British Columbia Utilities Commission

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ORDER NUMBER
G-182-16

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

and

FortisBC Energy Inc.
Annual Review for 2017 Delivery Rates

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

on December 7, 2016

ORDER

WHEREAS:

A. On September 15, 2014, the British Columbia Utilities Commission (Commission) issued its decision and Order G-138-14 for FortisBC Energy Inc. (FEI) approving a Multi-Year Performance Based Ratemaking (PBR) Plan for 2014 through 2019 (PBR Decision). In accordance with the PBR Decision, FEI is to conduct an annual review process to set delivery rates for each year;

B. By letter dated July 15, 2016, FEI proposed a regulatory timetable for its annual review for 2017 delivery rates;

C. By Order G-122-16 dated July 28, 2016, the Commission established the regulatory timetable for the annual review for 2017 delivery rates which included the anticipated date for FEI to file its annual review materials, the deadline for intervener registration, one round of information requests, a workshop, FEI's response to undertakings requested at the workshop, and written final and reply arguments;

D. On August 2, 2016, FEI submitted its Annual Review for 2017 Delivery Rates Application materials (Application);

E. The following interveners registered in the proceeding:

- BC Sustainable Energy Association and the Sierra Club of British Columbia (BCSEA);
- British Columbia Old Age Pensioners' Organization *et al.* (BCOAPO);
- Canadian Office and Professional Employees Union, Local 378 (MoveUP);
- Commercial Energy Consumers Association of British Columbia (CEC); and
- NOVA Gas Transmission Ltd. (NGTL); and

F. The Commission has reviewed the Application and evidence filed in the proceeding and makes the following determinations.

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

1. FortisBC Energy Inc. (FEI) is approved to maintain 2017 delivery rates at the approved 2016 levels, before consideration of rate riders, effective January 1, 2017.

2. FEI is approved to establish the 2017 Revenue Surplus deferral account to record the 2017 revenue surplus resulting from maintaining 2017 rates at existing 2016 levels. FEI is directed to accrue carrying charges on the 2017 Revenue Surplus deferral account based on FEI's approved Weighted Average Cost of Capital. FEI is directed to propose an amortization period for the 2017 Revenue Surplus deferral account as part of its annual review for 2018 delivery rates application.

3. The following deferral account requests are approved:
    a. Creation of a rate base deferral account for the All-Inclusive Code of Conduct/Transfer Pricing Policy regulatory proceeding with a one year amortization period, commencing in 2017;
    b. A five-year amortization period for the Emissions Regulations deferral account, commencing in 2017; and
    c. Discontinuance of the non-rate base deferral account for the Kingsvale-Oliver Reinforcement Project Feasibility Costs.

4. The Commercial Energy Consumers Association of British Columbia's proposal to defer the amortization of the Rate Stabilization Deferral Account (RSDA) from 2017 to 2018, is rejected.

5. The following rate rider requests are approved:
    a. RSDA riders for 2017 in the amounts set out in Table 10-7 in Section 10 of the Application;
    b. Phase-In Rate riders for 2017 in the amounts set out in Table 10-9 for Mainland customers and Table 10-11 for Vancouver Island and Whistler customers in Section 10 of the Application; and
    c. Revenue Stabilization Adjustment Mechanism riders for 2017 in the amounts set out in Table 10-12 in Section 10 of the Application.

6. FEI's application for a three-year amortization period for the 2016 Cost of Capital Application deferral account is not approved at this time. FEI is directed to provide additional information and explanations for the amount of expert/consultant costs and legal costs incurred for the 2016 Cost of Capital proceeding, as outlined in the Reasons for Decision attached as Appendix A to this order. FEI is directed to file the requested additional information as part of its annual review for 2018 delivery rates application.

7. FEI is approved to remove the amount of formula capital which has exceeded the cumulative capital dead-band from the earnings sharing calculation and is approved to add the amount of capital in excess of the dead-band to FEI's opening 2017 plant additions balance. FEI is directed to provide additional information on its capital expenditures, as outlined in the Reasons for Decision attached as Appendix A to this order, as part of FEI's annual review for 2018 delivery rates application.

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8. FEI is directed to report the Holt's Exponential Smoothing (ETS) test forecasts and the aggregate Mean Average Percent Error (MAPE) results as part of its annual review for 2018 delivery rates application and in all remaining annual review applications. FEI is also directed, as part of its future annual review application materials, to extend the applicable tables in Section 3 of Appendix A2 of the Application to include variance information for the ETS method for the residential and commercial use per customer, and the commercial customer additions.

9. FEI is directed to provide the headcount and Full Time Equivalent information as outlined in the Reasons for Decision attached as Appendix A to this order in its annual review for 2018 delivery rates application and in all remaining annual review applications during the term of the Performance Based Ratemaking Plan.

10. The Commercial Energy Consumers Association of British Columbia's proposal for a mid-term review of the Performance Based Ratemaking Plan, is rejected.

11. FEI is directed to file as a compliance filing the finalized financial schedules for the 2017 test period no later than 30 days from the date of this order.

DATED at the City of Vancouver, in the Province of British Columbia, this 7th day of December 2016.

BY ORDER

Original signed by:

D. J. Enns
Panel Chair/Commissioner

Attachment

British Columbia Utilities Commission

IN THE MATTER OF

FortisBC Energy Inc.
Annual Review for 2017 Delivery Rates

REASONS FOR DECISION

December 7, 2016

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

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1.0 INTRODUCTION

1.1 Background

By Order G-138-14 dated September 15, 2014, the British Columbia Utilities Commission (Commission) approved a Performance Based Ratemaking (PBR) Plan for FortisBC Energy Inc. (FEI) covering a six-year period commencing in 2014. A primary purpose of the PBR Plan is to create an incentive for FEI to adopt a productivity focus and seek out sustainable operating and capital savings while maintaining service quality as measured by Service Quality Indicators (SQIs). The PBR Plan provides for an equal sharing of any PBR-related savings between the customer and FEI.

A key element of the PBR Plan is the provision for an annual review. As part of the FEI Application for Approval of a Multi-Year PBR Plan for 2014 through 2019 Decision (PBR Decision), the Commission set out the following items to be addressed at each annual review:

1. Evaluation of the operation of the PBR Plan in the past year(s) and identification by any party of any deficiencies/concerns with the operation of the PBR Plan that have become apparent.
2. Review of the current year projections and the upcoming year's forecast.
3. Identification of any efficiency initiatives that FEI has undertaken, or intends to undertake, that require a payback period extending beyond the PBR Plan period and make recommendations to the Commission with respect to the treatment of such initiatives.
4. Review of any exogenous events that FEI or stakeholders have identified that should be put forward to the Commission for decision as to their exclusion from the PBR Plan.
5. Review of FEI's performance with respect to SQIs. Bring forward recommendations to the Commission where there has been a "sustained serious degradation" of service.
6. Assess and make recommendations with respect to any SQIs that should be reviewed in future annual reviews.
7. Assess and make recommendations to the Commission on the scope for future annual reviews.[1]

On August 2, 2016, FEI filed its Annual Review for 2017 Delivery Rates Application (Application). In the Application, FEI forecasts a 1.2 percent delivery rate increase for 2017, which equates to an increase of approximately $7 to the annual bill for an average Mainland residential customer.[2] The forecast increase for 2017 is primarily due to increases in depreciation expense and return on equity caused largely by the Tilbury Expansion Project entering rate base. The capital cost of the Tilbury Expansion Project is approximately $444 million. The impact of the Tilbury Expansion Project entering rate base is offset by an increase in demand in 2017.[3]

[1] FEI Application for Approval of a Multi-Year Performance Based Ratemaking Plan for 2014 through 2019 (PBR), Decision dated September 15, 2014, pp. 185-186.
[2] Exhibit B-2, p. 1.
[3] Ibid., pp. 14-15, 55.

