEVI states in response to BCUC IR 1.49.3 that this change in accounting treatment has not been reviewed and signed off by FEVI's independent auditors. However, FEVI submits that it has the same auditors as its sister company, FortisBC Inc. (FBC), and that the auditors have reviewed and accepted the accounting treatment for FBC. (Exhibit B-4, BCUC IR 1.49.3, 1.49.4)

FEVI confirms that its requested change to the treatment of the allocation of retiree pension and OPEBs is consistent with the request made by FEI in the PBR Application (Exhibit B-4, BCUC IR 1.49.1).

Commission Determination

The Panel has previously noted that given the rate freeze the amortization period for any particular deferral accounts has no impact on rates or on the aggregate amount of deferred costs. Similarly, this proposed accounting treatment change, which results in a re-allocation of approximately $386 thousand from O&M to Capital has no effect on rates in 2014.

The reason for this proposed accounting policy change is driven by FEVI's adoption of US GAAP, which allows for the proposed change in accounting treatment. However, the change is not required, as US GAAP also allows FEVI's current accounting treatment. The Panel is not prepared to approve the change at this time for two reasons: first, the change is not required under US GAAP and second, there is insufficient evidence on the record to otherwise evaluate the merits of the proposed approach.

However, the Commission Panel recognizes the importance of ensuring consistency between FEVI and FEI with regards to the adoption and application of accounting policies, and notes that this accounting policy change is also requested by FEI in the PBR Application. **Accordingly, although the Panel declines to approve the inclusion of the retiree portion of Pension and OPEB Expenses in benefit loadings for O&M and Capital at this time, FEVI may adopt, commencing January 1, 2014, the treatment of these expenses approved for FEI in the PBR proceeding.**

6.2.4 Capitalization of Annual Software Costs

FEVI requests approval to adopt a capitalization methodology for the treatment of annual software costs paid to vendors in support of upgrade capability. This request is consistent with the treatment proposed by FEI (Exhibit B-1, p. 100). FEI's proposed treatment is currently under review as part of the PBR Application and has been explored in detail through the IR process in that proceeding.

FEVI states that the costs proposed to be capitalized reflect estimates of the portion of annual software costs paid to vendors that relate to upgrade capability as opposed to the support and maintenance components of the annual costs. Thus, FEVI submits that the costs allocated to capital using this methodology would fund only the upgrade component of the annual costs which extend the life of the affected software assets. (Exhibit B-1, p. 100)

As shown in Table B4-2 of the Application, FEVI forecasts that the impact of this proposed accounting policy change for the 2014 Test Year is a re-allocation of approximately $200 thousand from O&M to IT Application Sustainment Capital (Exhibit B-1, p. 39). Approximately $380 thousand of annual software costs are allocated from FEI to FEVI. Of this total allocation, $200 thousand would now be capitalized under the proposed new accounting methodology and $180 thousand would remain in O&M. (Exhibit B-4, BCUC IR 1.50.6, p. 212)

FEVI states in response to BCUC IR 1.50.3 that the proposed change is not required under US GAAP but it is one of the options allowed under US GAAP. FEVI submits that the proposed change is better aligned with US GAAP guidance because the upgrade costs to be capitalized result in either enhanced functionality of the software or extensions to the useful life of the existing software. (Exhibit B-4, pp. 210-211)

Commission Determination

The Panel is not persuaded that it is appropriate to capitalize annual software upgrade costs at this time. FEVI submits that although the proposed change is not required by US GAAP, the change is better aligned with US GAAP guidance because the upgrade costs to be capitalized result in either enhanced functionality or extensions to the useful life of the existing software. However, in the Panel's view, the primary justification for capitalization is that the benefits are sustained beyond the current period. Although there may be a sustaining benefit, there is insufficient evidence for the Panel to find that the extension to the useful life or the extended functionality justifies capitalization. In this regard, the Panel notes that many repair and routine maintenance activities could be considered to have benefits that extend beyond the period the expenses are incurred, yet those expenses are typically not capitalized. The Panel is also concerned that capitalizing annual upgrades could have a cumulative effect if costs increase yearly.

