bcuc
British Columbia
Utilities Commission

Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3
bcuc.com

P: 604.660.4700
TF: 1.800.663.1385

**ORDER NUMBER**
**G-69-25**

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

and

FortisBC Energy Inc. and FortisBC Inc.
2025 to 2027 Rate Setting Framework

**BEFORE:**
T. A. Loski, Panel Chair
A. K. Fung, KC, Commissioner
W. E. Royle, Commissioner

on March 18, 2025

**ORDER**

**WHEREAS:**

A. On April 8, 2024, FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (collectively, FortisBC) applied to the British Columbia Utilities Commission (BCUC), pursuant to sections 59 to 61 of the *Utilities Commission Act*, seeking approval of a rate-setting framework (Rate Framework) for FortisBC for three years from 2025 to 2027 (Original Application);

B. By Orders G-165-20 and G-166-20 dated June 22, 2020, the BCUC approved FortisBC's application for a multi-year rate plan for the years 2020 through 2024 (Current MRP);

C. On May 31, 2024, FortisBC filed supplemental information relating to the impacts of the energy transition and climate change on the proposed Rate Framework as requested by the BCUC (Supplemental Information);

D. On September 13, 2024, FortisBC filed an updated application to include an errata to the Original Application (Errata);

E. By Orders G-165-24 and G-255-24, respectively, the BCUC set the scope and regulatory timetable for the review of the Original Application, Supplemental Information, and Errata (together, the Application); and

F. The BCUC has reviewed the Application, evidence, and arguments filed in the proceeding and makes the following determinations.

**NOW THEREFORE** pursuant to sections 59 to 61 of the *Utilities Commission Act* and for the reasons outlined in the decision accompanying this order, the BCUC orders as follows for FEI:

1. The Rate Framework for FEI as determined in Sections 2.0 to 3.0 of the decision is approved, including:

    a. A three-year term from 2025 to 2027 as determined in Section 3.6 of the decision;

    b. Use of an index-based approach to Base operations and maintenance (O&M) expense and Growth capital as described in Section 3.1 of the decision, incorporating:

        i. A 2024 Base O&M amount per customer to be filed as part of a compliance filing for this decision, which corresponds to an updated 2024 Base O&M of $299.127 million as determined in Section 3.1.1 of the decision;

        ii. A 2024 Base unit cost growth capital of $9,300 as determined in Section 3.1.2 of the decision;

        iii. An inflation factor including a fixed labour weighting of 50 percent and fixed non-labour weighting of 50 percent as determined in Section 3.1.3 of the decision;

        iv. A growth factor for O&M that uses the forecast average number of customers without a discount and a growth factor for Growth capital that uses the forecast gross customer additions, each with a true-up to actual when available, as determined in Section 3.1.4 of the decision; and

        v. A productivity factor of 0.55 percent which is comprised of a 0.28 industry O&M partial factor productivity value and a 0.27 stretch factor as determined in Section 3.1.5 of the decision;

    c. The level of forecast Sustainment and Other capital expenditures to be incorporated in delivery rates for 2025 to 2027 as determined in Section 3.2.1 of the decision;

    d. Flow-through treatment for the items described in Table C4-7 in Section C4.13.2 of the Application and as determined in Sections 2.3 and 3.1.1 of the decision;

    e. The continuation of the exogenous factor criteria and exogenous factor materiality threshold used in the Current MRP as described in Section 2.3 of the decision;

    f. The continuation of the earnings sharing mechanism used in the Current MRP as described in Section 2.3 of the decision;

    g. The continuation of the Certificate of Public Convenience and Necessity threshold used in the Current MRP as described in Section 2.3 of the decision;

    h. The continuation of the off-ramp used in the Current MRP as described in Section 2.3 of the decision;

    i. The continuation of the flow-through deferral account used in the Current MRP as described in Section 2.3 of the decision;

    j. The service quality indicators as approved in Sections 3.4.1 and 3.4.2 of the decision, subject to the directives and determinations in Section 3.4.2 of the decision; and

k. The continuation of the annual review process (Annual Reviews) used in the Current MRP, as well as the methods set out in Section C4.2 of the Application used to forecast demand for FEI as determined in Section 3.5 of the decision. Except for the demand forecast methods, the requested changes to the scope of the Annual Reviews are denied.

2. For the Clean Growth Innovation Fund (CGIF), FEI is directed to do the following for the Rate Framework, as determined in Section 4.1 of the decision:

    a. Return the ending balance in the 2020 CGIF deferral account to customers through amortization of the balance over one year, beginning January 1, 2025;

    b. Continue to collect a 2025 CGIF rate rider amount of $0.40 per month from all customers;

    c. Establish a non-rate base 2025 CGIF deferral account, attracting a weighted average cost of capital return, to record the funding collected through the 2025 CGIF rate rider less innovation expenditures; and

    d. Return any residual balance in the 2025 CGIF deferral account to customers at the end of the term of the Rate Framework through a disposal mechanism subject to approval by the BCUC.

3. FEI's proposed enhancements to the 2025 CGIF funding scope are denied as determined in Section 4.1 of the decision.

4. For the core market administration expense (CMAE), FEI is approved to do the following for the Rate Framework as determined in Section 4.2 of the decision:

    a. Continue to treat CMAE as part of the commodity cost of gas;

    b. Allocate 25 percent of costs to the commodity cost reconciliation account and 75 percent to the midstream cost reconciliation account and to record variances between forecast and actual using the same allocation;

    c. Submit the CMAE budget for approval, as well as review of prior year's forecast to actuals, as a separate application at or near the same time as FEI's third quarter gas cost report and remove these items from the Annual Reviews; and

    d. Keep the current cost categories in the BCUC Template for CMAE Budget Application, which is the format prescribed in Order G-23-15, Appendix B. FEI's proposed new template for the CMAE budget is denied.

5. Exogenous factor treatment for FEI's 2021 Flood costs as determined in Section 4.3 of the decision is approved.

6. The following is approved to be used in the determination of FEI's delivery rates for the Rate Framework:

    a. Depreciation rates in the amounts set out in Table D2-3 in Section D2 of the Application as determined in Section 4.4.1 of the decision;

    b. Net salvage rates in the amounts set out in Table D2-4 in Section D2 of the Application as determined in Section 4.4.1 of the decision;

c. The lead-lag days as set out in Table D3-1 in Section D3.2 of the Application as determined in Section 4.4.2 of the decision;

d. The allocation methodologies for common corporate service costs from Fortis Inc. and FortisBC Holdings Inc. to FEI as determined in Section 4.4.3 of the decision; and

e. A capitalized overhead rate of 14.5 percent as determined in Section 4.4.4 of the decision.

7. FEI must file with the BCUC, by April 17, 2025, a compliance filing for this decision in accordance with Directive 1(b)(i).

8. FEI must comply with all other directives and determinations as outlined in the decision accompanying this order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 18th day of March 2025.

BY ORDER

*Electronically signed by Tom Loski*

T. A. Loski
Commissioner

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Utilities Commission

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2025 to 2027 Rate Setting Framework

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T. A. Loski, Panel Chair
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**WHEREAS:**

A. On April 8, 2024, FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (collectively, FortisBC) applied to the British Columbia Utilities Commission (BCUC), pursuant to sections 59 to 61 of the *Utilities Commission Act*, seeking approval of a rate-setting framework (Rate Framework) for FortisBC for three years from 2025 to 2027 (Original Application);

B. By Orders G-165-20 and G-166-20 dated June 22, 2020, the BCUC approved FortisBC's application for a multi-year rate plan for the years 2020 through 2024 (Current MRP);

C. On May 31, 2024, FortisBC filed supplemental information relating to the impacts of the energy transition and climate change on the proposed Rate Framework as requested by the BCUC (Supplemental Information);

D. On September 13, 2024, FortisBC filed an updated application to include an errata to the Original Application (Errata);

E. By Orders G-165-24 and G-255-24, respectively, the BCUC set the scope and regulatory timetable for the review of the Original Application, Supplemental Information, and Errata (together, the Application); and

F. The BCUC has reviewed the Application, evidence, and arguments filed in the proceeding and makes the following determinations.

**NOW THEREFORE** pursuant to sections 59 to 61 of the *Utilities Commission Act* and for the reasons outlined in the decision accompanying this order, the BCUC orders as follows for FBC:

1. The Rate Framework for FBC as determined in Sections 2.0 and 3.0 of the decision is approved, including:

    a. A three-year term from 2025 to 2027 as determined in Section 3.6 of the decision;

    b. Use of an index-based approach to Base operations and maintenance (O&M) expense as described in Section 3.1 of the decision, incorporating:

        i. A 2024 Base O&M amount per customer to be filed as part of a compliance filing for this decision, which corresponds to an updated 2024 Base O&M of $75.269 million as determined in Section 3.1.1 of the decision;

        ii. An inflation factor including a fixed labour weighting of 60 percent and fixed non-labour weighting of 40 percent as determined in Section 3.1.3 of the decision;

        iii. A growth factor for O&M that uses the forecast average number of customers without a discount, with a true-up to actual when available, as determined in Section 3.1.4 of the decision; and

        iv. A productivity factor of 0.45 percent which is comprised of a 0.20 industry O&M partial factor productivity value and a 0.25 stretch factor as determined in Section 3.1.5 of the decision;

    c. The level of forecast Growth, Sustainment, and Other capital expenditures to be incorporated in rates for 2025 to 2027 as determined in Section 3.2.2 of the decision;

    d. Flow-through treatment for the items described in Table C4-7 in Section C4.13.2 of the Application and Sections 2.3 and 3.1.1 of the decision;

    e. The continuation of the exogenous factor criteria and exogenous factor materiality threshold used in the Current MRP as described in Section 2.3 of the decision;

    f. The continuation of the earnings sharing mechanism used in the Current MRP as described in Section 2.3 of the decision;

    g. The continuation of the Certificate of Public Convenience and Necessity threshold used in the Current MRP as described in Section 2.3 of the decision;

    h. The continuation of the off-ramps used in the Current MRP as described in Section 2.3 of the decision;

    i. The continuation of the flow-through deferral account used in the Current MRP as described in Section 2.3 of the decision;

    j. The service quality indicators as approved in Section 3.4.3 of the decision; and

    k. The continuation of the annual review process (Annual Reviews) used in the Current MRP, as well as the methods set out in Section C4.2 of the Application used to forecast load for FBC as determined in Section 3.5 of the decision. Except for the load forecast methods, the requested changes to the scope of the Annual Reviews are denied.

2. The following is approved to be used in the determination of FBC's rates for the Rate Framework:

    a. Depreciation rates in the amounts set out in Table D2-7 in Section D2 of the Application as determined in Section 4.4.1 of the decision;

    b. Net salvage rates in the amounts set out in Table D2-8 in Section D2 of the Application as determined in Section 4.4.1 of the decision;

    c. The lead-lag days as set out in Table D3-2 of Section D3.3 of the Application as determined in Section 4.4.2 of the decision;

    d. The allocation methodologies for common corporate service costs from Fortis Inc. and FortisBC Holdings Inc. to FBC as determined in Section 4.4.3 of the decision; and

    e. A capitalized overhead rate of 15.5 percent as determined in Section 4.4.4 of the decision.

3. FBC must file with the BCUC, by April 17, 2025, a compliance filing for this decision in accordance with Directive 1(b)(i).

4. FBC must comply with all other directives and determinations as outlined in the decision accompanying this order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 18th day of March 2025.

BY ORDER

*Electronically signed by Tom Loski*

T. A. Loski
Commissioner

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## Executive Summary

On April 8, 2024, FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (collectively, FortisBC) filed an application with the British Columbia Utilities Commission (BCUC) seeking approval of a new performance-based rate-setting framework for 2025 to 2027 (Application). This framework is referred to as the "Rate Framework".

FortisBC has a history of setting FBC's and FEI's rates using performance-based rate (PBR) frameworks. A PBR approach to rate setting links utility rates to performance, compared to a traditional cost of service approach which links rates to recovery of operating and capital costs. A PBR framework is designed to incent a utility to find efficiencies to reduce costs while ensuring that reasonable and measurable service levels are maintained. FortisBC's most recent PBR framework covered 2020 to 2024 and is referred to as the "Current Multi-Year Rate-Making Plans" or "Current MRP".

The proposed Rate Framework includes the elements of the Current MRP that FortisBC asserts have proven successful, while seeking approval of updates and modifications to the rate-setting approach to respond to the energy transition, stakeholder feedback, and other changes in FEI's and FBC's operating environments. These other changes include:

- Policy direction and mandate from all levels of government towards decarbonization;
- Challenges related to affordability; and
- Physical and cyber security, climate adaptation, and the ongoing need to invest in FEI's and FBC's energy systems.

Some of the ways in which FortisBC has adapted the Rate Framework for these changes in its operating environment include: a shorter term of three-years, moving certain items between forecast and formula operating and maintenance expense, increasing base operating and maintenance costs for FEI and FBC and base unit cost for growth capital for FEI, and introducing energy transition informational indicators for FEI. As part of the Application, FortisBC also seeks approval of certain deferral accounts, capital forecasts, updated depreciation rates and other updates based on supporting studies, and other approvals for the term of the Rate Framework.