With regard to savings achieved under the PBR Plan, FEI projects that its 2016 Operating and Maintenance (O&M) expenses will be approximately $11.1 million lower than the PBR formula amount. However, FEI states that its capital expenditures continue to be above the capital formula amount, which offset some of the savings achieved in O&M. Overall, FEI states that $5.115 million of earnings sharing will be returned to customers in 2017.[4]

Subsequent to the filing of the Application, FEI filed an evidentiary update on October 5, 2016 (Evidentiary Update). FEI describes a number of items which result in changes to the forecast 2017 rates. The item with the greatest impact on 2017 rates is the Tilbury Expansion Project, which FEI states is now scheduled to be completed in mid-2017 as opposed to the originally planned completion date of December 2016. The delay in the completion date means that the project will not enter rate base until January 1, 2018. The impact of this delay and the other items outlined in the Evidentiary Update is that FEI has revised its 2017 forecast from a revenue deficiency of $9.319 million to a revenue surplus of $31.456 million, which results in a decrease to 2017 delivery rates of 4.06 percent. FEI therefore proposes in the Evidentiary Update to hold 2017 delivery rates at existing 2016 levels (before consideration of rate riders), and to record the forecast 2017 revenue surplus in a new deferral account, the 2017 Revenue Surplus deferral account. The balance in this deferral account would then be used to offset the rate increase in 2018 resulting from the Tilbury Expansion Project entering rate base.[5]

1.2 Approvals sought

FEI seeks the following approvals pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA):

1. Delivery rates to be maintained at 2016 levels, before consideration of rate riders, effective January 1, 2017;
2. Establishment of the following deferral accounts:
    a. The 2017 Revenue Surplus deferral account, attracting short term interest, with an amortization period to be determined in FEI's Annual Review for 2018 Delivery Rates; and
    b. A rate base deferral account for the All-Inclusive Code of Conduct/Transfer Pricing Policy regulatory proceeding with a one year amortization period, commencing in 2017;
3. Amortization periods for the following existing deferral accounts:
    a. A three-year amortization period for the 2016 Cost of Capital Application deferral account, commencing in 2017; and
    b. A five-year amortization period for the Emissions Regulations deferral account, commencing in 2017;
4. Discontinuance of the non-rate base deferral account for the Kingsvale-Oliver Reinforcement Project Feasibility Costs;
5. Rate Stabilization Deferral Account (RSDA) riders for 2017 in the amounts set out in Table 10-7 in Section 10 of the Application;
6. Phase-In Rate riders in 2017 in the amounts set out in Table 10-9 for Mainland customers and Table 10-11 for Vancouver Island and Whistler customers in Section 10 of the Application; and

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[4] Exhibit B-2, p. 4.
[5] Exhibit B-2-1, pp. 1-5.

7. Revenue Stabilization Adjustment Mechanism (RSAM) riders for 2017 in the amounts set out in Table 10-12 in Section 10 of the Application.[6]

These approvals are addressed in Section 2 of the Reasons for Decision.

1.3 Application review process

In accordance with the Regulatory Timetable established by Order G-122-16, the following review process was undertaken:

- One round of Commission and intervener information requests (IRs);
- A workshop open to all participants held on October 12, 2016;
- An opportunity for FEI to file responses to undertakings arising from information requested at the workshop;
- Written final arguments from interveners filed on October 26, 2016; and
- FEI's written reply argument filed on November 2, 2016.

The following interveners registered in the proceeding:

- BC Sustainable Energy Association and the Sierra Club of British Columbia (BCSEA);
- British Columbia Old Age Pensioners' Organization *et al.* (BCOAPO);
- Canadian Office and Professional Employees' Union, Local 378 (MoveUP);
- Commercial Energy Consumers Association of British Columbia (CEC); and
- NOVA Gas Transmission Ltd. (NGTL).

1.4 Issues arising

In addition to the approvals sought by FEI in the Application and subsequently updated in the Evidentiary Update, the following issues arose during the course of the proceeding requiring further discussion and/or determinations:

1. Treatment of formula capital in excess of the capital dead-band;
2. Use of Holt's Exponential Smoothing (ETS) as an alternative load forecasting method; and
3. Various issues related to the overall evaluation of the PBR Plan, including:
    a. Permanent versus temporary O&M savings achieved under PBR;
    b. The Annual Review process; and
    c. Cross-utilization of FEI and FortisBC Inc. (FBC) employees.

These issues are addressed in Section 3 of the Reasons for Decision.

[6] FEI Reply Argument, pp. 1-2.

2.0 DETERMINATIONS ON APPROVALS SOUGHT

No issues were raised with respect to a number of FEI's deferral account and rate rider requests, and based on the evidence collected in this proceeding **the Panel finds the following requests to be reasonable and accordingly approves them**, with no further comments provided in these Reasons for Decision:

- **Creation of a rate base deferral account for the All-Inclusive Code of Conduct/Transfer Pricing Policy regulatory proceeding with a one year amortization period, commencing in 2017.**
- **A five-year amortization period for the Emissions Regulations deferral account, commencing in 2017.**
- **Discontinuance of the non-rate base deferral account for the Kingsvale-Oliver Reinforcement Project Feasibility Costs.**
- **Phase-In Rate riders for 2017 in the amounts set out in Table 10-9 for Mainland customers and Table 10-11 for Vancouver Island and Whistler customers in Section 10 of the Application; and**
- **Revenue Stabilization Adjustment Mechanism riders for 2017 in the amounts set out in Table 10-12 in Section 10 of the Application.**

Discussion of the remaining requested approvals is provided in the immediately following sections.

2.1 Rate smoothing and the 2017 Revenue Surplus deferral account

FEI seeks approval to maintain 2017 delivery rates at 2016 levels, before consideration of rate riders, which results in a forecast revenue surplus of $31.456 million in 2017.[7] FEI proposes to defer this revenue surplus and accordingly seeks approval to establish the 2017 Revenue Surplus deferral account, attracting short term interest, with an amortization period to be determined in FEI's annual review for 2018 delivery rates application.[8]

In the Evidentiary Update, FEI explained that there have been several changes since the Application was filed resulting in FEI's forecast for 2017 to change from the original $9.319 million revenue deficiency to a revenue surplus of $31.456 million, which FEI forecasts will result in a decrease to 2017 delivery rates of 4.06 percent.[9]

The primary cause of the revenue surplus is the delay in the completion of the Tilbury Expansion Project. The project was scheduled to be complete in December 2016 but is now estimated to be complete in mid-2017. The impact of the delayed completion is that the project is now expected to enter rate base on January 1, 2018 instead of January 1, 2017.[10]

[7] Exhibit B-2-1, p. 5.
[8] FEI Reply Argument, p. 1.
[9] Exhibit B-2-1, pp. 4-5.
[10] Ibid., p. 1.