The Panel notes that whether this policy is approved or not, given the previously approved rate freeze, there will be no impact on rates. As long as rates remain frozen, O&M costs are captured in the RSDA, while capital costs are included in FEVI's rate base with the resulting depreciation expense and carrying costs being captured in the RSDA.

The Commission Panel also recognizes the importance of ensuring consistency between FEVI and FEI with regards to the adoption and application of accounting policies, and notes that this accounting policy change is also requested by FEI in the PBR Application. **Accordingly, although the Panel declines to approve the Capitalization of Annual Software Costs at this time, FEVI may**

adopt this accounting policy, commencing January 1, 2014, if it is approved for FEI in the PBR Decision. In making this determination, the Panel notes that annual software upgrade costs are largely controlled by FEI, and as such, it may be more appropriate to examine these issues in a proceeding that reviews FEI's costs.

6.2.5 Change in Commencement of Depreciation Expense

FEVI requests approval to return to its previously approved method of calculating depreciation expense which it utilized prior to the FEVI 2010-2011 RRA Decision. FEVI's currently approved practice is to commence depreciation at the time an asset is placed into service; however, FEVI now requests approval to change back to its previously approved practice of commencing the calculation of depreciation expense at the beginning of the year following when the asset is placed into service. (Exhibit B-1, p. 101)

In its response to BCUC IR 1.52.2, FEVI submits that the proposed depreciation method is appropriate for two primary reasons:

(i) The reason that FEVI changed to its current depreciation method was in anticipation of converting to IFRS; however, FEVI subsequently adopted US GAAP instead of IFRS and US GAAP does not require the change in depreciation method that was made in 2010;

(ii) The requested change in depreciation method is consistent with the request made by FEI in its PBR Application. (Exhibit B-4, p. 214)

FEVI further submits in its response to BCUC IR 1.52.2 that the proposed change in depreciation methodology provides a near term benefit to customers in that it reduces the 2014 depreciation expense by approximately $214 thousand (Exhibit B-4, p. 215).

Commission Determination

The Panel notes that, as was the case for the previously discussed two accounting policy changes, whether this policy is approved or not, given the previously approved rate freeze, there will be no impact on rates. As long as rates remain frozen, depreciation expense is captured in the RSDA.

FEVI states that its reasons for requesting the change in depreciation methodology are: (i) FEVI's adoption of US GAAP, which allows, but does not require, the proposed change in accounting treatment, and (ii) to be consistent with the request made by FEI in the PBR application. The Panel is not prepared to approve the change at this time simply because US GAAP allows the change. However, the Commission Panel recognizes the importance of ensuring consistency between FEVI and FEI with regards to the adoption and application of accounting policies. **Accordingly, although the Panel declines to approve the change in depreciation methodology at this time, FEVI may adopt, commencing January 1, 2014, the treatment of the commencement of depreciation expense approved for FEI in the PBR proceeding.**

7 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 Commission Panel approves FEVI's request to maintain the rate freeze for 2014. The Commission Panel further approves FEVI's request that the difference between the net revenues received and the actual cost of service, excluding O&M variances from allowed, be allocated to the RSDA.**	9-10
2.	**The Panel accepts the demand forecasts submitted by FEVI for 2014.**	16
3.	**The Panel approves FEVI's Other Revenue forecast.**	18
4.	**The Panel accepts FEVI's projected unit cost of gas of $6.03/GJ for 2014 as the basis for its Cost of Gas calculations, with the exception of the Panel's requirement for FEVI to reduce the 2014 Transportation Demand Charges forecast, as discussed in section 5.3.3 of the Decision.**	20