The Panel established a public hearing process to review the Application including: FortisBC's filing of supplemental information relating to the impacts of the energy transition and climate change on the Rate Framework, two rounds of BCUC and intervener information requests, one round of Panel information requests, final arguments, and reply argument. The proceeding had eight interveners and two letters of comment.

The Panel approves the Rate Framework as a whole for 2025 to 2027, subject to the determinations on individual components as described in the decision. The Panel is persuaded that the Rate Framework will be sufficiently flexible and robust to allow FortisBC to effectively respond to the three key influences on its operating environment: decarbonization/energy transition, affordability, and physical/cyber security and climate adaptation, in the near term. However, the Panel has concerns about the ability of the Rate Framework to respond to these matters appropriately beyond the near term. The Panel expects that there will continue to be significant uncertainty associated with FortisBC's operating environment, especially as it relates to the energy transition, with the possibility for significant change over the next several years. Therefore, the Panel

emphasizes that it views the Rate Framework as a near-term solution for rate-setting in a time of enhanced uncertainty.

The Panel approves the following components of the Rate Framework:

- **Earnings sharing mechanism:** a symmetrical 50 percent sharing between customers and FEI's and FBC's shareholders, if FortisBC's achieved return on equity is above or below the allowed return on equity
- **Financial off-ramp:** a plan off-ramp to be triggered if earnings in any one year vary from the allowed return on equity by more than +/- 150 basis points (post sharing) for FEI and FBC
- **Exogenous factor criteria:** exogenous factor treatment subject to BCUC approval for events that are non-controllable and unforeseeable in nature and that meet the five criteria as outlined in the decision
- **Exogenous factor materiality threshold:** $500,000 for FEI and $150,000 for FBC
- **Certificate of Public Convenience and Necessity threshold:** $15 million for FEI and $20 million for FBC
- **Flow-through treatment for various items:** certain revenue requirement items approved for flow-through and deferral account treatment as outlined in the decision
- **Flow-through deferral account:** use of the non-rate base flow-through deferral account, attracting a weighted average cost of capital return
- **Forecast operating and maintenance expenses:** forecast (flow-through) treatment for certain operating and maintenance expenses as outlined in the decision
- **Efficiency carryover mechanism:** removal of the efficiency carryover mechanism
- **Index-based components:** an index-based approach to FEI's and FBC's operating and maintenance expenses and FEI's Growth capital including:
    - a Base operating and maintenance expense per customer which corresponds to a 2024 Base operating and maintenance expense of $299.127 million for FEI and $75.269 million for FBC
    - a 2024 Base unit cost growth capital of $9,300 per gross customer addition for FEI
    - an inflation factor including fixed labour/non-labour weightings of 50 percent labour and 50 percent non-labour for FEI and 60 percent labour and 40 percent non-labour for FBC
    - the use of the forecast average number of customers without a discount, and a true-up to actual when available, as the basis of the growth factor for FEI's and FBC's operating and maintenance expense indexing formulas
    - the use of forecast gross customer additions without a discount, and a true-up to actual when available, as the basis of the growth factor for FEI's Growth capital formula
    - A productivity factor of 0.55 percent for FEI and 0.45 percent for FBC. The approved productivity factor for FEI incorporates an industry operating and maintenance partial factor productivity value of 0.28 percent and a stretch factor of 0.27 percent, while the productivity factor for FBC incorporates an industry operating and maintenance partial factor productivity value of 0.20 percent and a stretch factor of 0.25 percent

- **Forecast capital:** capital forecasts for 2025 to 2027 for FEI's gross Sustainment and Other capital expenditures and FBC's gross Growth, Sustainment, and Other capital expenditures as outlined in the decision
- **Late payment charges:** a forecast methodology that uses the average of the previous year's actual late payment charges and the current year's projected late payment charges for FEI and FBC
- **Service quality indicators:** 17 service quality indicators as proposed plus one additional informational indicator relating to the energy transition for FEI, and 12 service quality indicators as proposed for FBC as outlined in the decision
- **Annual Reviews:** an annual review process with certain topics to be addressed as outlined in the decision
- **Demand/load forecast methodologies:** approved for the term of the Rate Framework for FEI and FBC as outlined in the decision

Given the Panel's view of the Rate Framework as a near-term solution for rate-setting, the Panel provides the following directions for FortisBC's next rates application for the period beginning January 1, 2028:

- For FEI and FBC, evaluate the merits of a price cap model that takes a top-down approach to rate-setting, such that the customer's rate is the starting point as opposed to the end product
- For FEI, evaluate alternate rate frameworks based on a jurisdictional review or other research that begin with an optimal gas delivery price as the starting point
- Evaluate whether such a new common rates plan could reasonably be implemented for both FEI and FBC given potentially different impacts of the energy transition on their operations, or whether the next rates plan would merit separate rate frameworks for each of the two utilities
- For FEI and FBC, evaluate targeted incentives that may be appropriate to introduce to further incent FEI's and FBC's energy transition work
- For FEI's forecast capital, include projections on the specific impact hydrogen integration will have on the capacity of its system and required infrastructure
- For FEI's Clean Growth Innovation Fund (CGIF): (i) provide a comprehensive report of the utility of the CGIF in regards to its stated objectives; (ii) evaluate the need for continuation of the CGIF; and (iii) evaluate alternate mechanisms that might address these objectives including a review of any relevant mechanics in other Canadian jurisdictions

The Panel also reviews various other approvals sought including FEI's CGIF, FEI's core market administration expense, exogenous factor treatment for 2021 flooding costs incurred by FEI, and supporting studies for FEI and FBC including depreciation studies, lead-lag studies, a corporate services study, and capitalized overhead studies. The Panel directs FEI to file its next depreciation study by no later than December 31, 2029, including a comprehensive review of the impact of the energy transition on FEI's assets. This includes, but is not limited to, a detailed review of potential risks associated with the applicable climate change legislation on FEI's delivery system and adjustments, if any, to depreciation rates in response to the energy transition.

## 1.0 Introduction

This decision addresses FortisBC Energy Inc.'s (FEI) and FortisBC Inc.'s (FBC) (collectively, FortisBC) application to the British Columbia Utilities Commission (BCUC) for approval of a performance-based rate-setting framework for 2025 to 2027 (Rate Framework).

FortisBC filed its original application on April 8, 2024, provided the supplemental information on May 31, 2024, in response to the BCUC's request relating to the impacts of the energy transition and climate change on the proposed Rate Framework,[1] and then filed corrections (Errata) to the original application on September 13, 2024. Unless otherwise indicated, references hereafter to the Application are to the information in the original application as amended by the Errata and the supplemental information.

FortisBC's Rate Framework is based on FEI's and FBC's current multi-year rate-making plans (MRP) for 2020 to 2024 (Current MRP), which FortisBC assesses as having performed well in a rapidly evolving external environment. Thus, the proposed Rate Framework includes the elements of the Current MRP that FortisBC asserts have proven successful, while seeking approval of updates and modifications to the rate-setting approach to respond to the energy transition, stakeholder feedback, and other changes in FEI's and FBC's operating environments.[2] FortisBC also seeks approval of certain deferral accounts, new capital forecasts, updated depreciation rates and other updates based on supporting studies.[3]

### 1.1 Background

An incentive- or performance-based rate (PBR) is a regulatory rate-setting framework that links utility rates to performance rather than a traditional cost of service rate-setting approach, which links rates to recovery of operating and capital costs. A PBR typically uses a rate setting mechanism designed to incent a utility to find efficiencies while ensuring that reasonable and measurable service levels are maintained.[4]

The BCUC has a long history of establishing rates using PBRs for FortisBC since the 1990s. FEI had PBR plans in 1998 and 2004 and FBC had PBR plans in 1996 and 2007. Following the sequential use of a traditional cost of service approach to rate setting by each of the two utilities from 2010 to 2013, they returned to PBRs for the 2014 to 2019 and 2020 to 2024 periods.[5]

The BCUC approved the Current MRP on June 22, 2020, for five years from 2020 to 2024. The Current MRP makes the controllable portion of each of FEI's and FBC's revenue requirements subject to a formula for each.[6] The formulas consider inflation and other cost drivers adjusted to reflect FEI's and FBC's expected productivity improvements. Other revenue requirement components that are not conducive to a formulaic approach are

[1] As requested by the BCUC by letter dated May 2, 2024 (Exhibit A-2).
[2] Exhibit B-1-2, pp. A-1 to A-2; FortisBC Final Argument, pp. 1–2.
[3] Exhibit B-1-2, p. A-1.
[4] FortisBC Application for Approval of a Multi-Year Rate Plan for the Years 2020 through 2024, Decision and Orders G-165-20 and G-166-20 dated June 22, 2020 (Current MRP Decision), p. 1.
[5] Current MRP Decision, p. 2. FEI used traditional cost of service for 2010 and 2011 while FBC used traditional cost of service for 2012 and 2013.
[6] Current MRP Decision, pp. 22, 44.

determined through a forecast approach, similar to a traditional cost of service model, or are flowed through to FEI's and FBC's revenue requirements. Revenue and cost components outside FEI's and FBC's control are handled through a deferral mechanism or are granted flow-through or exogenous factor treatment.[7]

The expected benefits of a PBR framework include increased efficiency, better control over operations and maintenance (O&M) costs and capital expenditures, and reduced regulatory costs. While the Current MRP incentivizes FortisBC to find cost efficiencies, it also ensures that reasonable and measurable service levels are maintained through service quality indicators (SQIs). The Current MRP aims to balance the interests of ratepayers and the utilities, including appropriately managing and allocating risks and rewards between the two groups.[8]

### 1.2 Legislative Requirement

Sections 59 to 61 of the *Utilities Commission Act* (UCA) set out the jurisdiction for the Panel's review of the Application. These provisions require the BCUC to set rates that are not unjust, unreasonable, unduly discriminatory or unduly preferential in respect of services provided by regulated utilities in British Columbia (BC).[9]

Further, when setting a rate under the UCA, the BCUC must have due regard to the setting of a rate that encourages public utilities to increase efficiency, reduce costs and enhance performance;[10] and may use any mechanism, formula or other method of setting the rate that it considers advisable. The BCUC may order that the rate derived from such a mechanism, formula or other method is to remain in effect for a specified period.[11]

### 1.3 Regulatory Process and Participants

In accordance with the established regulatory timetable, the BCUC has undertaken a public review process of the Application, including the following:[12]

- Two rounds of BCUC and intervener information requests (IRs);
- One round of Panel IRs;
- Letters of comment;[13] and
- Utility final argument, interveners' final arguments, and utility reply argument.

Eight parties registered as interveners in this proceeding:

- British Columbia Sustainable Energy Association (BCSEA);
- Movement of United Professionals (MoveUP);

[7] Current MRP Decision, pp. 1–2.
[8] Current MRP Decision, p. 1.
[9] UCA, sections 59(1)(a) and 60(1)(b)(i).
[10] UCA, section 60(1)(b)(iii).
[11] UCA, section 60(1)(b.1).
[12] Exhibit A-2, Letter dated May 2, 2024 requesting supplemental information, Orders G-165-24, and G-255-24.
[13] Two letters of comment were filed and are discussed further in Section 4.5 of this decision.

- Residential Consumer Intervener Association (RCIA);
- Air Products;[14]
- Commercial Energy Consumer Association of British Columbia (the CEC);
- Industrial Customers Group (ICG);[15]
- British Columbia Old Age Pensioners' Organization et al. (BCOAPO); and
- British Columbia Municipal Electric Utilities (BCMEU).[16]

In the Application, FortisBC indicates that it will file for 2025 interim delivery rates for FEI and interim rates for FBC on a refundable/recoverable basis before the end of 2024, given the timing of this proceeding and the utilities' needs to charge rates effective January 1, 2025.[17] At the beginning of November 2024, FortisBC filed requests for interim delivery rates for FEI and interim rates for FBC on a refundable/recoverable basis. FortisBC intends to file combined annual review materials to set permanent rates for 2025 and 2026 (2025 and 2026 Annual Review of FEI's Delivery Rates and 2025 and 2026 Annual Review of FBC's Rates) after the BCUC renders its final decision in this proceeding (i.e. this decision).[18] At the end of November 2024, the BCUC approved interim delivery rates for FEI and interim rates for FBC on a refundable/recoverable basis.[19]

### 1.4 Structure of this Decision

The remainder of this decision is structured as follows:

- Section 2.0 discusses the Rate Framework from a holistic perspective including evaluating the performance of the Current MRP, discussing the continuation of PBR considering FortisBC's current operating environment, and reviewing components of the Rate Framework where FortisBC is not requesting any change in treatment from the Current MRP;
- Section 3.0 reviews the components of the Rate Framework where FortisBC is proposing a change to the Current MRP;
- Section 4.0 discusses other matters including FEI's Clean Growth Innovation Fund, FEI's core market administration expense, exogenous factor treatment of FEI's 2021 flooding costs, supporting studies filed by FortisBC, and letters of comment; and
- Section 5.0 summarizes the Panel's determinations on FortisBC's proposals.