In response to Workshop Undertaking No. 3, FEI provided the following five rate smoothing options, including FEI's proposal in the Evidentiary Update:[11]

		Delivery Rate Change			
Option	**Description**	**2017**	**2018**	**2019**	**2020**
1	A 2017 delivery rate increase equal to 2%, Surplus deferral account with two year amortization	2%	6%	5%	5%
2	No 2017 delivery rate increase, Surplus deferral account with two year amortization	0%	7%	5%	4%
3	No 2017 delivery rate increase, Surplus deferral account with one year amortization	0%	5%	9%	2%
4	A 2017 delivery rate increase equal to 2%, Surplus deferral account with one year amortization	2%	3%	11%	2%
5	No Surplus deferral account	-4%	10%	5%	2%

FEI stated that it based the above five rate smoothing options on the following assumptions:

- A flat demand profile;
- An assumed rate increase in years 2018 through 2020 of two percent from formula and other possible revenue requirement changes;
- The Tilbury Expansion project being in service in 2018;
- The Coastal Transmission System (CTS) upgrades being in service in 2018; and
- The Lower Mainland Intermediate Pressure Pipeline System Upgrade (LMIPSU) being in service in 2019.

FEI re-iterated that it had proposed Option 3 in the above table in the Evidentiary Update as a reasonable option for smoothing rates and pointed out that this option has been utilized by the Commission in similar situations in the past. However, FEI stated that it is amenable to a two percent delivery rate increase in 2017 (i.e. Option 1 in the above table) as this option provides the most flexibility to smooth out rate increases in future years.[12]

In Workshop Undertaking No. 3, FEI also stated: "Regardless of whether delivery rates are held flat or a 2 percent delivery rate increase is approved, FEI believes it would be beneficial to refrain from setting an amortization period for the Revenue Surplus deferral account at this time." In FEI's view, it will have: "more certainty over the costs and timing of the CTS and LMIPSU projects, and the potential for any future tax reductions or rate rebalancing from the RDA [Rate Design Application]."[13]

[11] Exhibit B-11, Workshop Undertaking No. 3.
[12] Ibid.
[13] Ibid.

With regard to the appropriate carrying charge to be applied to the 2017 Revenue Surplus deferral account, FEI submitted a short-term interest rate of return is appropriate because the balance in the account represents an "over-collection of cash, or revenues, from customers and is not related to investments in the specific components of the cost of service which would normally attract a weighted average cost of capital return." FEI pointed to the Rate Stabilization Deferral Account (RSDA) as an example where short-term interest was approved and submitted that a short-term interest return is: "consistent with that consistently ordered by the Commission for the difference between interim and permanent rates." [14]

Intervener arguments

BCOAPO supports the first rate smoothing option put forth by FEI in Workshop Undertaking No. 3, which is to increase 2017 rates by two percent and then amortize the 2017 Revenue Surplus deferral account over two years. BCOAPO submits that its: "clients' value rate stability and this option allows for the greatest rate stability over a period of years, with no additional increase in rates." [15]

BCSEA supports FEI's proposal in the Evidentiary Update to maintain existing rates and amortize the full 2017 Revenue Surplus deferral account balance in 2018.[16]

CEC supports either maintaining existing rates or increasing 2017 rates by two percent and supports delaying determination of the amortization period for the 2017 Revenue Surplus deferral account until the annual review for 2018 delivery rates proceeding. CEC also supports FEI's proposed short term interest rate for the 2017 Revenue Surplus deferral account. However, CEC recommends that the Commission consider deferring amortization of the RSDA rate rider from 2017 to 2018.[17]

FEI reply argument

FEI responds that its proposal for a rate freeze is: "consistent with Commission past practice and provides a reasonable level of mitigation for future rate increases." However, FEI also states that it is: "amendable to the 2% delivery rate increase option preferred by BCOAPO, which would result in a greater balance in the 2017 Revenue Surplus deferral account that could be used to mitigate future rate increases."[18]

FEI opposes CEC's proposal to defer amortization of the RSDA for 2017.[19] This issue is discussed further in Section 2.3 of these Reasons for Decision.

Commission determination

The Panel makes the following determinations with respect to rate smoothing and the 2017 Revenue Surplus deferral account.

[14] Exhibit B-11, Workshop Undertaking No. 1.
[15] BCOAPO Final Argument, p. 2.
[16] BCSEA Final Argument, p. 1.
[17] CEC Final Argument, pp. 32-33.
[18] FEI Reply Argument, p. 6.
[19] Ibid., p. 5.

<u>Rate smoothing</u>

The Panel approves FEI's request to maintain 2017 delivery rates at the approved 2016 levels, before consideration of rate riders, effective January 1, 2017. The Panel also approves the establishment of the 2017 Revenue Surplus deferral account to record the 2017 revenue surplus resulting from maintaining 2017 rates at existing 2016 levels.

FEI's proposal to smooth rates using a deferral account is a reasonable approach to mitigate the rate volatility caused by the delay in the completion of the Tilbury Expansion Project. Without deferral account treatment, the impact of the delay in the project coming on line is a rate decrease in 2017 followed by a large rate increase in 2018. The Panel therefore concludes that rate smoothing in this instance is appropriate.

While FEI presented an additional option of increasing 2017 rates by two percent in order to achieve even greater rate smoothing, which BCOAPO favours, the Panel does not agree with this approach. There is no evidentiary basis to support a rate increase of two percent other than providing greater rate smoothing; thus the Panel considers this proposal to be arbitrary.

<u>Amortization period</u>

The Panel directs FEI to propose an amortization period for the 2017 Revenue Surplus deferral account as part of FEI's Annual Review for 2018 Delivery Rates Application.

FEI originally proposed to establish a one year amortization period for the 2017 Revenue Surplus deferral account; however, the Panel agrees with FEI's revised proposal to delay determination of the amortization period until the next annual review. FEI identified a number of assumptions made in its calculations of the forecast 2017 through 2020 delivery rate increases under the various rate smoothing options presented in Workshop Undertaking No. 3. These assumptions include the Tilbury Expansion Project and the CTS upgrades entering rate base in 2018 and the LMIPSU Project entering rate base in 2019. The Tilbury Expansion Project, in particular, is a major undertaking by FEI and the Panel is not persuaded based on the evidence in this proceeding that the project will be completed within the estimated timeline. The Panel therefore concludes that the appropriate amortization period for the 2017 Revenue Surplus deferral account is better determined as part of the next annual review, as FEI will have more clarity regarding the completion of the Tilbury Expansion Project and will have more information on the anticipated 2018 and 2019 rate increases.

<u>Deferral account carrying cost</u>

The Panel does not approve FEI's request to accrue short term interest on the 2017 Revenue Surplus deferral account, and instead directs that the 2017 Revenue Surplus deferral account attract a return based on FEI's approved Weighted Average Cost of Capital.

The Panel considers a Weighted Average Cost of Capital (WACC) return to be more appropriate than the short term interest return proposed by FEI. The Commission has consistently approved WACC treatment for FEI's deferral accounts, as evidenced by the fact that the majority of FEI's approved deferral accounts are either classified as rate base deferral accounts or are classified as non-rate base deferral accounts earning a WACC rate of return. Examples include the RSAM deferral account, the 2014-2019 Earning Sharing deferral account, and the Flow-Through deferral account.[20]

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[20] Exhibit B-2, Section 11, Schedules 11, 11.1, 12.