5.	**The Panel directs FEVI to reduce its Updated 2014 Forecast for Transportation Demand Charges by $495 thousand, which would result in a revised Transportation Demand Charge amount of $10.387 million.**	21
6.	**The Panel directs FEVI to file with the Commission, within six months of the date of this Decision, a further analysis of this issue, along with a mitigation strategy, if warranted.** **In these circumstances, the Panel accepts FEVI's estimate of UAF gas for the purpose of this Application.**	23
7.	**The Panel accepts FEVI's forecast for company use gas as put forth in the Application.**	23
8.	**For the limited purpose of this Application, the Panel accepts FEVI's Gas Supply Management Costs as reasonable.**	24
9.	**The Panel finds that FEVI has established a pattern of over forecasting O&M requirements significantly and has continued this practice in its 2014 Revenue Requirements Application. Accordingly, the Panel has determined that a total reduction of $1 million in O&M costs from the proposed $36.643 million is warranted.**	30-31
10.	**Given that the amalgamation of FEU has been recommended but is not likely to occur until sometime beyond the end of 2014, the Commission Panel finds that it is premature to expand the education and awareness program communication at this time. Accordingly, the Commission Panel rejects the FEVI proposal for an additional $200 thousand in expenditures for the natural gas heating awareness initiative.**	32-33
11.	**Accordingly, the Panel approves FEVI's proposed sustainment capital budget of $15.643 million, subject to adjustment to account for the determinations of accounting policy changes regarding capitalization in section 6.2 of this Decision.**	44

12.	**The Panel approves the Growth Capital expenditure of $8.801 million, subject to adjustment to account for the determinations of accounting policy changes regarding capitalization in section 6.2 of this Decision.**	46
13.	**The Panel approves FEVI's forecast of "Other Capital" expenditures of $4.430 million, subject to adjustment to account for the determinations of accounting policy changes regarding capitalization in section 6.2 of this Decision.**	47
14.	**The Commission Panel approves FEVI's proposal to establish the two new requested rate based deferral accounts and approves the amortization of the 2014 RRA deferral account, commencing January 1, 2014, over a one year period and the GCOC Application deferral account, over a two year period also commencing January 1, 2014.**	47
15.	<u>Rate Based Deferral of Amalgamation Application Costs</u> **The Panel approves FEVI's request to move the portion of FEU's captured costs, related to the amalgamation application allocated to FEVI to a rate based FEVI deferral account.**	51
16.	**Accordingly, the Panel directs FEVI to adopt, beginning January 1, 2014, the amalgamation application costs amortization period approved for FEI in the PBR proceeding.**	51
17.	**Accordingly the Panel directs FEVI to adopt, beginning January 1, 2014, the Customer Service Variance deferral account amortization period, approved for FEI in the PBR proceeding.**	52
18.	**Accordingly, while the Panel declines to approve this requested change in amortization period at this time, FEVI may adopt the Pension and OPEB Variance deferral account amortization period, beginning January 1, 2014, approved for FEI in the PBR proceeding.**	52

19.	**The Commission Panel finds that unused deferral accounts should be discontinued and approves FEVI's request to discontinue the twelve deferral accounts listed in the Table above as outlined in the Application.** **The Panel also approves FEVI's proposal to amortize the ending balances in these deferral accounts.**	54
20.	**The Commission Panel approves FEVI's request to modify the lead lag days for cash working capital as outlined in the Application**	55
21.	**The Panel approves FEVI's request to discontinue the US GAAP to Canadian GAAP reconciliation in future BCUC Annual Reports**	55
22.	**Accordingly, although the Panel declines to approve the inclusion of the retiree portion of Pension and OPEB Expenses in benefit loadings for O&M and Capital at this time, FEVI may adopt, commencing January 1, 2014, the treatment of these expenses approved for FEI in the PBR proceeding.**	57
23.	**Accordingly, although the Panel declines to approve the Capitalization of Annual Software Costs at this time, FEVI may adopt this accounting policy, commencing January 1, 2014, if it is approved for FEI in the PBR Decision**.	58-59
24.	**Accordingly, although the Panel declines to approve the change in depreciation methodology at this time, FEVI may adopt, commencing January 1, 2014, the treatment of the commencement of depreciation expense approved for FEI in the PBR proceeding.**	60

DATED at the City of Vancouver, in the Province of British Columbia, this 23rd day of May, 2014.