## 2.0 The Rate Framework as a Whole

This section evaluates the performance of the Current MRP, considers the proposed continuation of multi-year PBR plans in the current operating environment, and the key influences in FEI's and FBC's operating

[14] Air Products's intervention is limited to matters pertaining to the hydrogen market (Exhibit A-5). Air Products's submissions are discussed in Section 4.1 of this decision related to FEI's Clean Growth Innovation Fund.
[15] ICG's intervention is limited to matters pertaining to FBC (Exhibit C6-1).
[16] BCMEU participated in IR1, but did not file a final argument.
[17] Exhibit B-1-2, p. C-191.
[18] Exhibit B-20, FBC 2025 Interim Rates Request, p. 2; Exhibit B-21, FEI 2025 Interim Delivery Rates Request, p. 2.
[19] Orders G-313-24 and G-314-24.

environments to determine whether the Current MRP, with some updates and modifications, should continue to provide the framework for setting FEI's delivery rates and FBC's rates.

### 2.1 Evaluating the Current Multi-Year Performance-Based Rate Plans

The expected benefits of multi-year PBR plans include increased efficiency, better control over O&M costs and capital expenditures, and reduced regulatory costs.[20]

FortisBC states that the Current MRP has performed well in a rapidly evolving operating environment, including external factors that caused unprecedented pressures on rates for both gas and electric operations.[21] These external factors included the global COVID-19 pandemic, significant economy-wide inflationary pressures, persistent supply chain shortages and uncertainty, a historic flooding event impacting a wide area of BC, and the worst wildfire season on record.[22] Despite these impacts, FortisBC considers that the Current MRP continued to work as intended, with the formulas adjusting for changes in inflation, savings being captured and returned to customers through the exogenous factor mechanism, and the use of deferral accounts to capture unexpected costs and savings such as provincial sales tax rebates and COVID-19 Customer Recovery Fund costs.[23]

While the actual performance for 2024 (the last year of the Current MRP term) was not yet known at the time of the Application, FortisBC notes that the approved rates for each year of the Current MRP (i.e. 2020 to 2024) and the performance for 2020 to 2023 are known.[24] FortisBC has put forth a number of metrics that it considers helpful in illustrating the positive performance of the Current MRP. Table 1 below summarizes some of FortisBC's indicative performance metrics from the Current MRP term.

**Table 1: Summary of FortisBC's Indicative Performance Metrics over the Current MRP Term[25]**

| | | 2020 | 2021 | 2022 | 2023 | 2024 | Cumulative[26] |
|---|---|---|---|---|---|---|---|
| **FEI** | Delivery rate | 2.0% | 6.6% | 8.1% | 7.7% | 8.0% | 32.4% |
| | Composite inflation for reference | 2.8% | 3.8% | 3.9% | 4.4% | 4.4% | 19.3% |
| | Total Formula O&M[27] savings to ratepayers with sharing | $2.4 million | $4.6 million | $5.6 million | $7.2 million | $8.3 million (projected) | $28.1 million |

[20] Current MRP Decision, p. 1.
[21] Exhibit B-1-2, p. B-39.
[22] Exhibit B-2, p. 11.
[23] Exhibit B-2, p. 11.
[24] Exhibit B-1-2, p. B-18.
[25] Table created using information from Exhibit B-1-2, Figure B2-1 on p. B-19, Figure B2-2 on p. B-23, Table B2-8 on p. B-29, and Table B2-9 on p. B-30.
[26] Cumulative values are shown as the sum of the annual columns in this same table. Cumulative values in this table may differ from the cumulative values in the Application due to rounding of the annual columns.
[27] As discussed in Section 1.1 of this decision, under PBR, the controllable portion of each of FEI's and FBC's O&M is subject to a formula (Formula O&M), while the non-controllable portion of O&M is forecast annually (Forecast O&M).

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|---|---|---|---|---|---|---|---|
| **FBC** | Rate | 1.0% | 4.4% | 3.5% | 4.0% | 6.7% | 19.6% |
| | Composite inflation for reference | 2.8% | 4.2% | 4.5% | 4.3% | 4.2% | 20.0% |
| | Total Formula O&M savings to ratepayers with sharing | $1.0 million | $2.3 million | $2.2 million | $3.5 million | $2.8 million (projected) | $11.8 million |

Despite unprecedented cost pressures, FortisBC asserts that FEI's and FBC's total effective rate increases have tracked close to composite inflation on a cumulative basis.[28] FortisBC also notes that both FEI and FBC have maintained efficiency, with FEI performing slightly better and FBC performing significantly better than industry peers on an O&M cost per customer basis.[29] Improved regulatory efficiency over traditional cost of service rate regulation, particularly in the earlier years of the Current MRP, has allowed FortisBC to increase its focus on managing its businesses with a long-term view.[30] Overall, FortisBC concludes that the Current MRP was able to deliver on some of the key benefits of PBR, including incentivizing operating efficiencies that result in savings shared equally by the utilities and ratepayers, and reduced regulatory costs.[31]

### *Positions of the Parties*

BCSEA agrees that the Current MRP has performed well, while the CEC raises concerns about the magnitude of rate increases observed within the term of the Current MRP.[32] Other interveners do not comment explicitly on this matter.

BCSEA agrees with FortisBC that the Current MRP has proven successful in responding to the energy transition, largely because the impacts of the energy transition on FEI's gas delivery rates and FBC's electricity rates are subject to flow-through treatment under the Current MRP.[33]

The CEC submits that the rate trends for FEI, and to a lesser degree for FBC, speak to an underperformance of the Current MRP as it concerns the resulting over-inflationary rate impacts affecting FortisBC's customers. The CEC views the divergence between FortisBC's rates and inflation as an indicator of this underperformance. The CEC agrees with FortisBC's submission that the Current MRP has been successful, as it has enabled the desired flexibility for FortisBC to navigate uncertainties related to the energy transition. However, the CEC submits that this flexibility and FortisBC's energy transition efforts have resulted in over-inflationary rate impacts affecting FortisBC's customers. The CEC views the lack of performance indicators and incentive targets tied to specific energy transition targets makes quantifying that contribution and the success of FortisBC's performance ineffective.[34]

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[28] Exhibit B-1-2, p. B-39.

[29] Exhibit B-1-2, Table C1-4 on p. C-8, Table C1-6 on p. C-10.

[30] Exhibit B-1-2, Tables B2-6 and B2-7 on p. B-27.

[31] Exhibit B-1-2, p. B-26.

[32] BCSEA Final Argument, p. 4; the CEC Final Argument, pp. 12–13.

[33] BCSEA Final Argument, p. 4.

[34] The CEC Final Argument, pp. 12–13.

In reply to the CEC, FortisBC states the CEC's argument that the Current MRP has underperformed because it has resulted in over-inflationary rate impacts is inaccurate and misleading. The CEC's observations are based on an overly simplistic premise that rate increases above inflation are indicative of under-performance of the Current MRP. There are many costs that are approved for recovery within rates outside of the Current MRP or that are outside of FortisBC's control. These costs would be incorporated into rates under any form of rate regulation, not just PBR. FortisBC also submits that it has been transparent with the increased costs of energy transition and has proposed energy transition informational indicators in the Rate Framework.[35]

*Panel Discussion*

**The Panel finds that the Current MRP has been a successful mechanism for setting FEI's delivery rates and FBC's rates from 2020 to 2024.** As Table 1 above shows, FEI and FBC were able to achieve meaningful Formula O&M savings over the Current MRP term that resulted in $28.1 million being returned to FEI's customers and $11.8 million to FBC's customers. The continuous annual review process for FEI's Delivery Rates and FBC's Rates (Annual Reviews) also continued to be efficient both in terms of limiting regulatory costs to be recovered from ratepayers and in terms of speed of review compared to a traditional cost of service revenue requirement proceeding. With these facts, the Panel views that the Current MRP has achieved the expected benefits of a multi-year PBR framework including increased efficiency, better control over O&M costs and capital expenditures, and reduced regulatory costs.[36]

As FortisBC noted, this period was mired with 'unprecedented' events including the COVID-19 pandemic, high inflation, supply chain disruptions, and increasing occurrences of natural disasters (e.g. fires and floods). Despite these events as well as pressures related to the energy transition, the Current MRP performed as it was designed to and delivered real benefits to both ratepayers and the utilities.

The Panel acknowledges intervener comments regarding increasing rates over the Current MRP term. The Panel agrees that escalating rate increases were present in the Current MPR term but does not agree that they are a sign of underperformance of the Current MRP. As FortisBC noted, a majority of the factors driving higher rate increases during the Current MRP term were either due to costs approved by the BCUC in proceedings outside of the Current MRP or reflected larger economic circumstances outside of FortisBC's control. The Panel views that FortisBC's ability to operate within the formulaic components of the Current MRP and still deliver savings to customers in the face of these larger economic issues to reflect the plan's efficacy.

The Panel will discuss rate increases and affordability matters in terms of the Rate Framework in Section 2.2, and again on a forward-looking basis following the term of the Rate Framework in Section 3.6 of this decision.

## 2.2 Appropriateness of Performance-Based Rate Setting in Current Operating Environment

FortisBC states that the Rate Framework builds on key elements of the Current MRP and represents a continued evolution of its approach to rate setting in the midst of a challenging operating environment.[37] While FortisBC intends to maintain certain elements of the Current MRP, it is also proposing to update or modify other

[35] FortisBC Reply Argument, pp. 4–7.

[36] Current MRP Decision, p. 1.

[37] Exhibit B-1-2, pp. A-1 to A-2.

elements to respond to and manage uncertainty inherent in the operating environment, specifically the energy transition which represents the movement from fossil fuel-based energy to energy based on renewable and low-carbon resources.[38] FortisBC continues to believe in the efficacy of the fundamental principles behind a multi-year PBR and states that the Rate Framework strikes a reasonable balance by providing the necessary flexibility for FortisBC to manage the impacts of the energy transition while incenting FortisBC to control its costs.[39]

### 2.2.1 Principles and Benefits of Multi-Year Performance-Based Rate Plans

In the Current MRP, FortisBC proposed five rate plan principles (Rate Plan Principles) that were accepted by the BCUC in the Current MRP Decision. FortisBC intends to continue these same Rate Plan Principles in the Rate Framework, including:[40]

1. The MRP or Rate Framework should, to the greatest extent possible, align the interests of customers and the utility; customers and the utility should share in the benefits of the MRP or Rate Framework;
2. The MRP or Rate Framework must provide the utility with a reasonable opportunity to recover its prudently incurred costs including a fair rate of return;
3. The MRP or Rate Framework should recognize the unique circumstances of FortisBC that are relevant to the MRP design;
4. The MRP or Rate Framework should maintain the utility's focus on maintaining safe, reliable service and customer service quality while creating the efficiency incentives to continue with its productivity improvement culture; and
5. The MRP or Rate Framework should be easy to understand, implement and administer and should reduce the regulatory burden over time.

FortisBC also notes the following benefits of multi-year PBR plans:[41]

1. Reduced regulatory costs and internal efficiencies associated with the streamlined regulatory process;
2. Increased utility focus on managing the business with a long-term view; and
3. Increased operational flexibility to address the increasing pace and growing scope of energy industry transformation.

### 2.2.2 Changes in the Operating Environment

Over the term of the Current MRP, FortisBC outlines the following key influences in its operating environment that are becoming increasingly predominant:[42]

- Policy direction and mandate from all levels of government towards decarbonization;
- Challenges related to energy affordability; and

[38] Exhibit B-1-2, pp. A-2 and B-1.
[39] Exhibit B-1-2, p. A-17.
[40] Exhibit B-1-2, p. A-17; FortisBC Reply Argument, pp. 13–15; Current MRP Decision, p. 168.
[41] Exhibit B-1-2, p. B-26.
[42] Exhibit B-1-2, p. A-1.

- Physical and cyber security, climate adaptation, and the ongoing need to invest in FEI's and FBC's energy systems.

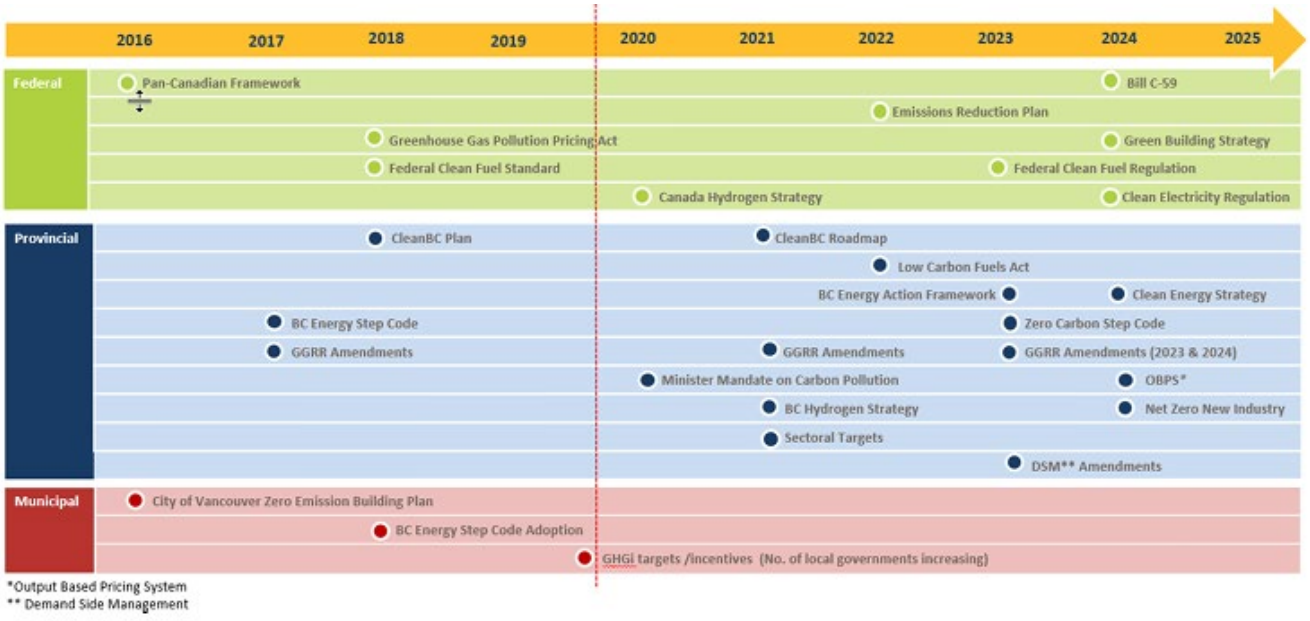
Each of the above-noted key influences, as well as how FortisBC has adapted the Rate Framework for them, is discussed in turn below.