In Workshop Undertaking No. 1, FEI references the RSDA as an example where a deferral account was approved to accrue short term interest. The Panel notes, however, that the RSDA was originally approved for FortisBC Energy (Vancouver Island) Inc. (FEVI), which at the time of approval was a separate entity from FEI. The Panel considers the circumstances which led to the approval of the RSDA and the characteristics of the RSDA to be sufficiently unique that we do not consider the RSDA to be representative of FEI's current deferral account request. The Panel notes that FEVI was operating under the Vancouver Island Natural Gas Pipeline Act Special Direction at the time that the RSDA was established, and that this special direction, which was put in place in 1995, defined certain parameters within which FEVI was regulated.[21]

2.2 2016 Cost of Capital Application deferral account

FEI requests approval to amortize the balance in the existing 2016 Cost of Capital Application deferral account over three years beginning in 2017. This deferral account was approved by the Commission in the FEI Annual Review of 2015 Delivery Rates Decision and accompanying Order G-86-15.[22] FEI states that it: "has incurred and will continue to incur" costs for the 2016 Cost of Capital Application proceeding related to legal fees, consultant costs, costs for miscellaneous facilities, stationery and supplies, Commission costs, and PACA reimbursements. FEI currently estimates the balance in the deferral account to be $1.7 million before tax. [23]

In response to BCUC IR 24.1 in the FEI Annual Review of 2015 Delivery Rates proceeding, FEI estimated that it would incur approximately $500,000 in proceeding costs for the 2016 Cost of Capital Application, which included an estimate of $70,000 for FEI Experts/Consultants and $60,000 in external legal costs.[24] However, FEI now projects the total cost for FEI Experts/Consultants to be $833,755, and external legal costs to be $393,945.[25]

FEI explained that the increased costs are due to the fact that FEI's original estimate was prepared in January of 2015, which was before the Cost of Capital application was filed, and before the regulatory process was determined. FEI further submitted the following:

> The Cost of Capital proceeding was an extensive regulatory process, with expert evidence from both FEI and intervener groups and an oral hearing. The regulatory process increased the costs to the high end of a normal range for a regulatory process but comparable with other proceedings that involve expert witnesses and oral testimony.[26]

FEI cited other proceedings' costs which it considers comparable to the 2016 Cost of Capital Application, including Stage 1 of the Generic Cost of Capital (GCOC) proceeding ($1.8 million of proceeding costs before allocation to other utilities), the FortisBC Energy Utilities 2012-2013 Revenue Requirements Application (FEU 2012-2013 RRA) proceeding ($1.6 million), and the FEI 2014-2018 PBR proceeding ($2 million).[27]

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[21] Order in Council (OIC) No. 1510 dated December 13, 1995 made pursuant to the Vancouver Island Natural Gas Pipeline Agreement Act, R.S.B.C. 1996, Chap. 474.
[22] FEI Annual Review of 2015 Delivery Rates Decision, p. 24.
[23] Exhibit B-2, p. 63.
[24] FEI Annual Review of 2015 Delivery Rates proceeding, Exhibit B-2, BCUC IR 24.1.
[25] Exhibit B-3, BCUC IR 27.1.
[26] Ibid.
[27] Ibid.

At the Workshop, FEI was asked by Commission staff to compare the 2016 Cost of Capital proceeding with the three proceedings referenced above in terms of the number of oral hearing days, number of IRs, number of experts/consultants used, number of hours billed, and the rate charged per hour. FEI provided the following table as Workshop Undertaking No. 5:[28]

Applicaton	FEI 2016 Cost of Capital	FEI-FBC 2014-2019 PBR*	FEU 2012-2013 RRA	2012 GCOC Stage 1*
Commission Costs	$ 150,000 (1)	$ 318,079	$ 389,430	$ 500,000 (2)
Intervener PACA	249,799	513,720	351,020	477,650
FEI Experts/Consultants **	833,755	455,758	299,053	1,095,879
Legal Costs	453,945	946,431	489,233	528,314
Other/Misc.	18,767	21,548	32,240	6,953
Total:	**$ 1,706,266**	**$ 2,255,536**	**$ 1,560,976**	**$ 2,608,797**
Limited Oral Hearing Scope	Yes	Yes	No	No
# Oral Hearing Days***	3	7	8	7
# IRs	561	3,534	1,665	956
# Rounds of IRs	2	3	3	2
# FEI Experts	1	1	1	4
# Hours Billed	1,915	Approx. 1,300	Approx. 800	Approx. 3,000
Rate per Hour****	$55-725 USD	$300-$400 USD	$90-$205 CAD	$100-$500 USD

Note (1) Forecast not yet final
Note (2) Commission's direct costs $500,000 through the levy
** total costs, before allocations to other utilties*
*** reflects converson to $CAD where applicable. Average annual exchange rates were as follows:*

2016	*0.76512*
2014	*0.90226*
2012	*1.00170*

**** Oral hearing days include both Company and Expert witness panels, with the exception of 2016 Cost of Capital*
***** hourly rates dependent on the experience and level of support used*

FEI stated that the change in exchange rates has resulted in the Expert/Consultant costs being higher in the 2016 Cost of Capital proceeding than in the other previous proceedings, and submitted "had the 2012 exchange rate been in place in 2016, the $833,755 paid would have been $638,999."[29]

No interveners took issue with FEI's requested three-year amortization period for the 2016 Cost of Capital Application deferral account.

[28] Exhibit B-11, Workshop Undertaking No. 5.
[29] Ibid.

Commission determination

The Panel does not approve FEI's request for a three-year amortization period for the 2016 Cost of Capital Application deferral account at this time, and directs FEI to provide additional information and explanations for the amount of experts/consultants costs and external legal costs incurred in the 2016 Cost of Capital proceeding. This additional information, outlined below, must be filed as part of FEI's annual review for 2018 delivery rates application:

- **An explanation as to why there was such a broad range in the rate per hour charged by FEI's expert/consultant (i.e. $55-725 USD) in the 2016 Cost of Capital proceeding.**
- **An explanation as to why the upper range of the hourly rate charged by FEI's expert/consultant was approximately $225 USD per hour higher than the upper range of the hourly rate charged by FEI's experts/consultants in the 2012 GCOC Stage 1 proceeding.**
- **A breakdown of the hours charged by the expert/consultant in the 2016 Cost of Capital proceeding at each hourly rate and the supporting descriptions of the activities performed.**
- **The total <u>FEI</u> proceeding costs for the FEI-FBC 2014-2019 PBR proceeding and the 2012 GCOC Stage 1 proceeding <u>after</u> allocations to other utilities.**
- **A detailed explanation for why the external legal costs in the 2016 Cost of Capital proceeding were only approximately 15 percent lower than in the 2012 GCOC Stage 1 proceeding given the difference in Oral Hearing days, the number of IRs, and the length of the proceedings. This response should include a comparison of the number of hours billed and the number of legal counsel used in the 2016 Cost of Capital proceeding versus the 2012 GCOC Stage 1 proceeding.**

While the Panel acknowledges the impact that the change in exchange rates has had on FEI's expert/consultant costs, we do not consider this factor to adequately explain the high level of costs incurred in the 2016 Cost of Capital proceeding, particularly when comparing the scope and length of this proceeding to the 2012 GCOC or FEI-FBC 2014-2019 PBR proceedings. Accordingly, the Panel considers the additional information outlined above necessary to assess the reasonableness of the expert/consultant and legal costs incurred by FEI in the 2016 Cost of Capital proceeding.

2.3 RSDA riders for 2017

Pursuant to Order G-21-14, the Commission approved the amalgamation of FEI, FEVI, FortisBC Energy (Whistler) Inc. (FEW) and Terasen Gas Holdings Inc., and approved the adoption of common rates for natural gas delivery amongst the service areas of FEI, FEVI and FEW, on a three-year phase-in basis. The Commission also approved the use of a RSDA rate rider to distribute the balance in the RSDA to non-bypass customers in the FEI service area over a three-year period effective as of the date of the amalgamation.

In the Application, FEI requests approval of the 2017 RSDA rate riders for 2017 to be distributed to Mainland customers. FEI states that 2017 is the final year that the RSDA rate riders are applicable and that it will seek approval for disposition of any remaining 2017 closing balance in the RSDA in its annual review for 2018 delivery rates application.[30]

[30] Exhibit B-2, pp. 79-80.