D.M. MORTON
PANEL CHAIR/COMMISSIONER

B.A. MAGNAN
COMMISSIONER

Dennis Cote

D.A. COTE
COMMISSIONER

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-65-14

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

and

An Application by FortisBC Energy (Vancouver Island) Inc.
for Approval of 2014 Revenue Requirements and Rates

BEFORE: D.M. Morton, Panel Chair/Commissioner
D.A. Cote, Commissioner
B.A. Magnan, Commissioner

May 23, 2014

O R D E R

WHEREAS:

A. On September 25, 2013, FortisBC Energy (Vancouver Island) Inc. (FEVI) filed for approval of interim and permanent delivery rates effective January 1, 2014 (Application) pursuant to sections 59 to 61 and 89 of the *Utilities Commission Act* (UCA) and the Special Direction to the British Columbia Utilities Commission (Commission) pursuant to Order in Council 1510 (Special Direction);

B. FEVI seeks, among other things, approval to maintain current natural gas rates for all customers, other than those with specified rates in their transportation service agreements, for a one-year period commencing January 1, 2014. FEVI proposes to utilize the surplus that will exist in the Rate Stabilization Deferral Account (RSDA) to allow for rates to remain unchanged for 2014;

C. FEVI also seeks approval of its schedule of demand and commodity charges, forecast gross operating and maintenance (O&M) expenditures and, pursuant to section 2.10 of the Special Direction, its forecast Cost of Service, forecast capital expenditures, and forecast revenue;

D. FEVI also seeks, among other things, approvals including allocation of costs for corporate and shared services, and the discontinuation, continuation, and creation of deferral accounts and the amortization and disposition of balances in deferral accounts;

E. On October 2, 2013, pursuant to Order G-161-13, the Commission established a Preliminary Regulatory Timetable which provided for one round of Information Requests and for submissions from FEVI and Registered Interveners on further regulatory process;

.../2

F. On November 28, 2013, the Province of British Columbia deposited Order in Council No. 557, dated November 27, 2013, as B.C. Regulation 245/2013, Special Direction No. 5 to the Commission (Special Direction No. 5). Special Direction No. 5 contains, among other items, the following requirements:

> 3 In setting rates under the Act for a utility, the Commission must do the following:
>
> (a) treat CNG service and LNG service, and all other costs and revenues related to those services, as part of the utility's natural gas class of service;
>
> (b) allocate all costs and revenues related to CNG service and LNG service to all applicable customers;

G. On December 13, 2013, FEVI filed with the Commission an Amendment to the Application to address, among other things, changes to the approvals sought in the Application as a result of the issuance of Special Direction No. 5 (Application Amendment);

H. FEVI also filed on December 13, 2013, its submission on further regulatory process;

I. On December 16, 2013, the British Columbia Pensioners' and Seniors' Organization *et al*. (BCPSO) and the Commercial Energy Consumers Association of British Columbia (CEC) filed submissions on further regulatory process;

J. By Order G-217-13 dated December 17, 2013, the Commission established a Final Regulatory Timetable for the proceeding and determined that the Application be heard through a written hearing process;

K. On January 10, 2014, FEVI filed an Evidentiary Update to reflect the changes to the forecast revenue deficiency resulting from the Application Amendment as well as certain other revisions identified in the first round of Information Requests;

L. FEVI filed its Final Argument on February 20, 2014;

M. By Order G-21-14 dated February 26, 2014, the Commission approved the amalgamation and adoption of common rates on a three year phase-in basis of FortisBC Energy Inc., FEVI, FortisBC Energy (Whistler) Inc., and Terasen Gas Holdings Inc. Directive 3(f) of Order G-21-14 makes the following determination on FEVI's RSDA:

