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BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-162-14

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

and

FortisBC Energy Inc.
Multi-Year Performance Based Ratemaking Plans for 2014 through 2019
approved by the British Columbia Utilities Commission Decision and Order G-138-14

BEFORE: D.M. Morton, Panel Chair/Commissioner
D.A. Cote, Commissioner
N.E. MacMurchy, Commissioner

October 23, 2014

O R D E R

WHEREAS:

A. On June 10, 2013 and July 5, 2013, FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC), respectively, applied to the British Columbia Utilities Commission (Commission) for approval of a proposed multi-year Performance Based Ratemaking (PBR) plan for the years 2014 through 2018;

B. On September 15, 2014, the Commission issued Order G-138-14 for FEI and Order G-139-14 for FBC, with accompanying Decisions, setting out the approved PBR plans for FEI and FBC (collectively FortisBC) for the period from 2014 through 2019 (PBR Decisions);

C. By letter dated October 3, 2014, FortisBC filed a Request for Clarification and Request for Reconsideration and Variance of certain aspects of the PBR Decisions;

D. By letter dated October 9, 2014, the Commission established Phase 1 of the reconsideration process;

E. Separate from the establishment of Phase 1 of the reconsideration process, the Commission has reviewed the aspects of the PBR Decisions with which FortisBC has requested clarification and has provided additional guidance in the accompanying Reasons for Decision;

F. For the Reasons stated in Appendix A to this Order, the Commission considers that additional approvals to the PBR Decisions are warranted.

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

1. FortisBC Energy Inc. is approved to establish a single flow-through deferral account to capture the annual variances between forecast and actual amounts for all costs and revenues which are flowed through on a forecast basis and which do not have a previously approved deferral account. The flow-through deferral account is approved to be utilized for the duration of the PBR period only.

2. FortisBC Energy Inc. is directed to amortize the flow-through deferral account over a one year period.

3. FortisBC Energy Inc. is directed to accrue carrying charges on the flow-through deferral account based on FortisBC Energy Inc.'s currently approved weighted average cost of capital.

4. FortisBC Energy Inc. is directed to track and display each cost/revenue item in the flow-through deferral account separately as an individual line item within FortisBC Energy Inc.'s regulatory schedules, including in the Continuity of Deferred Charges schedules.

5. FortisBC Energy Inc. is approved to establish the Earning Sharing deferral account to flow through to customers any result of the Earning Sharing Mechanism. FortisBC Energy Inc. shall apply a one year amortization period to the Earning Sharing deferral account and shall accrue carrying charges on the deferral account based on FortisBC Energy Inc.'s currently approved weighted average cost of capital.

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

BY ORDER

Original signed by:

D.M. Morton
Commissioner/Panel Chair

Attachment

FortisBC Energy Inc.
Multi-Year Performance Based Ratemaking Plans for 2014 through 2019
approved by the British Columbia Utilities Commission Decision and Order G-138-14

REQUEST FOR CLARIFICATION AND REASONS FOR DECISION

INTRODUCTION

On June 10, 2013 and July 5, 2013, FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC), respectively, applied to the British Columbia Utilities Commission (Commission) for approval of a proposed multi-year Performance Based Ratemaking (PBR) plan for the years 2014 through 2018.

On September 15, 2014, the Commission issued Order G-138-14 for FEI and Order G-139-14 for FBC, with accompanying Decisions, setting out the approved PBR plans for FEI and FBC (collectively FortisBC) for the period from 2014 through 2019 (PBR Decisions).

By letter dated October 3, 2014, FortisBC filed a Request for Clarification and Request for Reconsideration and Variance of certain aspects of the PBR Decisions. By letter dated October 9, 2014, the Commission established Phase 1 of the Reconsideration process.

Separate from the establishment of Phase 1 of the Reconsideration process, the Commission Panel reviewed FortisBC's requests for clarification of certain directives in the PBR Decisions.

REQUESTS FOR CLARIFICATION

Based on the Commission Panel's review of FortisBC's clarification requests, the Panel finds that in certain instances the clarification results in the need for the Panel to issue new approvals to FortisBC. These approvals are provided in the accompanying Commission Orders for each of FEI and FBC and are further described in the following responses.

<u>Clarification Request #1</u>

FEI and FBC seek clarification that they are approved to flow through variances in uncontrollable revenues and expenses through the use of a deferral account mechanism. Additionally, FEI seeks approval for an Earnings Sharing deferral account to flow through to customers any result of the Earnings Sharing Mechanism.

Commission Panel Response and Determination

There are two parts to this point of clarification: the first part deals with the clarification request and the second part deals with FEI's new request for an Earning Sharing deferral account.

<u>Part I - Clarification of Mechanism to Achieve Flow-Through of Variances</u>

Based on the information provided by FortisBC in its October 3, 2014 letter requesting clarification (Clarification Letter), the Commission Panel agrees that a misunderstanding occurred during the oral argument phase with regards to FortisBC's response to the Commission Panel's question of "Are these deferral accounts necessary?"

The Commission Panel clarifies that the variances in uncontrollable revenues and expenses identified in the Decisions are approved to be flowed through to customers.

FortisBC submits on page 4 of the Clarification Letter: "In order for the amounts to be flowed-through, some deferral mechanism is required – either the different deferral accounts requested or a single deferral account to capture all of the flow-through amounts collectively."

FortisBC further submits on page 5 of the Clarification Letter: "The treatment followed by FBC in its previous PBR Plan was to accumulate the variances between actual and forecast in a given year in a single deferral account balance and record this balance on the deferred charges as "flow-throughs."