Intervener arguments

BCSEA and CEC were the only interveners to comment on the RSDA rate riders in their final arguments. BCSEA supports approval of the RSDA rate rider for 2017.[31] CEC recommends that the Commission consider deferring amortization of the RSDA from 2017 to 2018 to mitigate the rate impact of the Tilbury Expansion Project entering rate base in 2018. CEC submits that deferral of the RSDA rate rider would "smooth rate impact volatility."[32]

FEI reply argument

FEI opposes CEC's proposal to defer amortization of the RSDA for 2017, noting that this could only be accomplished by reducing or eliminating the 2017 RSDA rate rider which is applicable only to Mainland customers. FEI argues that: "CEC's proposal would result in a delay in the transition to common rates and would be contrary to an existing Commission order, as the RSDA would not be returned over the required three year period." FEI further argues that CEC's proposal is "unnecessary" because rate smoothing can be achieved through adjustments to the delivery rate increase and thus there is "no need to consider a change to the RSDA rate riders."[33]

Commission determination

The Panel rejects CEC's proposal to defer the amortization of the RSDA from 2017 to 2018. The Panel agrees with FEI that deferring amortization of the RSDA would result in a delay in the transition to common rates and would be contrary to Order G-21-14, which directed the use of the RSDA rate rider to distribute the balance in the RSDA to Mainland customers over a three-year period effective as of the date of the amalgamation. Accordingly, **the Panel approves the RSDA rate riders for 2017 as requested by FEI in the amounts set out in Table 10-7 in Section 10 of the Application.**

3.0 DETERMINATIONS ON ISSUES ARISING

A number of issues were raised in IRs and at the Workshop as well as in final arguments. These issues are addressed in the following subsections.

3.1 Capital spending in excess of the dead-band

In the PBR Decision, the Commission established both a one-year 10 percent capital dead-band, and a two-year 15 percent cumulative capital dead-band with regards to FEI's formula-driven capital spending.[34] Subsequently in the FEI-FBC Capital Exclusion Criteria under PBR Reasons for Decision attached to Order G-120-15, the Commission directed FEI, in the event that the dead-bands are exceeded, to include in its annual review application a recommendation as to any adjustment to base capital.[35]

[31] BCSEA Final Argument, p. 2.
[32] CEC Final Argument, p. 29.
[33] FEI Reply Argument, pp. 5-6.
[34] FEI PBR Decision, p. 181.
[35] Appendix A to Order G-120-15, FEI-FBC Capital Exclusion Criteria under PBR Reasons for Decision, p. 17.

FEI forecasts exceeding the two-year cumulative capital spending dead-band in 2016, stating that over 2015 and 2016, capital spending will be cumulatively 19.1 percent above the combined capital formula amounts for those years, thus exceeding the dead-band by 4.1 percent.[36]

FEI proposes to make no changes to the capital spending formula (i.e. no re-basing of the formula capital spending) and submits the following:

> Within the many projects that contribute to capital spending in any given year, FEI is unable to isolate any that in particular are ongoing and should be added to the formula. FEI does not believe that a lengthy process to review what capital items should be added into the capital formula is an efficient solution to the ongoing capital issues.[37]

FEI explains that it has added 4.1 percent of its 2016 capital spending, or $6.118 million, to its opening plant in service for 2017, and it has reduced the cumulative capital expenditures utilized in the earning sharing mechanism by the same amount. The result of this adjustment is that the amount of capital spending which exceeds the dead-band will not be included in the calculation of earnings sharing.[38]

Over the first three years of the PBR term (i.e. 2014 through 2016), FEI has exceeded the PBR formula capital by a cumulative amount of $32.543 million. Of this total, $27.982 million is attributable to Growth Capital and $4.561 million is attributable to Sustainment/Other Capital.[39]

FEI submits that there are a variety of factors which have contributed to actual/projected capital spending exceeding the formula amount. FEI separates these factors into two categories:

1. Commission determinations which resulted in reductions to the PBR capital formula envelope, including:
    a. A reduction to FEVI's sustainment base capital;
    b. A reduction of one-half to the growth factor for service line additions and net customer additions; and
    c. An increased X-Factor.
2. Capital cost pressures, including:
    a. The addition of certain larger industrial mains, where the cost significantly exceeded the average customer addition cost that was included in the capital formula;
    b. Capital spending for the Regionalization Initiative;
    c. The installation of Jomar valves on meter sets;
    d. Increased in-line inspection activity;
    e. Unanticipated system improvements and new stations to supply gas to large new customers;
    f. Integrity-related capital for Burns Bog pipeline stress relief; and
    g. Increased costs due to the unfavourable exchange rate.[40]

[36] Exhibit B-2, p. 12.
[37] Ibid., pp. 12-13.
[38] Ibid.
[39] Ibid., Table 1-3, p. 8.
[40] Ibid., pp. 8-9.

FEI provided the following table further explaining the capital cost pressures' impact on each year of the PBR term and in which category of capital, each cost pressure is occurring:[41]

Capital Pressure	2014	2015	2016	Category
Large industrial mains	YES	YES	YES	Growth Capital
Regionalization	YES	NO	YES	Other Capital
Jomar Valves	NO	YES	YES	Other Capital
Increased ILI	YES	YES	YES	Other Capital
System Improvements & new stations	YES	YES	YES	Other Capital
Burns Bog Stress Relief	YES	YES	YES	OtherCapital
Exchange Rate Impacts	NO	YES	YES	Growth and Other Capital

FEI expects the following three activities to continue to contribute to capital cost pressures over the remainder of the PBR term: (i) the installation of Jomar valves; (ii) increased in-line inspection activity; and (iii) pressures from the increased cost of equipment and supplies purchased from the US due to the unfavourable exchange rate.[42]

With regard to capital pressures from large industrial mains, and from system improvements and new stations to supply gas to large new customers, FEI states that it is: "unable to predict with a high degree of certainty the capital cost expenditures" for these activities and; "whether they will continue to contribute to capital cost pressures over the remainder of the PBR term."[43] The average cost per metre of main in FEI's approved 2013 Base Capital was $62 per metre; whereas the actual cost per metre of main was $87 in 2014, $121 in 2015 and $118 year-to-date in 2016. The 15 mains with the highest cost per metre that FEI has installed since 2014 had an average cost per metre of $285.[44]

Regarding the addition of large industrial mains, FEI further submits the following:

> The decision for large industrial customers to connect to FEI's system, their load profile and the location they wish to connect to is largely driven by factors outside the control of FEI. As such, it is difficult for FEI to accurately forecast mains expenditures and the corresponding system improvements to support the addition of new, large industrial customers.[45]

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[41] Exhibit B-3, BCUC IR 9.1.
[42] Ibid., BCUC IR 9.2.
[43] Ibid.
[44] Exhibit B-3, BCUC IR 9.3.
[45] Ibid., BCUC IR 9.2

The installation of Jomar valves on meter sets commenced in the fourth quarter of 2015. FEI submits that the capital costs for the Jomar valves are required to reduce the future O&M cost of the meter exchange program and to improve the customer experience associated with meter exchange service.[46] FEI states that it incurred $1.1 million in capital costs in 2015 for the installation of Jomar valves and expects to incur $2.6 million in 2016.[47] Over the remainder of the PBR term, FEI forecasts capital spending on Jomar valves in the amount of $8.6 million (i.e. $2.7 million in 2017, $2.9 million in 2018, and $3 million in 2019).[48]

At the Workshop, FEI stated that the Jomar valve installation project is: "not driven by a compliance requirement…it's driven by savings and customer service improvements."[49]

None of the interveners recommended re-basing FEI's formula capital as a result of the cumulative dead-band being exceeded.