> 3 Subject to the approval of amalgamation by the Lieutenant Governor in Council pursuant to section 53 of the Act, and effective upon amalgamation the Commission also approves the following:
>
> … (f) The use of a Rate Stabilization Deferral Account (RSDA) Rider, to permit the distribution of the balance in the RSDA to non-bypass customers in the current FEI service area over a three year period effective as of the date of the amalgamation;

…/3

N. BCPSO and CEC filed their Final Arguments on February 27, 2014;

O. FEVI filed its Reply Argument on March 6, 2014;

P. The Commission has considered the evidence and submissions of the parties in the Application.

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA), for the reasons set out in Appendix A to this Order:

1. FortisBC Energy (Vancouver Island) Inc.'s (FEVI) request, pursuant to sections 59 to 61 of the UCA and section 2.1 of the *Vancouver Island Natural Gas Pipeline Act* Special Direction (Special Direction), to establish permanent rates effective January 1, 2014 for Core Market sales and transportation customers other than customers who have specified rates in their transportation service agreements, at the same level as 2013 rates, is approved.

2. FEVI's forecast Cost of Service for 2014, subject to the modifications contained in Directives 3 through 13 of this Order, is approved pursuant to section 2.10(a)(i) of the Special Direction.

3. FEVI's forecast capital expenditures for 2014, subject to the modifications contained in Directive 13 of this Order, is approved as filed pursuant to section 2.10(a)(i) of the Special Direction.

4. FEVI's forecast revenue for 2014, based on its proposed rates, is approved as filed pursuant to section 2.10(a)(ii) of the Special Direction.

5. FEVI's forecast gross operations and maintenance (O&M) expenditures for 2014 are not approved as filed. FEVI's request for an additional $200 thousand in expenditures in 2014 for the Energy Solutions and External Relations department's natural gas heating awareness initiative is declined. FEVI is further directed to reduce its overall 2014 O&M forecast by an additional $800 thousand, for a total reduction to the 2014 O&M forecast of $1 million. This $1 million reduction to O&M is independent of the modifications to O&M required in Directive 13.

6. FEVI is directed to reduce its 2014 forecast for Transportation Demand Charges by $495 thousand. Subject to this modification, FEVI's 2014 cost of gas, as set out in Table B2-1 of the Application Amendment, is approved.

7. FEVI is directed to file with the Commission, within six months of the date of this decision, a report analyzing the unaccounted for gas levels and to provide a mitigation strategy if warranted.

8. FEVI's request to allocate the difference between the net revenues received and the actual cost of service, excluding O&M variances from allowed, to the Rate Stabilization Deferral Account is approved.

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9. The allocation of costs for corporate services between FortisBC Holdings Inc. and FEVI and for Shared Services between FortisBC Energy Inc. (FEI) and FEVI, as reflected in the Corporate Services Agreement and Shared Service Agreement is approved. The amount of the allocations shall be in accordance with the Commission's determination on these allocations in the FEI 2014-2018 Performance Based Ratemaking Revenue Requirements proceeding (PBR Application).

10. With respect to FEVI's requests for the discontinuance, modification, and creation of deferral accounts, and the amortization and disposition of balances of deferral accounts commencing January 1, 2014:

    a. FEVI's request to establish the 2014 Revenue Requirements Application Costs deferral account as a rate base deferral account and to amortize this deferral account over a one year period commencing January 1, 2014 is approved.

    b. FEVI's request to establish the Generic Cost of Capital Application Costs deferral account as a rate base deferral account and to amortize this deferral account over a two year period commencing January 1, 2014 is approved.

    c. The request to change the amortization period for the Pension and Other Post Employment Benefits (OPEB) Variance deferral account from the currently approved one year amortization period to the Expected Average Remaining Service Life (EARSL) of the benefit plans is not approved at this time. However, FEVI may adopt any change in amortization period for this account which is approved for FEI in the FEI PBR proceeding.

    d. FEVI is directed to adopt, effective January 1, 2014, the amortization period for the Customer Service Variance deferral account that is approved for FEI in the FEI PBR proceeding.

    e. The request to transfer FEVI's portion of the balance of the Amalgamation and Rate Design Application costs to rate base is approved.

    f. FEVI is directed to adopt, effective January 1, 2014, the amortization period for the Amalgamation and Rate Design Application costs which is approved for FEI in the FEI PBR proceeding.

    g. FEVI's request, as set out in section C4.4.2 of the Application, for discontinuance of various deferral accounts is approved as filed.