Given the Commission Panel's statement in the Decisions and re-stated by FortisBC in the Clarification Letter that the same treatment used by FBC in its last PBR should be followed with regards to the flow through or "true-up" of variances, the Commission Panel **approves the use of a single deferral account for each of FBC and FEI to capture all of the flow-through variances.** The Panel considers this approach to be both consistent with the approach utilized in FBC's previous PBR plan and to be the most administratively efficient way to achieve the flow-through of costs/revenues to rate-payers. However, **the Commission Panel approves the flow-through deferral account for each of FEI and FBC for the duration of the PBR period only.**

In consideration of the fact that the flow-through deferral account's purpose is to capture variances between forecast and actual results each year, **the Commission Panel finds that the appropriate amortization period for both FEI and FBC's flow-through deferral account is one year.**

With regards to FBC, the Commission Panel determines that the carrying cost allowed on the flow-through deferral account shall be aligned with the FBC 2012-2013 RRA Decision.[1] **Therefore, the Commission Panel directs that FBC's flow-through deferral account shall accrue carrying charges based on FBC's short-term interest rate.**

With regards to FEI, the Commission Panel finds that the flow-through deferral account shall accrue carrying charges based on FEI's Weighted Average Cost of Capital, as this is consistent with FEI's other currently approved deferral accounts.

To address issues of transparency**, the Commission Panel directs FEI and FBC to separately track and display each flow-through item as an individual line item in the Companies' regulatory schedules, including the Continuity of Deferred Charges schedules, so that the variances can be more easily reviewed during the Annual Reviews.**

<u>Part II – FEI Request for Earning Sharing Deferral Account</u>

The Commission Panel acknowledges that FEI requires an Earning Sharing deferral account to flow through to customers any result of the Earning Sharing Mechanism (ESM). The Panel also recognizes that given the timing of the PBR Decisions, FEI now requires approval of this deferral account in advance of the first Annual Review.

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1 FortisBC Inc. 2012-2013 Revenue Requirements Decision, p. 105.

Accordingly, the Commission Panel approves the establishment of the Earning Sharing deferral account. This deferral account shall have a one year amortization period and shall earn a return based on FEI's Weighted Average Cost of Capital. This treatment is consistent with FEI's other currently approved deferral accounts.

Clarification Request #2

FortisBC seeks clarification that the Commission approves the ESM as proposed by FortisBC which is designed as a 50/50 sharing of variances in the Return on Equity (ROE), which is affected by variances in any items that are not subject to flow through treatment via a deferral account.

Commission Panel Response and Determination

Based on the additional information provided by FortisBC in the Clarification Letter explaining the necessity of a deferral account mechanism to achieve the flowing through of variances, the Commission Panel agrees with FortisBC's statement on page 6 that "The impact of excluding these items (and all other re-forecast items) from the calculation of the ESM would be that the Companies would retain 100% of the variance between forecast and actual for these items, in the same manner as would occur under a cost of service regime."

The Commission Panel's intent in its Decision to exclude all of the items that are flowed through or re-forecast each year from the ESM, such as industrial delivery revenues for FEI, rate base other than Plant in Service for FEI and FBC, and Advanced Metering Infrastructure (AMI) and PCB compliance costs for FBC, was not to replicate a cost of service treatment of these items.

The Commission Panel's determination on page 104 of the FBC Decision and on page 107 of the FEI Decision clearly states that it "rejects Fortis' proposal to apply the 50/50 ESM to any of the flow-through revenues/costs and directs that the ESM mechanism is not to be applied to flow-through items." The Panel's intent when making this determination was based on the assumption that FortisBC was able to flow through these variances without any additional mechanism, namely, without a deferral account. Irrespective of this point of misunderstanding, **the Commission Panel confirms its determination in the PBR Decisions that all items that are flowed through or re-forecast each year are *excluded* from the calculation of the 50/50 ESM. For further clarity, this means that the only items which are to be subject to the 50/50 ESM are those amounts which are included in the Operating and Maintenance (O&M) and Capital spending formulae.**

However, the Commission Panel acknowledges that further direction is required in order to provide FortisBC with a mechanism to flow through these items to customers so that FortisBC does not retain 100 percent of the variance between forecast and actual results. **Accordingly, the Commission Panel directs that the variances between forecast and actual results for all items that are approved to be flowed through or re-forecast annually be subject to deferral account treatment. These variances shall be captured in the flow-through deferral account approved as part of Clarification Request #1.**

Clarification Request #3

FortisBC seeks clarification that the Growth Term for FEI's growth capital should have been stated as $[1 + ((SLA_{t-1} – SLA_{t-2} / SLA_{t-2}) \times 50\%)]$ and that FEI's and FBC's Growth Term for all other cases should have been stated as $[1 + ((AC_{t-1} – AC_{t-2}) / AC_{t-2}) \times 50\%)]$.

Commission Panel Response:

This point of clarification is confirmed. The Commission Panel's intention is for FortisBC to apply the one-half reduction to the Growth Term only, not to reduce the entire O&M and capital spending formulae by one-half.

Clarification Request #4

FortisBC seeks clarification that the requirement to be met to bring forward a request for Efficiency Carryover Mechanism (ECM) for consideration is that the efficiency initiative requires a "payback period" extending beyond the PBR plan period, as stated on page 185 of the FEI Decision and page 179 of the FBC Decision.

Commission Panel Response:

This point of clarification is confirmed. Although the term "benefits" was used on page 132 of the FEI Decision and on page 128 of the FBC Decision, the Commission Panel's intention is to articulate that each proposed efficiency initiative requires a ***payback period*** extending beyond the PBR plan period.