Commission determination

The Panel approves FEI's proposal to remove the amount of formula capital which has exceeded the cumulative dead-band from the earnings sharing calculation, and to add the amount of capital in excess of the dead-band to FEI's opening 2017 plant additions balance. The Panel does not consider it necessary at this time to undertake a detailed evaluation of FEI's approved formula capital spending envelope in the form of a re-basing hearing. The Panel notes that 2016 is the first instance of FEI exceeding the capital dead-band, and based on FEI's projected 2016 capital expenditures FEI expects to be within the annual 10 percent dead-band but in excess of the cumulative 15 percent dead-band. Further, the capital amount projected to exceed the cumulative dead-band is $6.118 million, which in the Panel's view is not significant enough to warrant the regulatory cost of a re-basing hearing.

While the Panel does not consider a re-basing hearing to be necessary at this time, we have a number of concerns regarding FEI's capital spending results. The Panel acknowledges FEI's statement that it is unable to identify the specific capital expenditures that are causing the dead-band to be exceeded; however, we would expect that FEI should be able to provide an assessment of the priority it ascribes to specific capital expenditures, particularly as the expenditures approach a level close to the capital dead-band.

In the Application FEI identifies a variety of factors contributing to the capital cost pressures, though only a small number of these factors appear to be contributing to the largest component of the capital over-spend – Growth Capital – which, on a cumulative basis, represents approximately 85 percent of the capital over-spend. The Panel accepts FEI's submissions that the addition of larger industrial mains is difficult to predict and that many of the factors driving the costs of these additions are outside FEI's control; however the Panel continues to be concerned about the large variances in the actual cost per metre of mains installed compared to the amount embedded in the PBR Base Capital spending envelope.

The Panel also remains unconvinced as to the necessity of the Jomar valve installation program initiated by FEI in 2015, particularly in light of the capital cost pressures FEI is experiencing. Based on FEI's responses at the Workshop, it appears that the key drivers of this project are future savings and customer service improvements.

[46] Exhibit B-3, BCUC IR 9.5.
[47] Ibid., BCUC IR 9.6.
[48] Ibid., BCUC IR 9.7.
[49] Workshop Transcript, p. 122.

The Panel does not take issue with FEI's assertions that future savings and customer service improvements are important considerations when proceeding with capital projects; however, the Panel does not consider that FEI has adequately explained in this annual review proceeding how the Jomar valve installation project was prioritized in relation to other capital projects.

In consideration of the concerns described above, **the Panel directs FEI to provide the following information in its annual review for 2018 delivery rates application:**

- **The information contained in Table 1-3 of the Application updated for 2016 Actuals and Projected 2017 results;**
- **A breakdown and explanation for both the annual variances (i.e. 2014, 2015, 2016 and 2017), and the cumulative variance between formula and actual/projected Growth Capital, which separately quantifies the amount of the annual variance and cumulative variance attributable to (i) the growth factor for service line additions; (ii) the addition of larger industrial mains; and (iii) other contributing factors (if any);**
- **A breakdown and explanation for both the annual variances (i.e. 2014, 2015, 2016 and 2017), and the cumulative variance between formula and actual/projected Sustainment/Other Capital, which separately quantifies the amount of the annual variances and cumulative variance attributable to: (i) the reduction to the Base Sustainment Capital for the Vancouver Island region; (ii) the growth factor for net customer additions; (iii) the Regionalization Initiative; (iv) the installation of Jomar valves; (v) increased in-line inspection activity; (vi) unanticipated system improvements and new stations to supply gas to large new customers; (vii) Burns Bog Stress Relief; and (viii) other contributing factors (if any); and**
- **A description of how FEI is prioritizing its capital expenditures during the remainder of the PBR term, with reference to the prioritization ascribed to its existing ongoing projects as well as any new projects to be undertaken during the PBR term. FEI must also provide a description of any projects which it had originally planned to complete during the PBR term but are now expected to be delayed until after the PBR term.**

3.2 Demand forecasts and Holts Exponential Smoothing method

In the FEI Annual Review for 2015 Delivery Rates Decision and accompanying Order G-86-15, the Commission directed FEI to conduct the following load forecasting analyses:

- Review alternative methodologies and develop one that overcomes the identified shortcomings, and more accurately predicts actual average use per customer (UPC) for residential and commercial customers; and
- Consider alternative methods for forecasting commercial customer additions which are appropriately sensitive to the business cycle.[50]

In response to the above Commission directives, FEI provided Appendix A4 with the Application. Appendix A4 includes a review of FEI's energy demand forecasting performance, as compared to natural gas utilities that participated in the 2014 and 2015 ITRON surveys as well as a 2016 survey conducted by Boreas Consulting for FEI. Using the survey results, FEI calculated the Mean Average Percent Error (MAPE) for each utility. FEI reports

[50] FEI Annual Review of 2015 Delivery Rates Decision, pp. 8-10.

that the MAPE for the residential rate group based on the data from the ITRON and Boreas surveys, ranges from 2.9 percent to 5.6 percent and commercial demand ranges from 3.3 percent to 4.9 percent.[51] FEI states that its MAPE for the years 2009 through 2015 is 1.1 percent for residential demand and 2.4 percent for commercial demand.[52]

FEI explains that based on its forecasting experience, Conference Board of Canada (CBOC) forecasts and academic texts, it developed a list of alternate forecasting methods that included both time series methods and econometric regressions. These alternate forecasting methods are as follows:

1. Holt's Exponential Smoothing (ETS);
2. Time Series Linear Regression;
3. Naïve Forecast;
4. Three Year Moving Average with Trend;
5. Econometric Regression; and
6. Three Year Average.[53]

Based on FEI's analysis of the alternative forecasting methods, it concludes the following:

> Of the six alternative forecasting methods tested and compared, ETS is the best performing alternate method and the only alternate method that consistently produced test results in the same range of accuracy as FEI's Existing Method. The fact that the ETS method has recently been implemented in Excel 2016 also makes it an attractive option.[54]

FEI recommends that it: "continue to use the Existing Method and that further testing be completed on the ETS method over the remaining term of the PBR." FEI proposes to report the ETS test forecasts and the aggregate MAPE results together in the annual review following when the actual normalized data is available. FEI further proposes to make a final recommendation on the forecasting method that should apply to all of its service areas at the end of the PBR term.[55]

<u>Intervener arguments</u>

BCOAPO argues that: "[w]hile the ETS method is promising, FEI cannot conclusively determine that it is superior to its existing method without further years of comparative results." BCOAPO further argues that: "[s]uch a change in methodology is a significant change, and should be considered in a general rate application, where parties can ask detailed information requests, and can sponsor evidence if needed." BCOAPO recommends the ETS method be: "thoroughly tested in any future full general rate application, or rebasing proceeding, before it is adopted."[56]

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[51] Exhibit B-2, Appendix A4, Table A4-6, pp. 10-11.
[52] Ibid., Tables A4-7, A4-8, p. 12.
[53] Ibid., p. 13.
[54] Ibid., p. 30.
[55] Ibid.
[56] BCOAPO Final Argument, p. 4.