11. FEVI's request, as set out in section C3.2 of the Application, for modification to the approved Lead Lag days with the removal of the HST lead days and the insertion on GST and PST lead days is approved as filed effective January 1, 2014.

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12. FEVI's request, as set out in section C3.1 of the Application, to discontinue reconciliation of US Generally Accepted Accounting Principles (GAAP) to Canadian GAAP in future BCUC Annual Reports is approved.

13. With respect to FEVI's requests for accounting policy changes:

    a. FEVI's request, as set out in section 3.3 of the Application, to change its method for calculation of depreciation, whereby depreciation expense shall commence at the beginning of the year following when the asset is placed into service, is not approved at this time. However, FEVI may adopt the method for calculation of depreciation approved for FEI in the FEI PBR Proceeding.

    b. FEVI's request, as set in section C3.1 of the Application, to include the retiree portion of pension and OPEB expenses in benefit loadings for O&M and capital is not approved at this time. However, FEVI may adopt the treatment of pension and OPEB expenses approved for FEI in the FEI PBR proceeding.

    c. FEVI's request, as set out in section C3.1 of the Application, to capitalize annual software costs paid to vendors in support of upgrade capability is not approved at this time. However, FEVI may adopt the treatment of capitalization of the annual software costs approved for FEI in the FEI PBR proceeding.

14. FEVI must file revised financial schedules in accordance with the directives in this Decision and in accordance with the applicable directives in the Commission's decision in the FEI PBR proceeding, no later than 30 days after the issuance of that decision.

DATED at the City of Vancouver, in the Province of British Columbia, this 23rd day of May, 2014.

BY ORDER

Original Signed By:

D.M. Morton
Commissioner

LIST OF ACRONYMS

2014 RRA	FEVI 2014 Revenue Requirements Application
ACP	Annual Contracting Plan
AGA	American Gas Association
BCPSO	British Columbia Pensioners' and Seniors' Organization *et al.*
BCUC, Commission	British Columbia Utilities Commission
CBOC	Conference Board of Canada
CEC	Commercial Energy Consumers Association of British Columbia
CIAC	Contributions in Aid of Construction
CMAE	Core Market Administration Expense
CNG	compressed natural gas
COSA	cost of service allocation
EARSL	Expected Average Remaining Service Life
ES&ER	Energy Solutions and External Relations
FBC	FortisBC Inc.
FEI	FortisBC Energy Inc.
FEU	FortisBC Energy Utilities
FEVI, Applicant	FortisBC Energy (Vancouver Island) Inc.
FEW	FortisBC Energy (Whistler) Inc.
FHI	FortisBC Holdings Inc.
GAAP	Generally Accepted Accounting Principles
GCOC	Generic Cost of Capital
GCVA	Gas Cost Variance Account

LIST OF ACRONYMS

GGRR	Greenhouse Gas Reductions Regulation
GST	Goods and Services Tax
HST	Harmonized Sales Tax
IFRS	International Financial Reporting Standards
IR	Information Request
IT	Information Technology
LNG	liquefied natural gas
November 14, 2013 Five-Day Average Forward Prices	Forecast gas costs included in the Application Amendment for 2014 are based on the NYMEX natural gas futures five-day average forward prices at November 8, 11, 12, 13 and 14
O&M	Operations and Maintenance
OPEB	Other Post Employment Benefits
PBR Application	FEI Application for Approval of a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018
PJs	Petajoules
PST	Provincial Sales Tax
RDDA	Revenue Deficiency Deferral Account
RRA	Revenue Requirements Application
RSDA	Rate Stabilization Deferral Account
Special Direction	*Vancouver Island Natural Gas Pipeline Act Special Direction*
UAF	Unaccounted for gas
UCA	*Utilities Commission Act*
UPC	Use per Customer