Policy direction and mandate from all levels of government towards decarbonization

As explained by FortisBC, the energy transition is a complex and multifaceted process involving a substantial overhaul of existing infrastructure and market dynamics. The aim of the energy transition is to meet rising energy demands while simultaneously reducing greenhouse gas emissions and adapting infrastructure to a changing climate.[43]

Figure 1 below shows the evolution of major Canadian, BC provincial and BC municipal policies related to the energy transition, with the red vertical line indicating when the Current MRP term began in 2020.

**Figure 1: Major Energy Transition Policies Adopted by All Levels of Government[44]**




FortisBC views that while the energy transition has an impact on rates, substantive actions in response to the energy transition will largely be addressed in separate proceedings through important applications for BCUC approval such as long-term resource plans, demand side management expenditure plans, major project capital, rate design, and energy supply agreements and plans. The BCUC's decisions in these other proceedings will have cost implications for FortisBC, and the Rate Framework is designed to allow these cost implications to be incorporated into FEI's delivery rates and FBC's rates.[45]

[43] Exhibit B-1-2, p. B-1.

[44] Exhibit B-7, BCOAPO IR 2.2.

[45] Exhibit B-2, Supplemental Information, p. 1.

In other words, FortisBC argues that the purpose of the Rate Framework is not to prescribe FortisBC's response to the energy transition, but to establish a flexible and efficient rate-setting framework that supports its ability to adapt to the energy transition and manage the impacts on the provision of affordable, reliable, and resilient service to customers.[46] FortisBC states that it has made significant efforts over the past decade to evolve its rate-setting frameworks, as well as its projects, plans and programs which have been reviewed and approved through other regulatory proceedings, to manage the early impacts of the energy transition. Therefore, while FortisBC expects the energy transition to continue to unfold incrementally over many years, it is in fact already having an impact on FortisBC's rates. The Current MRP was designed to incorporate the growing impacts of the energy transition into rates each year through the Annual Reviews and other approved mechanisms, as well as provide incentives to achieve cost savings. The Rate Framework aims to continue that flexible and efficient approach to rate setting, thus supporting FortisBC's ability to adapt to the energy transition.[47]

In developing the Rate Framework, FortisBC states it sought to adapt to and manage the impacts of the energy transition by:[48]

- Shortening the proposed term of the Rate Framework from five years in the Current MRP to three years in light of uncertainty caused by the energy transition;
- Including additional amounts in Base O&M for long-term gas and electric resource planning, power supply resource development, decarbonization and sustainability initiatives, policy advocacy, and engineering resources to support electric capital plans as compared to the Current MRP;
- Seeking approval of three-year capital forecasts to provide flexibility and maintain a focus on cost control. FortisBC can also seek project approvals in Certificate of Public Convenience and Necessity (CPCN) applications or acceptance of expenditure schedules under section 44.2 of the UCA over the term of the Rate Framework as needed;
- Maintaining FEI's Growth capital formula from the Current MRP to respond to changes in customer connections over time;
- Continuing to forecast the cost of Clean Growth Initiatives, including a new category for methane emissions mitigation, to allow FortisBC to invest the amounts needed to support the energy transition while ensuring that customers only pay for the actual expenditures incurred;
- Continuing to include exogenous factor treatment for unforeseen and uncontrollable events;
- Continuing to include off-ramps for the Rate Framework that would be triggered if earnings in any one year vary from the allowed return on equity by more than a certain amount, which provide a safeguard for both FortisBC and customers;
- Introducing energy transition informational indicators for FEI to reflect a growing focus on energy transition metrics; and
- Continuing to use Annual Reviews to review forecast and actual expenditures on Clean Growth Initiatives (and other flow-through expenses), year-over-year changes in customer growth and demand, and FEI's proposed new energy transition informational indicators.

[46] Exhibit B-2, Supplemental Information, p. 24.

[47] Exhibit B-2, Supplemental Information, pp. 1, 24.

[48] Exhibit B-2, Supplemental Information, pp. 25–26.

FortisBC states that it has appropriately retained in the Rate Framework, the features of the Current MRP that have allowed it to be successful through the energy transition and other significant challenges to date.[49]

Challenges related to energy affordability

FortisBC asserts that energy affordability is top of mind in a period of rising inflation and energy transition. There are significant costs required to enable the energy transition that negatively impact affordability, including: (i) increased costs related to investment in emissions reduction, such as the costs of acquiring renewable and low-carbon fuels; (ii) increased costs related to expanding electrical generation, transmission and distribution infrastructure to meet growing demand, while also maintaining a clean electricity portfolio; (iii) increased costs related to investments in climate adaptation and resilience; and (iv) rate pressures due to the potential for reduced throughput and a decline in customer additions on the gas system, resulting in increased costs per customer.[50] FortisBC states that the pace of the energy transition must align with customers' ability to afford the costs associated with the energy transition.[51]

In developing the Rate Framework, FortisBC states it sought to manage costs associated with the energy transition in the most affordable way by:[52]

- Continuing with an indexed-based formula approach for the majority of O&M costs and for FEI Growth capital, while maintaining a cost-control focus;
- Increasing investment in energy efficiency programs to reduce customers' energy consumption;
- Optimizing energy supply portfolios to reduce costs;
- Pursuing a diversified approach to long-term planning to manage affordability and optimize the use of gas and electric infrastructure;
- Considering the need for capital investments, including whether there are smaller investments to increase future optionality as the energy transition evolves;
- Balancing the need to be proactive in building capacity with the expected timing of demand on the system;
- Adding new sources of revenue through serving non-traditional markets, like transportation end uses; and
- Focusing on customer retention and growth.

Given that the level and pace of rate impacts during the energy transition for both FEI and FBC are uncertain at this time, FortisBC considers that Annual Reviews remain the most appropriate forum to address rate impacts during the term of the Rate Framework.[53]

[49] FortisBC Final Argument, p. 6.
[50] Exhibit B-1-2, p. B-10.
[51] Exhibit B-1-2, p. B-10.
[52] Exhibit B-1-2, pp. B-10 to B-11.
[53] Exhibit B-2, Supplemental Information, p. 9.

Physical and cyber security, climate adaptation, and the ongoing need to invest in energy systems

FortisBC states that the energy transition has highlighted the critical interrelationships between the gas and electric systems; both systems need to be able to provide dependable service to customers during times of peak demand, whether driven by load growth or by shifts in energy usage.[54] Some risks to FEI's and FBC's energy systems include: (i) increased physical and cyber security threats due to activism and geopolitical instability; (ii) increased physical threats due to climate change; and (iii) increasing costs related to environment and sustainability obligations, aging infrastructure, and growing the energy supply systems in the face of differing directional forces on growth (i.e. upward for FBC and downward for FEI).[55]

In developing the Rate Framework, FortisBC states that it sought to manage risks and costs associated with its energy systems by:[56]

- Increasing investments in physical and cyber security O&M and capital expenditures to strengthen its emergency management and business continuity portfolios in response to threats, as well as to meet the growing regulatory requirements and to support ongoing diligence in preparedness, mitigation, and response to emergencies and continuity events;
- Continuing Climate Change Operational Adaptation planning work to improve asset and operational resilience to climate change risks and to maintain safe and reliable energy supply to customers;
- Increasing investments in Base O&M for environment and sustainability work to address numerous environmental and archaeological regulatory requirements and risks associated with FortisBC's operations, and a multitude of federal, provincial, regional, and municipal permits and approvals that are typically required obligations and legislation;
- Continuing to invest in growth and sustainment capital for FEI's energy system. While there is uncertainty about how the energy transition will unfold, FortisBC believes that FEI's gas assets remain an important part of BC's energy mix. Ensuring the gas system continues to be well-maintained supports the transition towards cleaner energy sources and helps minimize the need to build out new energy assets; and
- Continuing to invest in growth and sustainment capital for FBC's energy system to accommodate forecast load growth with the energy transition and shift toward electrification.

FortisBC states that it is committed to evolving its operations and strategies to ensure resilience for customers and has considered the above factors in the Rate Framework.[57]

### 2.2.3 Jurisdictional Review

From its review of regulators in major Canadian provinces (studied jurisdictions), FortisBC states that multi-year PBR plans continue to be used by natural gas and electric utilities across the country. Alberta, Ontario, and Quebec currently apply multi-year PBR plans to their major local distribution companies. FortisBC states that all of these multi-year PBR plans seek to promote a continuous efficiency focus, align utilities' and ratepayers'

[54] Exhibit B-1-2, p. B-11.
[55] Exhibit B-1-2, pp. B-11 to B-16.
[56] Exhibit B-1-2, pp. B-11 to B-16.
[57] Exhibit B-1-2, p. B-16.

interests, and encourage utilities to achieve government policy objectives while ensuring service quality requirements are met.[58]

FortisBC states that there have been no significant changes in the overall structure of multi-year PBR plans in the studied jurisdictions since 2019. Rather, any changes in the studied jurisdictions are mainly related to specific elements of the plan and are incremental in nature.[59]

In the studied jurisdictions, FortisBC states that the regulators' approaches to addressing the energy transition in revenue requirement proceedings vary. In Quebec, the energy transition solutions are largely addressed outside the revenue requirement in separate proceedings, or separate phases of the same proceeding. The Alberta Utilities Commission changed the criteria for capital tracker treatment to include projects directly caused by applicable laws related to net-zero objectives and stated that utilities can file proposals for O&M remuneration schemes for projects that can delay and/or reduce the need for capital intensive system expansion projects. In Ontario, electric distributors can use a 'custom incentive rate-setting' plan to forecast their lumpy and significant capital needs.[60]

FortisBC submits that the results of its jurisdictional review indicate that multi-year PBR plans have remained consistent and the impacts of the energy transition have generally been managed outside rate plan proceedings.[61]

### *Positions of the Parties*

BCSEA and MoveUP support the continuation of multi-year PBR plans, the CEC and BCOAPO had varying comments, and ICG does not support the Rate Framework for FBC.[62] Other interveners do not comment explicitly on this matter.

BCSEA supports the Rate Framework as a whole.[63] BCSEA agrees that FortisBC has evolved the Current MRP to respond to changes in its operating environment.[64] BCSEA expects that any changes in rates arising from the clean energy transition can be effectively accommodated under the Rate Framework. BCSEA does not believe that alternative rate-setting approaches would be inherently better at accommodating the impact of the energy transition on FEI's gas delivery rates and FBC's electricity rates.[65] BCSEA views that the best way to foster FortisBC's implementation of the energy transition is to approve the Rate Framework, subject to certain exceptions (that will be discussed later in this decision as relevant). In BCSEA's view, substantially changing the approach to determining FEI's gas delivery rates or FBC's electricity rates at the present time would interfere with the utilities' implementation of measures for carbon reduction and low-carbon electrification.[66]

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[58] Exhibit B-1-2, pp. B-31 to B-32.
[59] Exhibit B-1-2, p. B-35.
[60] Exhibit B-1-2, pp. B-34, B-35 to B-36.
[61] FortisBC Final Argument, p. 9.
[62] BCSEA Final Argument, p. 2; MoveUP Final Argument, p. 7; the CEC Final Argument, p. 40; BCOAPO Final Argument, p. 4; ICG Final Argument, PDF page 6.
[63] BCSEA Final Argument, p. 2.
[64] BCSEA Final Argument, p. 4.
[65] BCSEA Final Argument, pp. 3–4.
[66] BCSEA Final Argument, p. 4.

MoveUP submits that the Rate Framework is a reasonable start toward regulatory transition.[67] MoveUP submits that the BCUC should approve the degree of progress achieved by the Application, including a number of adjustments to the traditional PBR approach to better adapt to emerging conditions. MoveUP submits that the Rate Framework should be evaluated in relation to where it leads – what comes next.[68]

The CEC notes that one of the benefits pursued by FortisBC in the Rate Framework is certainty of the rate mechanisms in place as the term of the Current MRP comes to a close. The CEC considers that either an extension of the Current MRP or the Rate Framework would provide this certainty.[69] Overall, the CEC suggests that the BCUC reject a number of FortisBC's proposed changes to the Rate Framework and instead proceed with a framework more like what the CEC recommended, until FortisBC completes its plans for targeted incentives and develops the associated formal metrics.[70] Targeted incentives are discussed in Section 3.4.2 of this decision and other recommendations will be discussed later in this decision as relevant.