BCSEA accepts FEI's conclusions that the current forecasting methods perform better than those of comparison utilities and that the ETS method, "shows promise" and should be further tested through the remainder of the PBR term.[57]

CEC submits the exponential smoothing technique is, "interesting and may have value" and agrees with FEI's approach of pursuing further evaluation. CEC also submits that: "in order to understand the PBR function over time, it is useful to continue to use similar forecasting methodologies for the next two years, which also provides further opportunities for FEI to test the technique."[58]

<u>FEI reply argument</u>

FEI responds to BCOAPO's statements as follows: "Since FEI is proposing to test ETS over the remainder of the PBR term, FEI would present its evaluation of the ETS methodology in the first revenue requirements proceeding following PBR. FEI believes this should satisfy BCOAPO's concern."[59]

Commission determination

As per the Commission's directives in the FEI Annual Review for 2015 Delivery Rates Decision and accompanying Order G-86-15, FEI has continued to examine alternative forecasting methods to see if there is a better method for forecasting residential and commercial use per customer and commercial customer additions than is presently being used. FEI indicates that the Holt's Exponential Smoothing method is the one which has provided the most accurate and consistent forecast of all the alternative methods examined. The general consensus of the interveners is that FEI should continue to examine this forecasting method in parallel with FEI's existing forecasting method, as was recommended by FEI in the Application and in its reply argument.

The Panel agrees with FEI that the addition of more years of data points in the analysis of the ETS method will provide more solid evidence of the efficacy of this method as a possible alternative going into the future. Therefore, the Panel accepts FEI's proposal to continue using its existing forecasting method at this time while also continuing to test the ETS method and **directs FEI to report the Holt's Exponential Smoothing (ETS) test forecasts and the aggregate MAPE results as part of its Annual Review for 2018 Delivery Rates Application and in all remaining annual review applications. The Panel also directs FEI, as part of FEI's future annual review application materials, to extend the applicable tables in Section 3 of Appendix A2 of the Application to include variance information for the ETS method for the residential and commercial use per customer and the commercial customer additions.**

3.3 PBR evaluation

Certain issues related to the PBR Plan were explored in IRs and in interveners' final arguments. These issues are addressed in the following sections.

3.3.1 <u>Permanent versus temporary O&M savings achieved under PBR</u>

FEI projects 2016 O&M expenses (excluding items forecast outside of the PBR formula) to be approximately $11.1 million lower than the PBR formula amount. FEI states that productivity savings achieved from its major initiatives such as the Regionalization Initiative and Project Blue Pencil account for approximately $5 million of

[57] BCSEA Final Argument, p. 4.
[58] CEC Final Argument, p. 13.
[59] FEI Reply Argument, p. 19.

the projected O&M savings. FEI also states: "[w]hile some of the savings are one-time in nature (e.g. delay in filling vacancies) as the result of the continuing productivity focus throughout the Company, many of these efficiencies and savings are expected to continue in the future, recognizing that cost pressures in the future may offset the savings."[60] The projected O&M savings of $11.1 million in 2016 are the highest annual savings to date since the commencement of the PBR term, with 2015 O&M savings totaling $10.2 million and 2014 O&M savings totaling $7.5 million.[61]

FEI estimates that approximately 50 percent of the cumulative O&M savings are labour-related; however, FEI submits it is: "difficult to calculate the split between labour and non-labour as it is dependent on having an O&M Base in dollars split between labour and non-labour and a supporting FTE [Full Time Equivalent] base for a starting point." FEI further submits the following:

> While an O&M Base amount was developed based on the 2013 Projected O&M, correlating the O&M Base amount to the O&M FTEs is not a straightforward calculation. This calculation depends on an estimated allocation of employees' time to non-O&M activities, including capital work and deferral activities, which may change from year to year…Further…a 2013 Base FTE is not available since FEI did not have an approved number of FTEs for 2013. Without a Base FTE starting point that corresponds to an approved O&M Base budget, the process of splitting O&M savings into labour and non-labour is difficult.[62]

FEI also submits it is: "not necessarily significant whether the O&M savings are attributable to labour or non-labour" as there are "a number of reasons why the amount of labour vs. non-labour can fluctuate from year to year which do not relate to the success of the PBR. For example, the choice of contractor utilization versus in-house labour will vary from year to year depending on conditions and business requirements of the Company."[63]

FEI provides the following table which shows the changes in headcount and FTEs from 2013 through 2016:[64]

	Headcount	FTEs
2013 Actual	1,764	1,679
2014 Actual	1,704	1,650
2015 Actual	1,656	1,573
2016 Projected	1,721	1,613

As shown in the above table, from 2013 Actual to 2016 Projected, total FTEs have decreased by 66, which FEI states has contributed approximately $5 million to the O&M savings.[65] The decline in FTEs is largely attributable to the Customer Service and Operations departments. FEI states that included in the Customer Service reductions are positions related to Project Blue Pencil that occurred in 2015, and included in the Operations

60 Exhibit B-2, p. 4.
61 Exhibit B-3, BCUC IR 1.1.
62 Ibid., BCUC IR 1.1.1.
63 Ibid.
64 Exhibit B-2, Table 1-2, p. 5.
65 Ibid., p. 5.

reductions are positions related to the Regionalization Initiative, with Phase 1 of the Regionalization Initiative commencing in 2014 and Phase 2 commencing in 2016.[66] FEI further states that approximately 12 positions have been eliminated through Phase 1 and Phase 2 of the Regionalization Initiative.[67]

In comparison, in the Annual Review for 2016 Delivery Rates Application, FEI stated that from 2013 Actual to 2015 Projected, total FTEs decreased by approximately 81, which contributed to O&M savings of approximately $7 million.[68] When asked in BCUC IR 3.8 why the per-FTE savings appear to be lower for 2016 compared to 2015 (i.e. $84,420 per FTE in 2015 compared to $75,758 in 2016), FEI explained that a primary factor contributing to the aforementioned decrease is the change to the forecast employee affiliation composition, as different employee affiliations have different average annual salaries. FEI provided the following table showing the change in the composition of employee affiliations between 2015 and 2016:[69]

		Headcount	Average FTEs
2015 Projected	MoveUp	(96)	(82)
	IBEW	(24)	(18)
	M&E	42	19
	Total	**(78)**	**(81)**
2016 Projected	MoveUp	(96)	(96)
	IBEW	7	(4)
	M&E	46	34
	Total	**(43)**	**(66)**

Another factor that may affect the per-FTE O&M savings calculation is the percentage of an employee's time charged to other work besides O&M, such as capital, deferral accounts, and Core Market Administration.[70]

FEI states: "As a result of the Company's focus on productivity and the resulting impact on the Company's labour requirements, staffing levels have declined in recent years but are expected to stabilize and increase somewhat in the remainder of 2016."[71] FEI further explained that of the 2016 projected increase of 65 headcount and 40 FTEs, 19 headcount/12 FTEs are related to positions added, including positions to support the Tilbury Expansion Facility, the Target Zero program, and Engineering positions for capital projects. The remaining projected net increase of 46 headcount and 28 FTEs in 2016 is related to filling of vacancies, primarily in the Contact Centre.[72]

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66 Exhibit B-2, p. 5.
67 Workshop Transcript, p. 136.
68 FEI Annual Review of 2016 Delivery Rates proceeding, Exhibit B-2, p. 5.
69 Exhibit B-3, BCUC IR 3.8.
70 Ibid.
71 Exhibit B-2, p. 5.
72 Exhibit B-3, BCUC IR 3.3.

Commission determination

In the FEI Annual Review of 2015 Delivery Rates Decision, the Commission made the following comments regarding the PBR:

> …the Panel considers the PBR to be at a very early stage and it is premature to evaluate its success or failure. However, it is not too early to consider the criteria upon which a future evaluation will be based…
>
> …the Panel considers it essential during the PBR term for certain information to be gathered on efficiency initiatives, particularly with regards to how these initiatives impact the organizational structure of the Company and the expected savings and/or costs which result from these efficiency initiatives. The purpose of obtaining this information is not for the Commission or interveners to challenge FEI on the appropriateness of the initiatives being undertaken, as this could be could be viewed as attempting to manage the Company's business. Instead, the purpose is to gain an understanding of how savings are being achieved and to acquire some quantifiable data on these savings and initiatives throughout the PBR term.[73]

The Panel acknowledges FEI's efforts to provide information on the O&M savings being achieved thus far during the PBR term, and in particular the information provided on the major initiatives contributing to the O&M savings. As noted above, the purpose in gathering this information is to gain an understanding of how savings are being achieved, and in particular whether the savings are more appropriately viewed as temporary or permanent.