LIST OF ACRONYMS

VINGPA	Vancouver Island Natural Gas Pipeline Agreement

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

and

FortisBC Energy (Vancouver Island) Inc.
2014 Revenue Requirements and Rates Application

EXHIBIT LIST

Exhibit No.	Description
COMMISSION DOCUMENTS	
A-1	Letter Dated October 2, 2013 – Order G-161-13 Establishing a Preliminary Regulatory Timetable
A-2	Letter Dated November 15, 2013 - Commission Information Request No. 1
A-3	Letter Dated December 11, 2013 – Appointment of Commission Panel
A-4	Letter Dated December 17, 2013 – Order G-217-13 and a Final Regulatory Timetable
A-5	Letter Dated January 23, 2014 - Commission Information Request No. 2
A-6	Letter Dated February 19, 2014 – Amended Appointment of Commission Panel
APPLICANT DOCUMENTS	
B-1	**FORTISBC ENERGY (VANCOUVER ISLAND) INC. (FEVI)** Letter Dated September 25, 2013 - 2014 Revenue Requirements and Rates Application
B-1-1	**CONFIDENTIAL** Letter Dated September 25, 2013 - Confidential Section B4.4.1.1 of FEVI's 2014 Revenue Requirements and Rates Application
B-1-2	Letter Dated December 13, 2013 – FEVI Submitting Application Amendment
B-2	Letter Dated December 12, 2013 - FEVI Response to BCPSO IR No. 1
B-3	Letter Dated December 12, 2013 - FEVI Response to CEC IR No. 1

Exhibit No.	Description
B-4	Letter Dated December 12, 2013 - FEVI Response to BCUC IR No. 1
B-4-1	**CONFIDENTIAL** Letter Dated December 12, 2013 - FEVI Confidential Attachment 20.5 to BCUC IR No. 1
B-5	Letter Dated December 13, 2013 – FEVI Submissions on Process
B-6	Removed from Record
B-7	Letter Dated January 10, 2013 - FEVI Submitting Evidentiary Update
B-8	Letter Dated February 13, 2014 - FEVI Submitting Response to BCPSO IR No. 2
B-9	Letter Dated February 13, 2014 - FEVI Submitting Response to CEC IR No. 2
B-10	Letter Dated February 13, 2014 - FEVI Submitting Response to BCUC IR No. 2

INTERVENOR DOCUMENTS

C1-1	**VANCOUVER ISLAND ECONOMIC ALLIANCE (VIEA)** Letter Dated October 16, 2013 and Online Registration– Request for Intervener Status by George Hanson
C1-2	Letter Dated October 18, 2013 – VIEA withdrawing Intervener Request
C2-1	**BRITISH COLUMBIA PENSIONERS' AND SENIORS' ORGANIZATION (BCPSO ET AL)** Letter dated October 17, 2013 – Request for Intervener Status by Tannis Braithwaite, Eugene Kung and James Wightman
C2-2	Letter dated November 21, 2013 – BCPSO Submitting Information Request No. 1
C2-3	Letter dated December 16, 2013 - BCPSO Submissions on Regulatory Process and Timetable
C2-4	Letter Dated January 23, 2014 - BCPSO Information Request No. 2
C3-1	Commercial Energy Consumers Association of British Columbia (cec)Letter dated October 17, 2013 – Request for Intervener Status by Christopher Weafer

Exhibit No.	Description
C3-2	Letter dated November 21, 2013 – CEC Submitting Information Request No. 1
C3-3	Letter dated December 16, 2013 - CEC Submissions on Regulatory Process and Timetable
C3-4	Letter Dated January 23, 2014 - CEC Information Request No. 2

LETTERS OF COMMENT

E-1	Stevens, S Letter of Comment Dated January 14, 2014