BCOAPO raises concerns over asymmetrical benefits of the Rate Framework, where it views that FortisBC benefits from reduced risk of cost recovery while ratepayers bear the burden of higher rates.[71] BCOAPO submits that continued rate increases at the level of 5.0 percent to 7.0 percent on an annual basis and the even higher cumulative impacts of such levels into the future under the Current MRP and Rate Framework are neither sustainable nor affordable for ratepayers.[72] BCOAPO submits that FortisBC and all parties participating in regulatory processes need to re-focus on effectiveness, accountability and transparency of regulatory oversight by ensuring there is sufficient regulatory processes to protect the public interest and require that the utilities respond appropriately to the energy transition now and in the future.[73] As a result, BCOAPO recommends that the BCUC direct FortisBC to: (i) develop proactive rate mitigation strategies for both FEI and FBC, and (ii) complete a conceptual review of the appropriate rate plans that are compatible with the rate mitigation strategies.[74]

ICG submits that the BCUC should not establish a multi-year PBR mechanism for FBC until the BCUC holds an inquiry into the difference between FBC's rates and BC Hydro's rates. As such, ICG submits that FBC rates should only be approved for 2025.[75]

In reply to BCOAPO, FortisBC states that its focus on designing a framework with an appropriate length of term, sufficient funding to address emerging requirements and challenges, flexibility to adapt to the energy transition, and an efficient annual rate-setting process, positively contributes to the overall balance of the Rate Framework.[76] FortisBC recognizes and shares BCOAPO's concern regarding affordability. FortisBC is taking reasonable actions to reduce costs and mitigate rate increases and is open to consideration of rate mitigation

[67] MoveUP Final Argument, p. 7.
[68] MoveUP Final Argument, p. 7.
[69] The CEC Final Argument, p. 40.
[70] The CEC Final Argument, pp. 8, 43.
[71] BCOAPO Final Argument, p. 4.
[72] BCOAPO Final Argument, p. 11.
[73] BCOAPO Final Argument, p. 8.
[74] BCOAPO Final Argument, p. 28.
[75] ICG Final Argument, PDF page 6.
[76] FortisBC Reply Argument, p. 12.

strategies; however, FortisBC reiterates that Annual Reviews remain the best time at which to consider and implement such rate strategies.[77]

In reply to ICG, FortisBC argues that ICG's request that FBC's rates be set only for 2025 pending an inquiry into the difference between FBC's and BC Hydro's rates is not reasonable. FortisBC submits that a one-year term would provide no opportunity or incentive to improve productivity and would be inefficient, as FBC would need to prepare its next application immediately after the BCUC's decision on the Rate Framework.[78]

### *Panel Determination*

The Panel begins by accepting that the same five Rate Plan Principles as proposed by FortisBC and endorsed by the BCUC in the Current MRP Decision remain appropriate for evaluating the Rate Framework in this Application. The Panel views that no significant changes to the proposed Rate Framework from the Current MRP are present that would challenge the BCUC's conclusions regarding the applicability of Rate Plan Principles 1, 2, 4 and 5 for the Rate Framework as discussed above in the near-term (i.e. the next three years). The Panel views that Rate Plan Principle 3 regarding recognizing the unique circumstances of FortisBC that are relevant to the MRP design, has appropriately been updated for the three key influences in its operating environment as discussed comprehensively both above and in the Application. Therefore, the Panel finds that, as a whole, the proposed Rate Framework continues to meet the five Rate Plan Principles.

**The Panel finds that a multi-year PBR framework continues to be an appropriate model for setting FEI's delivery rates and FBC's rates in the near-term.** There is no evidence in this proceeding providing compelling reasons to depart from a multi-year PBR framework at this time. The Panel views that the proposed Rate Framework is, in essence, a continuation of the Current MRP, with the building blocks and overall structures of both plans being identical. FortisBC is proposing that many components remain unchanged from one plan to the next as discussed in Section 2.3 of this decision, while recommending refinements to certain other components to reflect the current operating environment as discussed in Section 3.0 of this decision. Given the Panel's finding in the preceding section that the Current MRP has performed well over a five-year term with numerous unprecedented events and energy transition pressures, the Panel views that the Rate Framework will continue to offer FortisBC the same incentives for cost control and flexibility to recover any unexpected costs or energy transition costs, if and as needed.

**The Panel approves the Rate Framework as a whole for the term as set out in Section 3.6 of this decision, subject to the determinations on individual components of the Rate Framework in Sections 2.3 and 3.0 of this decision.** The Panel is persuaded that the proposed Rate Framework is sufficiently flexible and robust to allow FortisBC to effectively respond to the three key influences on its operating environment: decarbonization/energy transition, affordability, and physical/cyber security and climate adaptation, in the near term. However, the Panel has concerns about the ability of the Rate Framework to respond to these matters appropriately beyond the near-term. The Panel expects that there will continue to be significant uncertainty associated with FortisBC's operating environment, especially as it relates to the energy transition, with the possibility for significant change over the next several years. Therefore, the Panel emphasizes that it views the Rate Framework as a near-term solution for rate setting in a time of enhanced uncertainty. While the Panel is

[77] FortisBC Reply Argument, p. 17.
[78] FortisBC Reply Argument, p. 34.

persuaded that the Rate Framework is appropriate for a transitional period, the Panel will discuss further direction for FortisBC's next rates plan in Section 3.6 of this decision.

Regarding ICG's suggestion for an inquiry into FBC's rates, the Panel views that such an inquiry would be an ineffective and inefficient use of customer funds. The Panel agrees with BCOAPO's comments on the need to focus on effectiveness and accountability of regulatory oversight and ensure that the utilities respond appropriately to the energy transition now and in the future. The Panel views that the Rate Framework does indeed focus on these matters.

### 2.3 Continuing Various Components of the Current Rate Plans in the Rate Framework

Since the Panel agrees with the continuation of a multi-year PBR framework as discussed in the preceding section, this section provides a broad overview of various components of the Rate Framework for which FortisBC is proposing no change in treatment from the Current MRP. Table 2 below summarizes those components.

**Table 2: Components with No Change from Current MRP to Rate Framework[79]**

| Component | Treatment approved under Current MRP and proposed under Rate Framework |
|---|---|
| **Earnings sharing mechanism** | A symmetrical 50 percent sharing between customers and FEI's and FBC's shareholders, if FortisBC's achieved return on equity is above or below the allowed return on equity |
| **Off-ramp** | A plan off-ramp to be triggered if earnings in any one year vary from the allowed return on equity by more than +/- 150 basis points (post sharing) for FEI and FBC |
| **Exogenous factor criteria** | Exogenous factor treatment subject to BCUC approval for events that are non-controllable and unforeseeable in nature and that meet the following criteria:<br>1. The costs/savings must be attributable entirely to events outside the control of a prudently operated utility;<br>2. The costs/savings must be directly related to the exogenous event and clearly outside the base upon which the rates were originally derived;<br>3. The impact of the event was unforeseen;<br>4. The costs must be prudently incurred; and<br>5. The costs/savings related to each exogenous event must exceed the BCUC-defined materiality threshold. |
| **Exogenous factor materiality threshold** | $500,000 for FEI<br>$150,000 for FBC |
| **CPCN threshold** | $15 million for FEI<br>$20 million for FBC |

[79] Table created using information from Current MRP Decision, pp. 62, 65–76, Table 19 on p. 67, Table 49 on p. 169; Exhibit B-1-2, Table C1-1 on pp. C-2 to C-3, pp. C-16 to C-17, C-19 to C-20, C-63, C-100, C-137, Table C4-7 on pp. C-154 to C-155; Exhibit B-4, BCUC IR 30.1.

| | |
|---|---|
| **Flow-through treatment for various items** | Flow-through treatment indicates that the actual amounts for certain forecast items will flow through to ratepayers by capturing the annual variance between approved forecast amounts and actual amounts in a deferral account, either through specific deferral accounts or the flow-through deferral account, for collection/disbursement in the following year. Flow-through items include certain types of: revenues, forecast O&M expenses listed below, depreciation expense, interest expense, and income and property taxes.[80]<br><br>In addition to seeking approval to continue flow-through treatment for the items previously approved for flow-through treatment under the Current MRP, FortisBC proposes certain updates that would impact Formula O&M which are discussed in Section 3.1.1 of this decision. FBC also seeks to treat costs associated with its triennial Mandatory Reliability Standards (MRS) audit as flow-through rather than continuing to request approval of specific deferral accounts in Annual Reviews. This proposal is discussed below. |
| **Flow-through deferral account** | Use of the non-rate base flow-through deferral account, attracting a weighted average cost of capital return |
| **Forecast O&M expenses** | Forecast (flow-through) treatment for O&M expenses that are not conducive to being included in an index-based O&M formula because they are either tied to parts of the business that are changing in response to government policy or are otherwise outside the control of management, including:[81]<br>1. Pension and other post employment benefits expenses<br>2. Insurance premiums<br>3. BCUC levies<br>4. Integrity digs (FEI only)<br>5. Clean Growth Initiatives<br>As noted above, in addition to continuing to forecast (flow-through) O&M for the items previously approved for flow-through treatment under the Current MRP, FortisBC proposes certain updates that would impact Formula O&M as discussed in Section 3.1.1 of this decision. As well, FBC's proposed treatment of triennial MRS costs as Forecast O&M is discussed below. |

In addition to the above components where FortisBC is proposing no change to the current treatment, there are two items, the efficiency carryover mechanism and FBC's triennial MRS audit costs, where FortisBC is seeking minimal changes, as described below.

[80] Exhibit B-1-2, Table C4-7 on p. C-155; Exhibit B-4, BCUC IR 30.1; Current MRP Decision, Table 19 on p. 67.

[81] Exhibit B-1-2, p. C-63 to C-66; Current MRP Decision, pp. 118–119.

Efficiency Carryover Mechanism

FortisBC states that the purpose of an efficiency carryover mechanism is to incentivize the utilities to continue to pursue efficiency gains toward the end of multi-year PBR plans, when the amount of time remaining to achieve a return on efficiency investments becomes successively shorter.[82]

The Current MRP includes an option to apply for an efficiency carryover mechanism if an action or initiative arose in the last three years of the Current MRP term that warranted such treatment. The annual net savings identified under this mechanism would be shared equally for a maximum of three years following the end of the Current MRP term.[83] However, over the course of the Current MRP term, no efficiency carryover mechanism was applied for or approved. An efficiency carryover mechanism was also included but not activated in the preceding 2014 to 2019 rate plan.[84]

For this Rate Framework, FortisBC is not requesting an efficiency carryover mechanism. Given the shorter proposed term for the Rate Framework, the focus in that term on managing through the energy transition, and the complexities involved in designing an efficiency carryover mechanism tailored to its specific Rate Framework elements, FortisBC does not believe that an efficiency carryover mechanism is required. FortisBC will continue to evaluate the design of any future efficiency carryover mechanism and may seek to re-instate this component in future rate frameworks, with the goal of proposing a mechanism that is both simple to understand and provides incremental incentives.[85]

FBC's Triennial MRS Audit Costs

The administrator of the BC MRS Program, the Western Electricity Coordinating Council, performs an audit of FBC every three years. In the past, FBC has requested a new deferral account at the time of each MRS audit and has been approved to record the audit costs in specific MRS audit deferral accounts. These costs are then typically amortized over three years into customer rates.[86]

The BCUC approved the most recent MRS audit deferral account for audit costs incurred in 2024 in the FBC 2024 Annual Review Decision,[87] with the amortization of the deferral account corresponding to the three-year period beginning January 1, 2024. In the FBC 2024 Annual Review Decision, the BCUC also noted that the 2024 MRS audit will be the fifth audit since the introduction of the MRS audit process in 2012, and since these costs are now recurring in nature, it is timely for FBC to review its forecasting methodology for MRS costs including whether flow-through treatment of these costs continues to be appropriate as part of its next rates application (i.e. this Application). [88]

Accordingly, in the Application, FBC states that it considered alternative treatments for the MRS audit costs, including either as Formula O&M or Forecast O&M. FBC states that Formula O&M is not appropriate, as the MRS

[82] Exhibit B-1-2, pp. C-19 to C-20.
[83] Current MRP Decision, Table 49 on p. 169.
[84] FortisBC Final Argument, p. 45.
[85] Exhibit B-1-2, pp. C-19 to C-20; Exhibit B-4, BCUC IR 9.1.
[86] Exhibit B-1-2, p. C-64.
[87] FBC 2024 Annual Review of Rates, Decision and G-340-23 dated December 12, 2023 (FBC 2024 Annual Review Decision).
[88] FBC 2024 Annual Review Decision, p. 19.

audit costs are expected to occur only once over the term of the Rate Framework (i.e. in 2027), and as such, including them in Formula O&M would bring these costs into Base O&M before they are needed. Instead, FBC proposes to include MRS audit costs in Forecast O&M in the year they are expected to be incurred and include the forecast in the corresponding Annual Review (i.e. FBC's 2027 Annual Review). FBC states that this will allow for the costs to be reviewed by the BCUC and interveners, will increase efficiency by avoiding the creation of a new deferral account, and will allow the costs to be matched with the expected timing of the audit. FBC requests that the variances between forecast and actual MRS audit costs be recorded in the flow-through deferral account.[89]

### *Positions of the Parties*

BCSEA is the only intervener to comment on these components, submitting its support for the continuation of the treatment for the earnings sharing mechanism and off-ramp, removal of the efficiency carryover mechanism, and the categories of O&M that FortisBC will continue to forecast as they are appropriately not subject to the formula.[90]

### *Panel Determination*

**The Panel approves the continuation of the approach used in the Current MRP to the Rate Framework for the components in Table 2 above. This includes the approval of flow-through treatment for the items listed in Table C4-7 in Section C4.13.2 of the Application, reflecting the Panel's determinations in this section and in Section 3.1.1 of this decision.** As noted in the preceding sections of this decision, the Current MRP has performed well, and the Panel is persuaded that the components listed in Table 2 do not need to be tweaked in the shift from the Current MRP to the Rate Framework. The Panel will focus the remainder of this decision on components of the Rate Framework which entail changes from the Current MRP.