Based on the evidence gathered, the Panel draws the following conclusions:

- Approximately 50 percent of the cumulative O&M savings achieved during the PBR are attributable to labour savings; however, the split between labour and non-labour varies each year and is determined in part by the amount of employees' time allocated to non-O&M activities such as capital work and deferral activities as well as the choice of contractor utilization versus in-house labour.
- Staffing levels (i.e. both FTEs and Headcount) dropped upon the commencement of the PBR term, as indicated by the change in staffing levels between Actual 2013 and Actual 2014, and staffing levels further dropped between Actual 2014 and Actual 2015.
- The departments which have experienced the largest decreases in staffing are Customer Service and Operations; some of these decreases are attributable to the Regionalization Initiative (approximately 12 positions eliminated) and Project Blue Pencil.
- A portion of the O&M savings is attributable to unfilled vacancies.

Given the variety of factors influencing the annual savings being achieved under PBR, the Panel acknowledges that it is difficult to evaluate at this stage in the PBR term how much of the annual O&M savings being reported by FEI, are likely to extend beyond the PBR term versus savings of a more temporary nature. However, the Panel considers one important factor to be the underlying cause(s) of the change in staffing levels each year. In particular, the Panel considers there to be an important distinction between positions added or eliminated versus unfilled vacancies. O&M savings achieved through elimination of positions are likely to be more sustainable or permanent than unfilled vacancies.

[73] FEI Annual Review of 2015 Delivery Rates Decision, p. 34.

In consideration of the above, the **Panel directs FEI to provide the following headcount and FTE information in the next annual review application and to continue to provide this information in all of the remaining annual review applications during this PBR term:**

Table 1 – Headcount

	2013 Actual	2014 Actual	2015 Actual	2016 Projected	2016 Actual	2017-2019
Total Annual Headcount	1,764	1,704	1,656	1,721	?	?
# of Positions Added Each Year (total) and broken down as follows:						
Regionalization Initiative						
Project Blue Pencil						
Other Major Initiatives						
Outside of Base O&M (e.g. Tilbury Expansion, positions charged to Capital, positions charged to deferral accounts)						
Inside Base O&M						
# of Positions Eliminated Each Year (total) and broken down as follows:						
Regionalization Initiative						
Project Blue Pencil						
Other Major Initiatives						
Outside of Base O&M (e.g. Tilbury Expansion, positions charged to Capital, positions charged to deferral accounts)						
Inside Base O&M						
# of Unfilled Vacancies						

Table 2 – FTEs

	2013 Actual	2014 Actual	2015 Actual	2016 Projected	2016 Actual	2017-2019
Total Annual FTEs	1,679	1,650	1,573	1,613	?	?
# of Positions Added Each Year (total) and broken down as follows:						
Regionalization Initiative						
Project Blue Pencil						
Other Major Initiatives						
Outside of Base O&M (e.g. Tilbury Expansion, positions charged to Capital, positions charged to deferral accounts)						
Inside Base O&M						
# of Positions Eliminated Each Year (total) and broken down as follows:						
Regionalization Initiative						
Project Blue Pencil						
Other Major Initiatives						

Outside of Base O&M (e.g. Tilbury Expansion, positions charged to Capital, positions charged to deferral accounts)						
Inside Base O&M						
# of Unfilled Vacancies						

3.3.2 The Annual Review process

In its final argument, CEC points out that FEI is now at the mid-term for the PBR period and recommends that the Commission, "establish a review of the efficacy of the PBR process in order to evaluate PBR and determine the appropriate process to follow the end of the PBR period."[74]

FEI argues that CEC's request for a mid-term review is, "inconsistent with the PBR Plan as approved by the Commission, and is unnecessary." FEI references the Commission's statement in the PBR Decision that: "Given this more comprehensive Annual Review, the Panel is of the view that a Mid Term Review will not be required." FEI further argues that CEC's proposal related to determining an appropriate process to follow the end of the PBR period should be rejected because the PBR Plan will continue as approved until the end of its term.[75]

Commission determination

The Panel rejects CEC's proposal for a Mid-Term Review of the PBR. In the PBR Decision, the Commission denied FEI's request for a Mid-Term Review, and this Panel sees no compelling reason to deviate from the Commission's determination.

However, the Panel also notes the Commission's finding in the PBR Decision that: "a more extensive Annual Review process is necessary to build trust among all stakeholders and to ensure the PBR Plan functions as intended."[76] The activities directed by the Commission in the PBR Decision to be undertaken at each annual review were summarized in Section 1.1 of these Reasons for Decision. The Panel re-emphasizes the importance of a thorough annual review process and recommends that going forward the annual review workshops for FEI and FBC be staggered to allow a full day for each workshop.

3.3.3 Cross-utilization of FEI and FBC employees

MoveUP, the certified bargaining agent for the majority of FEI's "inside" or office workers, and a registered intervener in this proceeding makes several assertions in its final argument regarding FEI's operating of and financial accounting for the cross utilization of FEI and FBC employees in relation to customer care services. MoveUP also addressed the cross-utilization of FEI and FBC employees in its questioning of FEI during the Workshop and in IRs.

In its reply argument, FEI responds to each of the points raised by MoveUP and cites some of the information provided during the Workshop, and in Workshop Undertaking No. 2.[77] In essence, FEI disagrees with the issues raised by MoveUP and presents rebuttal positions.

[74] CEC Final Argument, p. 33.
[75] FEI Reply, pp. 17-18.
[76] FEI PBR Decision, pp. 184-185.
[77] FEI Reply Argument, pp. 11-17.

In Order G-193-15 and accompanying Reasons for Decision regarding the FEI Annual Review for 2016 Delivery Rates, the Commission addressed the issue of cross utilization of FEI and FBC workers by stating: "After considering the evidence related to FEI employees handling calls on behalf of FBC, the Panel is persuaded that the approach taken by FEI to allocate costs to FBC is not unreasonable nor is it unfair."[78] The Commission also indicated acceptance that: "the costs in question have the potential to grow over time and the cost allocation methodology may produce variances which are more significant in the future."[79] To address the potential for costs to grow in the future, the Commission made the following determination: "…if in the future, annual costs being allocated to FBC from FEI for the handling of calls exceeds $100,000 in any one year, FEI is directed to provide an analysis of various cost allocation methodologies and provide evidence as to which will provide the most appropriate results."[80]

Panel discussion

The Panel agrees with the positions taken by FEI with regard to this issue. The Panel also notes that some of the issues are more within the purview of management of operations rather than issues to be addressed by the Commission, with the exception of the potential analysis required to be provided by FEI in the event that the annual costs being allocated to FBC from FEI for handling calls exceeds $100,000 in any one year, as directed by the Commission in the FEI Annual Review of 2016 Delivery Rates Reasons for Decision. The Panel is satisfied that FEI has shown that the costs for 2016 have not exceeded the $100,000 threshold, and therefore declines to take any further action on the issues raised by MoveUP.

[78] FEI Annual Review for 2016 Delivery Rates Reasons for Decision, p. 24.
[79] Ibid.
[80] Ibid.