**The Panel approves the removal of the efficiency carryover mechanism in the Rate Framework.** The Panel views that FortisBC's proposal is reasonable and that an efficiency carryover mechanism is not needed for the term of the Rate Framework for the reasons stated by FortisBC.

**The Panel approves the treatment of FBC's triennial MRS audit costs as Forecast (flow-through) O&M, with variances between forecast and actual MRS audit costs recorded in the flow-through deferral account in the Rate Framework.** The Panel agrees that these costs are not suited to Formula O&M, as they occur only once every three years and so are not appropriately recovered from ratepayers before being incurred. Forecast (flow-through) O&M treatment is more efficient than continuing to seek specific deferral account treatment every three years.

## 3.0 Components of the Rate Framework

This section reviews the index-based approach to FEI's and FBC's O&M and FEI's Growth capital, including its formula parts, and other components of the Rate Framework where FortisBC proposes a change to the approach approved in the Current MRP.

[89] Exhibit B-1-2, pp. C-64 to C-65.

[90] BCSEA Final Argument, pp. 11, 15.

### 3.1 Index-Based Components

Under the Current MRP, certain controllable components of FEI's and FBC's O&M and FEI's Growth capital are subject to a formula as opposed to a traditional cost of service approach.[91] FortisBC is proposing to continue an index-based approach to these same components, but with certain changes to the inputs to the formulas used to calculate FEI's and FBC's O&M and FEI's Growth capital during the term of the Rate Framework.[92] FortisBC is also seeking to continue treating variances to both FEI's and FBC's O&M and FEI's Growth capital as subject to earnings sharing.[93]

The proposed formula for FEI's and FBC's O&M, which is the same as in the Current MRP, is as follows:[94]

$$\mathbf{OM_t = UCOM_{t-1} \times [(1 + (I\ Factor - X\ Factor)] \times AC_t + True\text{-}up_{t-2}}$$

Where:

**OM** = index-based operating and maintenance expense

**t** = forecast year

**UCOM** = unit cost operating and maintenance expense (discussed in Section 3.1.1 of this decision)

**I Factor** = inflation factor (discussed in Section 3.1.3 of this decision)

**X Factor** = productivity factor (discussed in Section 3.1.5 of this decision)

**AC** = average number of customers, which acts as the basis for the growth factor (discussed in Section 3.1.4 of this decision)

**True-up** = a two-year lagged true-up of index-based operating and maintenance expense (discussed in Section 3.1.4 of this decision)

The proposed formula for FEI's Growth capital, which is the same as in the Current MRP, is as follows:[95]

$$\mathbf{GC_t = UCGC_{t-1} \times [1 + (I\ Factor - X\ Factor)] \times GCA_t + True\text{-}up_{t-2}}$$

Where:

**GC** = index-based Growth capital

**t** = forecast year

**UCGC** = unit cost growth capital (discussed in Section 3.1.2 of this decision)

**I Factor** = inflation factor (discussed in Section 3.1.3 of this decision)

**X Factor** = productivity factor (discussed in Section 3.1.5 of this decision)

**GCA** = gross customer additions, which acts as the basis for the growth factor (discussed in Section 3.1.4 of this decision)

**True-up** = a two-year lagged true-up of index-based Growth capital (discussed in Section 3.1.4 of this decision)

[91] Current MRP Decision, pp. 26, 29.

[92] Exhibit B-1-2, pp. C-62, C-73.

[93] Exhibit B-1-2, Table C4-7 on p. C-155; Exhibit B-1-2, Figure C3-1 on p. C-68.

[94] Exhibit B-1-2, p. C-62.

[95] Exhibit B-1-2, p. C-73.

### *Positions of the Parties*

While interveners comment on individual parts of the two above-noted formulas as discussed in the following sections, they make no comment on the formulas themselves.

### *Panel Determination*

**The Panel approves the continuation of an index-based approach to FEI's and FBC's O&M and FEI's Growth capital using the above-noted formulas in the Rate Framework which are consistent with the Current MRP formulas.** The Panel views that these formulas have worked well over the Current MRP term and there is no evidence to suggest they will not continue to do so for the term of the Rate Framework, subject to updates on the various inputs of those formulas. The following sections review specific changes to the inputs of these two formulas.

#### 3.1.1 Base Operations and Maintenance Expense

As shown by the first formula in the section above, under the Rate Framework, FortisBC's O&M expenses will be determined by an index-based formula, which uses the unit cost O&M expense adjusted for customer growth and inflation, less an approved productivity factor.[96] The starting point for determining the O&M per customer amount for each utility is the 2024 Base O&M, which FortisBC submits is FEI's and FBC's adjusted actual O&M expenditures for 2023 expressed over the average number of customers for 2023. This amount is then escalated by FEI's and FBC's approved formula indexing factors for 2024, plus expected spending for 2024 and incremental funding proposed for the term of the Rate Framework.[97] FortisBC states its approach to setting the 2024 Base O&M follows the same methodology for setting the Base O&M as in the Current MRP and as used in other jurisdictions.[98] This section reviews the process for determining FEI's and FBC's 2024 Base O&M, respectively.

2024 Base O&M for FEI

Table 3 below shows how FortisBC calculated FEI's 2024 Base O&M of $302.127 million.

**Table 3: FEI 2024 Base O&M ($ millions)[99]**

| | |
|---|---|
| 2023 Approved Base O&M | 299.302 |
| 2023 Savings - Base O&M | (4.322) |
| **2023 Actual Base O&M** | **294.980** |
| Adjustment for exogenous factor and flow through items (in 2023 dollars) | (18.007) |
| **2024 Base O&M (in 2023 dollars)** | **276.973** |
| 2024 Inflator | 1.0443 |
| **2024 Base O&M (in 2024 dollars)** | **289.243** |
| Adjustments for Required 2024 Spending (in 2024 dollars) | 3.232 |
| **2024 Projected Base O&M** | **292.475** |
| Net incremental funding for Rate Framework (in 2024 dollars) | 9.652 |
| **2024 Base O&M for Rate Framework** | **302.127** |

[96] Exhibit B-1-2, p. C-24.
[97] Exhibit B-1-2, p. C-24.
[98] FortisBC Final Argument, p. 62.
[99] Exhibit B-1-2, p. C-26.

This calculation corresponds to FEI's proposed 2024 Base O&M on a per customer basis of $277, which is derived from the above 2024 Base O&M of $302.127 million divided by 1,089,371 customers (the 2024 twelve-month average number of customers).[100]

The Panel addresses the following issues related to FEI's calculation of its 2024 Base O&M:

- The appropriateness of adjustments for exogenous factor and flow-through items, which amount to a credit of $18.007 million; and
- The appropriateness of adjustments to 2024 Base O&M for (i) required 2024 O&M spending of $3.232 million, and (ii) net incremental O&M funding requests of $9.652 million for the proposed term of the Rate Framework.

***Adjustments for Exogenous Factor and Flow-Through Items for FEI***

FEI proposes to adjust its 2024 Base O&M for one exogenous factor item and two flow-through expenditure items. [101] FEI's 2023 Actual O&M included a one-time credit of $0.576 million for insurance proceeds received for the 2021 flooding and remediation exogenous factor event. FEI explains it is thus necessary to make an adjustment of $0.576 million to account for this one-time credit that will not be reflected in 2024 or future years.[102]

FEI also proposes two flow-through adjustments related to three approved CPCN projects. In the first adjustment, FEI seeks to remove $19.783 million of O&M costs that will be impacted by its Advanced Metering Infrastructure (AMI) project from Formula O&M and reclassify certain costs to Forecast (flow-through) O&M.[103] FEI explains that it will be in the process of deploying AMI during the term of the Rate Framework and the related O&M costs currently included in the formula are expected to decline as manual metering reading activities decrease. To properly track and report on the annual costs and savings, FEI proposes to forecast O&M costs impacted by the AMI project in each Annual Review and provide a discussion of its expectations for the costs for the coming year, with variances between forecast and actual costs recorded in the flow-through deferral account and returned to or recovered from customers in subsequent years. This treatment will result in customers paying only the actual costs incurred, which is consistent with the approved treatment of CPCN expenditures.[104]

In the second adjustment, FEI requests to include in Formula O&M, $0.300 million of O&M costs for the Inland Gas Upgrade project and $0.900 million of O&M costs for the Coastal Transmission System Transmission Integrity Management Capabilities project.[105] FEI explains that these two projects were implemented during the Current MRP term and therefore the incremental O&M costs related to these projects were not included in

[100] Exhibit B-1-2, p. C-62.
[101] Exhibit B-1-2, p. C-26.
[102] Exhibit B-1-2, pp. C-18 to C-19 and C-26; FEI Final Argument, p. 67.
[103] Exhibit B-1-2, pp. C-26 to C-28. In order to treat O&M costs impacted by the AMI project as a flow-through item, FEI states it has removed the 2023 actual meter installation, meter reading, operations, customer service and meter shop O&M costs which total $19.783 million.
[104] Exhibit B-1-2, pp. C-26 to C-28.
[105] Exhibit B-1-2, p. C-29.

Formula O&M and instead were forecast and treated as flow-through O&M.[106] However, as FEI is now establishing the 2024 Base O&M for the Rate Framework, FEI submits that it is appropriate to re-classify the incremental O&M expenses for the two projects from flow-through to Formula O&M, as this treatment is consistent with how FEI's other controllable O&M is treated.[107]

***Adjustments for Required 2024 Spending and Net Incremental Funding Requests for FEI***

As shown in Table 3 above, FEI explains that it requires $3.232 million in adjustments for required 2024 spending to be added to the 2024 Base O&M. FEI's funding request for required 2024 spending includes two new leases and eight new positions:[108]

- New facility lease costs of $1.450 million, of which $0.600 million is related to FEI's share of the Kelowna Space Project that was approved in FEI's and FBC's Annual Reviews for 2023 Rates and $0.850 million is for a new contact centre facility in Prince George;
- Incremental costs of $0.600 million for four new positions that are required to support liquified natural gas operations at both the Tilbury and Mt. Hayes facilities in 2024;
- Incremental costs of $0.382 million for two new positions to conduct analysis and research, as well as managing internal and external stakeholder engagement, to support the Long-Term Gas Resource Plan; and
- Incremental costs of $0.800 million for two new positions, as well as costs related to membership dues, external audit fees and consulting costs, related to FortisBC's newly created Decarbonization and Sustainability department. FortisBC explains it created a new Decarbonization and Sustainability department in late 2023 to comply with growing requirements related to greenhouse gas (GHG) emissions and sustainability reporting and disclosures.

FEI confirms that the eight new positions required in 2024 are not to support vacancies in 2023, but rather, are net new positions that have predominantly already been filled for 2024.[109]

As also shown in Table 3 above, FEI explains that it requires $9.652 million in net incremental O&M funding to add to its 2024 Base O&M to address key issues and changes in its operating environment.[110] FEI clarifies that it intends to hire a total of 36 new incremental employees in 2025 for the proposed term of the Rate Framework.[111] Table 4 below describes the net incremental O&M funding that FEI states is required over the term of the Rate Framework, organized by the respective business drivers.

[106] FortisBC Final Argument, p. 68.
[107] FortisBC Final Argument, p. 68.
[108] Exhibit B-1-2, pp. C-29 to C-32; Exhibit B-4, BCUC IR 11.5; FortisBC Final Argument, pp. 69–71.
[109] Exhibit B-4, BCUC IRs 11.3 to 11.5.
[110] Exhibit B-1-2, p. C-32.
[111] Exhibit B-4, BCUC IR 11.3.

**Table 4: FEI Net Incremental Funding for the Term of the Rate Framework[112]**

| Business Driver | $ (millions) |
|---|---|
| Government, Indigenous and Community Engagement | 2.499 |
| Environment and Sustainability | 1.800 |
| Corporate Security | 1.607 |
| Technology | 2.946 |
| System Operations and Adaptation | 0.800 |
| **Total** | **9.652** |

FEI notes that the $2.499 million of net incremental funding for Government, Indigenous and Community Engagement consists of $1.549 million in funding for 11 new positions, $0.250 million for community investment (donation funding), and $0.700 million for advancing reconciliation.[113] Of these 11 new positions, two positions will be shared between FEI and FBC, and nine positions are exclusively for FEI. FEI confirms that the labour costs reflect its estimate of the current market rates to recruit employees for the requested positions and that it does not anticipate any challenges in filling these positions.[114] FEI submits that it requires increased funding of $0.250 million to expand its community investment program due to increased costs of its activities in this program and increased requests from communities for support.[115] Through its community investment program, FortisBC partners with local leaders, non-profits, and social giving groups and targets four key areas that it views to significantly contribute to the well-being of the communities it serves: Safety, Education, Indigenous Initiatives, and the Environment.[116] FEI explains that the cost of this program is allocated 50/50 between customers and the shareholder, which fully accounts for any potential benefits that may accrue to the shareholder from these activities.[117]

FEI states that it requires $1.800 million in net incremental funding for Environment and Sustainability due to increasing environmental and archaeological regulatory requirements.[118] FEI estimates $0.700 million for on-going requirements, with the remaining $1.100 million attributable to implementing new codes and regulations required or anticipated. FEI clarifies that the $1.100 million in funding is for six new positions, as well as permitting, compliance and accounting costs.[119]

FortisBC requires net incremental funding of $2.060 million for Corporate Security to support increased investments in cyber security, physical security, business continuity, and emergency management that are necessary to manage increasing risks.[120] This funding consists of $0.420 million for three new positions, as well as $1.640 million for external contracted services.[121] FortisBC explains that the total funding will be allocated

[112] Exhibit B-1-2, p. C-32. Table 4 is a recreation of Table C2-3 on page C-32 of Exhibit B-1-2.
[113] Exhibit B-1-2, pp. C-33 to C-39; Exhibit B-4, BCUC IR 13.2.
[114] Exhibit B-4, BCUC IR 13.2 and 13.3.
[115] Exhibit B-1-2, pp. C-35 to C-36; FortisBC Final Argument, p. 75.
[116] Exhibit B-1-2, pp. C-35 to C-36; FortisBC Final Argument, p. 75.
[117] Exhibit B-4, BCUC IRs 16.1 and 16.2; FortisBC Final Argument, p. 75.
[118] Exhibit B-1-2, pp. C-40 to C-42; FortisBC Final Argument, p. 78.
[119] Exhibit B-1-2, pp. C-40 to C-42; Exhibit B-4, BCUC IRs 13.5 and 13.6.
[120] Exhibit B-1-2, pp. C-42 to C-43; FortisBC Final Argument, p. 79.
[121] Exhibit B-1-2, p. C-43; FortisBC Final Argument, p. 79.

between FEI and FBC using the approximate number of employees as the cost driver, resulting in a 78 percent allocation of $1.607 million to FEI and a 22 percent allocation of $0.453 million to FBC.[122]

FortisBC has increased expenditures for cyber security in recent years in response to evolving cyber threats. FEI states that it requires $2.946 million in net incremental funding for Technology, consisting of $1.600 million for software licensing fees, $0.596 million for the non-capitalized portion of 14 employees, and $0.750 million for managed services.[123] FEI explains that the sophistication in cyber threats has forced hardware and software companies to release updated code and operating system patches to counteract these threats at an increased cadence. In turn, an increased frequency of these updates requires FortisBC to increase the cadence of the patch review and deployment process.[124]

Lastly, FEI states that it requires $0.800 million in net incremental funding for System Operations and Adaptation, consisting of $0.550 million for four new positions and $0.250 million for ongoing maintenance requirements.[125] The four new positions consist of one warehouse position, to manage the flow of spare parts and consumables required for the ongoing operation of the Tilbury 1A facility, and three positions in workforce development, of which two are for recruitment and corporate employee development programs, and one is for supporting multi-year employment contracts with Indigenous communities.[126]

2024 Base O&M for FBC

Table 5 below shows how FortisBC calculated a 2024 Base O&M of $76.269 million for FBC.

**Table 5: FBC 2024 Base O&M ($ millions)[127]**

| | |
|---|---|
| 2023 Approved Base O&M | 70.318 |
| 2023 Savings - Base O&M | (4.235) |
| **2023 Actual Base O&M** | **66.083** |
| Adjustment for exogenous factor (in 2023 dollars) | 0.585 |
| **2024 Base O&M (in 2023 dollars)** | **66.668** |
| 2024 Inflator | 1.0356 |
| **2024 Base O&M (in 2024 dollars)** | **69.043** |
| Adjustments for Required 2024 Spending (in 2024 dollars) | 1.670 |
| **2024 Projected Base O&M** | **70.713** |
| Net incremental funding for Rate Framework (in 2024 dollars) | 5.556 |
| **2024 Base O&M for Rate Framework** | **76.269** |

This calculation corresponds to FBC's proposed 2024 Base O&M on a per customer basis of $502, which is derived from the above 2024 Base O&M of $76.269 million divided by 152,006 customers (the 2024 twelve-month average number of customers).[128]

[122] Exhibit B-1-2, p. C-43.
[123] Exhibit B-1-2, pp. C-44 to C-45.
[124] Exhibit B-1-2, p. C-45.
[125] Exhibit B-1-2, pp. C-46 to C-47; Exhibit B-4, BCUC IR 13.9.
[126] Exhibit B-1-2, pp. C-46 to C-47.
[127] Exhibit B-1-2, p. C-49. Table 5 is a recreation of Table C2-10 on page C-49 of Exhibit B-1-2.
[128] Exhibit B-1-2, p. C-62.

The Panel addresses the following issues related to FBC's calculation of its 2024 Base O&M:

- The appropriateness of an adjustment for an exogenous factor item of $0.585 million; and
- The appropriateness of adjustments to 2024 Base O&M for (i) required 2024 O&M spending of $1.670 million, and (ii) net incremental O&M funding requests of $5.556 million for the proposed term of the Rate Framework.

***Adjustment for Exogenous Factor Item for FBC***

FBC proposes to adjust its 2024 Base O&M to incorporate the ongoing O&M costs associated with MRS Assessment Report 13 which are not in the 2023 Actual Base O&M. The BCUC previously approved[129] exogenous factor treatment for FBC's incremental costs of MRS compliance associated with MRS Assessment Report 13.[130] FBC projects $0.585 million of O&M spending related to MRS Assessment Report 13 in 2024 and expects to incur this amount annually to maintain compliance with MRS. FBC explains that this spending is related to ongoing efforts to maintain procedures and processes, hardware and software that address supply chain risk assessments, ongoing licensing and maintenance of the hardware and software, and the necessary documentation to maintain compliance.[131]

***Adjustments for Required 2024 Spending and Net Incremental Funding Requests for FBC***

As shown in Table 5 above, FBC explains that it requires $1.670 million in adjustments for required 2024 spending to be added to the 2024 Base O&M, consisting of one new lease and five new positions.[132] The following list provides a breakdown of FBC's funding request for its required 2024 spending:[133]

- New facility lease costs of $0.300 million, related to FBC's share of the Kelowna Space Project that was approved in FEI's and FBC's Annual Reviews for 2023 Rates;
- Incremental costs of $0.170 million for one new position to support the Long-Term Electric Resource Plan; and
- Incremental costs of $1.200 million, consisting of $0.660 million in costs for four new positions and $0.540 in funding for external consultants to manage and optimize FBC's power supply portfolio.

FBC confirms that the five new positions required in 2024 are not to support vacancies in 2023, but rather, are net new positions that have predominantly already been filled for 2024.[134]

As also shown in Table 5 above, FBC explains that it requires $5.556 million in net incremental O&M funding to add to its 2024 Base O&M to address key issues and changes in its operating environment.[135] FBC clarifies that it

[129] Decision and Order G-374-21, p. 21.
[130] Exhibit B-1-2, p. C-49.
[131] Exhibit B-1-2, p. C-49.
[132] Exhibit B-1-2, pp. C-50 to C-52; Exhibit B-4, BCUC IR 11.5.
[133] Exhibit B-1-2, pp. C-50 to C-52; Exhibit B-4, BCUC IR 14.1; FortisBC Final Argument, pp. 84–85.
[134] Exhibit B-4, BCUC IRs 11.3 to 11.5.
[135] Exhibit B-1-2, p. C-52.

intends to hire a total of 24 new incremental employees in 2025 for the term of the Rate Framework.[136] Table 6 below describes the net incremental O&M funding that FBC states it requires over the term of the Rate Framework, organized by the respective business drivers.

**Table 6: FBC Net Incremental Funding for the Term of the Rate Framework[137]**

| Business Driver | $ (millions) |
|---|---|
| Government, Indigenous and Community Engagement | 1.231 |
| Environment and Sustainability | 0.500 |
| Corporate Security | 0.453 |
| Technology | 1.099 |
| System Operations and Adaptation | 2.273 |
| **Total** | **5.556** |

FBC notes that the $1.231 million of net incremental funding for Government, Indigenous and Community Engagement consists of $0.696 million in funding for six new positions, $0.100 million for non-labour costs, $0.125 million for community investment (donation funding), and $0.310 million for advancing reconciliation.[138] Of these six new positions, two positions will be shared between FEI and FBC, and four positions are exclusively for FBC.[139] FBC confirms that the labour costs reflect its estimate of the current market rates to recruit employees for the requested positions and that it does not anticipate any challenges in filling these positions.[140] FBC submits that it requires increased funding of $0.125 million to expand its community investment program due to increased costs of its activities in this program and increased requests from communities for support.[141] Through its community investment program, FortisBC partners with local leaders, non-profits, and social giving groups and targets four key areas that it views to significantly contribute to the well-being of the communities it serves: Safety, Education, Indigenous Initiatives, and the Environment.[142] FBC explains that the cost of this program is allocated 50/50 between customers and the shareholder, which fully accounts for any potential benefits that may accrue to the shareholder from these activities.[143]

FBC states that it requires $0.500 million in net incremental funding for Environment and Sustainability due to increasing environmental and archaeological regulatory requirements.[144] FBC estimates $0.200 million for increasing requirements, with the remaining $0.300 million attributed to implementing new codes and regulations required or anticipated. FBC clarifies that the $0.300 million in funding is for two new positions, as well as permitting and compliance costs.[145]

FortisBC's net incremental funding requirements for Corporate Security are discussed in the above sub-section related to FEI's net incremental funding requests. As previously mentioned, FortisBC requires net incremental

[136] Exhibit B-4, BCUC IR 11.3.
[137] Exhibit B-1-2, p. C-52. Table 6 is a recreation of Table C2-11 on page C-52 of Exhibit B-1-2.
[138] Exhibit B-1-2, pp. C-53 to C-55; Exhibit B-4, BCUC IR 15.2.
[139] Exhibit B-4, BCUC IR 15.2.
[140] Exhibit B-4, BCUC IRs 15.2 and 15.3.
[141] Exhibit B-1-2, pp. C-35 to C-36, C-54.
[142] Exhibit B-1-2, pp. C-35 to C-36; FortisBC Final Argument, p. 75.
[143] Exhibit B-4, BCUC IRs 16.1 and 16.2; FortisBC Final Argument, p. 75.
[144] Exhibit B-1-2, pp. C-55 to C-57; FortisBC Final Argument, p. 87.
[145] Exhibit B-1-2, pp. C-56 to C-57; Exhibit B-4, BCUC IR 15.4.

funding of $2.060 million for Corporate Security, which is allocated between FEI and FBC using the approximate number of employees as the cost driver, resulting in a 78 percent allocation of $1.607 million to FEI and a 22 percent allocation of $0.453 million to FBC.[146]

As previously mentioned, FortisBC has increased expenditures for cyber security in recent years in response to evolving cyber threats. FBC states that it requires $1.099 million in net incremental funding for Technology, consisting of $0.650 million in costs for software licensing fees, $0.199 million in costs for the non-capitalized portion of seven employees, and $0.250 million in costs for managed services.[147] FortisBC explains that the sophistication in cyber threats has forced hardware and software companies to release updated code and operating system patches to counteract these threats at an increased cadence. In turn, an increased frequency of these updates requires FortisBC to increase the cadence of the patch review and deployment process.[148]

Lastly, FBC states that it requires $2.273 million in net incremental funding for System Operations and Adaptation, consisting of $0.345 million in funding for seven new positions in Engineering plus $0.190 million in related support costs, $0.260 million in funding for two new positions in workforce development, $0.478 million in funding for vegetation management, and $1.000 million of funding for generation and system control.[149] FBC explains that it requires an additional seven positions and related costs to support its capital plan and asset maintenance strategy, which will ensure that the electric network has sufficient capacity to meet increasing customer demand and ensure the reliability of energy supply.[150] The two new positions in workforce development are for recruitment and employee training, and to support employment contracts with Indigenous Nations.[151]

### *Positions of the Parties*

BCSEA, MoveUP, RCIA, ICG and BCOAPO had varying comments regarding FEI's and FBC's 2024 Base O&M. Other interveners did not comment explicitly on this matter.

BCSEA takes no position on the quantum of the 2024 Base O&M for FEI or FBC but explicitly states its support for FBC's request for increased Formula O&M funding related to System Operations and Adaptation.[152]

MoveUP supports the way that FortisBC accounts for vacancies within the Formula O&M funding calculations. MoveUP acknowledges that FEI has taken appropriate measures to maintain the safety and security of employees and other users of the Prince George premises and submits that these costs were properly and prudently incurred and should be approved.[153]

RCIA recommends that FEI's public awareness and education budget be increased by 50 percent and included in the 2024 Base O&M, which would increase its 2024 Base O&M by $0.488 million. RCIA submits these increased

[146] Exhibit B-1-2, pp. C-43 and C-57.
[147] Exhibit B-1-2, pp. C-57 to C-58.
[148] Exhibit B-1-2, pp. C-45 and C-58.
[149] Exhibit B-1-2, pp. C-58 to C-61; Exhibit B-4, BCUC IR 15.6.
[150] Exhibit B-1-2, p. C-58.
[151] Exhibit B-1-2, p. C-61.
[152] BCSEA Final Argument, pp. 15–16.
[153] MoveUP Final Argument, p. 12.

expenditures should be used to further enhance and expand FEI's damage prevention activities, including measures beyond just public education and awareness. RCIA submits that increasing public awareness and education expenditures is an appropriate next step to continue to reduce public contacts with gas lines.[154]

ICG supports FBC's calculation of the 2024 Base O&M except for the net incremental funding for 2025 to 2027. ICG notes that FBC is proposing to hire 24 employees that are net new positions and submits that in a competitive market, a company with prices higher than its closest competitor would not be hiring. ICG submits that the BCUC should deny all incremental costs, including the costs for the 24 new hires. However, should the BCUC approve FBC's net incremental funding, ICG recommends an effective date of January 1, 2026, as it believes this approach would lower the rate increase for 2025. ICG also takes issue with FBC's request for $1.200 million in required 2024 spending for its power supply function. ICG submits that with or without this funding, there is going to be a tight power supply market and FBC spending more money on this function is not going to change the challenging market conditions. ICG notes that FBC has not provided a cost-benefit analysis of these incremental expenditures and recommends that this funding be denied. [155]

BCOAPO notes certain items as being more discretionary in nature based on its review of FEI's and FBC's requests of net incremental O&M funding for the term of the Rate Framework. These items include: $1.715 million in net incremental funding for 10 new positions and community donations for FEI; and $1.140 million in net incremental funding for six new positions and community donations for FBC. BCOAPO submits that these discretionary expenses should not be approved and that FortisBC should be directed to find cost reductions in other parts of its operations if it wishes to proceed with these expenditures. BCOAPO is concerned that FortisBC is timing the addition of resources to respond to the energy transition and other business challenges instead of managing its resources and challenges based on business and customer needs. Given the threats to the viability of the FortisBC utilities, BCOAPO submits that it is not prudent to continue to significantly increase the O&M overhead costs as proposed and recommends that the BCUC limit the total increase of all components of O&M (Formula and Forecast) included in rates to a 5 percent increase for both FEI and FBC.[156]

In reply, FortisBC submits that the evidence demonstrates that its 2024 Base O&M is reasonable and justified, and that BCOAPO's and ICG's submissions should be rejected.[157]

To address RCIA's concerns, FortisBC submits that increasing FEI's O&M funding to further mitigate the risk of gas line hits is not necessary at this time, for the following reasons: (i) FEI's Public Contacts with Gas Lines SQI performance has improved over the Current MRP term and FEI considers its existing funding to be sufficient to continue to improve performance; (ii) FEI is already taking reasonable steps to mitigate the risk of gas line hits; and (iii) an additional $0.488 million may do little to reduce gas line hits, as it would cost approximately $31.600 million to physically mark the approximately 158,000 line locate requests FEI received in 2023.[158]

To address ICG's concerns, FortisBC submits that FBC has demonstrated the need for the incremental O&M funding to be included in 2024 Base O&M and ICG's argument should be rejected because it provides no cogent

[154] RCIA Final Argument, pp. 33–34.
[155] ICG Final Argument, pp. 11–13.
[156] BCOAPO Final Argument, pp. 20–22, 29.
[157] FortisBC Reply Argument, p. 68.
[158] FortisBC Reply Argument, pp. 85–87.

rationale for why FBC's incremental funding is not prudently required for its operations. FortisBC submits that ICG's suggestion that FBC not attempt to address the increasingly challenging market conditions is an imprudent approach because the added resources for its power supply function are needed and have already been added to deal with increased complexity in managing and optimizing FBC's power supply portfolio and to support the development of new supply side resources in response to increasing demand for power.[159]

To address BCOAPO's concerns, FortisBC submits that its position remains, that incremental funding for new positions is prudent and required for its operations over the term of the Rate Framework. FortisBC asserts that it has provided a robust and detailed justification for all new positions, which BCOAPO has not refuted with any evidence. FortisBC submits that the net incremental funding identified by BCOAPO as being "more discretionary in nature", is reasonable and required for FEI and FBC to carry on effective utility operations in the current operating environment. With respect to BCOAPO's statement that FortisBC should be directed to find cost reductions in other parts of its operations, FortisBC argues that there are no further cost reductions to make, as it has been under a form of PBR for its Formula O&M, with an incentive to find cost reductions in its operations, since 2014. Finally, FortisBC submits that BCOAPO's recommendation to limit the total increase of all components of O&M to 5 percent for both FEI and FBC is unreasonable and arbitrary, as BCOAPO provides no basis in reason or evidence for this limit.[160]

### *Panel Determination*

**The Panel approves for FEI and FBC, a 2024 Base O&M per customer which corresponds to a 2024 Base O&M of $299.127 million for FEI and $75.269 million for FBC, reflecting a denial of $3.000 million in funding for FEI's and $1.000 million in funding for FBC's 2024 Base O&M, respectively.[161] FortisBC is directed to file the revised 2024 Base O&M per customer for each of FEI and FBC in a compliance filing by April 17, 2025.**

The Panel has considered the appropriateness of FEI's and FBC's requested adjustments to their respective 2024 Base O&M for exogenous factors and flow-through items and finds these proposed adjustments to be reasonable. **As such, FEI is approved to do the following:**

- **Add $0.576 million to its 2024 Base O&M to adjust for the one-time credit received in FEI's 2023 Actual O&M related to the 2021 flooding and remediation exogenous factor event;**
- **Remove $19.783 million of O&M costs from its 2024 Base O&M that will be impacted by its AMI project and reclassify the related costs to Forecast (flow-through) O&M; and**
- **Add $0.300 million and $0.900 million of O&M costs to its 2024 Base O&M for the Inland Gas Upgrade and Coastal Transmission System Transmission Integrity Management Capabilities projects, respectively, and correspondingly remove these costs from flow-through treatment.**

**FBC is approved to add $0.585 million to its 2024 Base O&M to incorporate the ongoing O&M costs associated with MRS Assessment Report 13, as requested.**

[159] FortisBC Reply Argument, pp. 68–70.

[160] FortisBC Reply Argument, pp. 64–68.

[161] Calculated as: $302.127 million less $3.000 million = $299.127 million for FEI; and $76.269 million less $1.000 million = $75.269 million for FBC.

However, concerning the appropriateness of FortisBC's expected O&M spending for 2024 and proposed net incremental funding for the term of the Rate Framework, the Panel is concerned about the significant number of net new hires requested for each of the utilities. FortisBC intends to hire a total of 44 net new positions for FEI (8 in 2024 and 36 in 2025) and 29 net new positions for FBC (5 in 2024 and 24 in 2025). In times of uncertainty regarding the future of operations due to the energy transition, and on-going affordability concerns, the Panel views that this is not the time to significantly increase operating costs by hiring net new positions of this magnitude.

The Panel has reviewed FortisBC's justifications for each incremental O&M cost and **finds that $3.00 million for FEI and $1.00 million for FBC are not reasonably justified to be recovered from ratepayers over the term of the Rate Framework and the 2024 Base O&M for the utilities should be reduced by their respective amounts.** FortisBC's proposals for incremental increases in O&M include areas of discretionary spending such that there exists a capacity to exercise fiscal restraint without affecting safety, reliability and integrity of service. We question the need, and whether it is in the interest of ratepayers, to increase costs in areas such as workforce development, community donations, a new Decarbonization and Sustainability department, and hiring 11 net new positions in Government, Indigenous and Community Engagement, in the current operating environment. These are examples of some areas where we consider that FortisBC can and should exercise fiscal restraint and make cuts in discretionary spending that will not impact its ability to provide safe and reliable service. As with previous multi-year PBR frameworks, the Panel approves the starting Base O&M amounts for FEI and FBC, but how FortisBC chooses to manage its operations within that funding envelope is ultimately up to the utilities.

The Panel is confident that FortisBC will be able to manage its operations within the approved O&M funding envelope for the term of the Rate Framework.

### 3.1.2 FEI's Base Unit Cost Growth Capital

In the Application, FEI seeks approval for its proposed method of incorporating Growth capital expenditures into delivery rates for the years 2025 to 2027. Table 7 below summarizes the approved and forecast expenditures for FEI's Growth capital. The Growth capital amounts for 2025 through 2027 have been calculated using the Growth capital formula as shown in Section 3.1 of this decision, based on the approved 2024 net inflation factor and a projected forecast of gross customer additions (GCA) for each year.[162]

**Table 7: FEI Approved and Forecast Growth Capital Expenditures 2020 to 2024 ($000s)[163]**

| | 2023 Approved | 2024 Approved | 2025 Forecast | 2026 Forecast | 2027 Forecast |
|---|---|---|---|---|---|
| Growth Capital | 87,531 | 54,686 | 86,567 | 67,763 | 59,883 |

Growth Capital

FEI's Growth capital expenditures include installing new mains, services and meters to connect new customers and making distribution pressure system improvements where capacity is insufficient to maintain reliable service. Under the Current MRP, FEI's Growth capital expenditures are determined using an indexing formula where unit costs are adjusted annually by the inflation factor minus the approved productivity factor and

[162] Exhibit B-1-2, C-72.

[163] Exhibit B-1-2, Table C3-2 on p. C-72.

multiplied by the forecast gross customer additions, with a true-up for the difference between forecast and actual additions from prior years.[164]

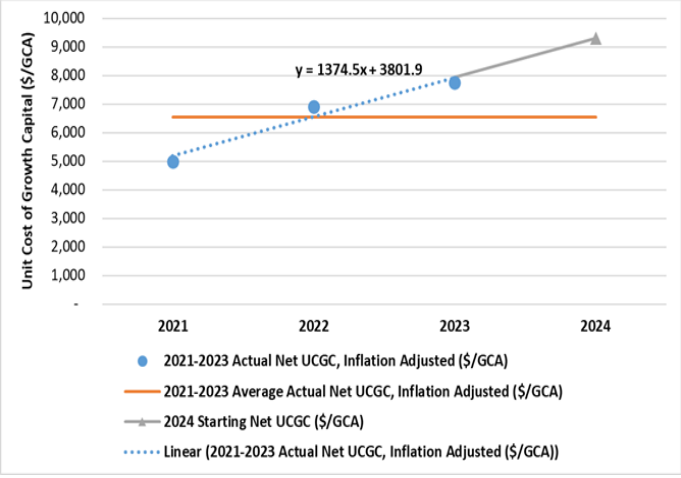
FEI proposes to continue to use a formula-based unit cost approach for Growth capital. FEI states that during the Current MRP term, unit cost growth capital (UCGC) has increased due to unprecedented inflation, more complex mains installations linked to higher-density housing and developing areas, evolving local government restrictions and permitting requirements, and a rise in the number of distribution system improvements. However, FEI anticipates that these cost increases will stabilize and more closely align with general inflation during the term of the Rate Framework. FEI argues that by maintaining the existing formula-based approach, it can allow expenditures to adjust based on actual customer growth while ensuring accountability for costs associated with connecting new customers based on the established unit cost.[165]

Unit Cost Growth Capital

FEI states that the Current MRP established the starting Base UCGC in 2019 using a three-year average of inflation-adjusted costs from 2016 to 2018, which significantly understated actual costs, leading to a persistent shortfall throughout the Current MRP term.[166] Accordingly, for the Rate Framework, FEI seeks to calculate the starting Base unit cost for 2024 using a linear regression of actual costs from 2021 to 2023, adjusted to inflation. FEI argues that this approach better reflects recent cost increases due to inflation and construction cost pressures.

Using the regression approach shown in Figure 2 below, FEI projects a starting UCGC of $9,300 per GCA, aligning more closely with the 2024 projected UCGC of $9,654 per GCA. FEI states that if it were to continue using the current three-year average approach, the starting UCGC would be $6,551 per GCA, which is significantly lower than the actual UCGC observed in 2023.[167]

**Figure 2: Comparison between Three-year Linear Regression Approach and Three-year Average Approach for Setting FEI's Starting Base UCGC[168]**




[164] Exhibit B-1-2, C-73.
[165] Exhibit B-1-2, pp. C-72 to C-75.
[166] Exhibit B-1-2, p. C-76.
[167] Exhibit B-1-2, p. C-77.
[168] Exhibit B-1-2, Figure C3-4 on p. C-78.

### *Positions of the Parties*

RCIA considers the requested budgets reasonable despite inflation and contractor cost increases.[169] BCSEA states that it does not object to FEI's proposal to rebase the starting UCGC.[170] The CEC is the only intervener opposing an aspect of FEI's proposals on Growth capital.[171] Other interveners do not comment explicitly on this matter.

The CEC submits that it supports FEI's linear regression approach for the 2024 UCGC but opposes the three-year timeframe, recommending a five-year regression instead for consistency with recent business conditions and FEI's productivity factor methodology.[172]

In reply, FEI states that the regression period should match the specific purpose it measures, with productivity factor using a longer 15-year regression for long-term trends and UCGC using a three-year regression to reflect current costs. FEI argues that recent cost changes and past underfunding of Growth capital due to outdated cost baselines make the three-year period more reflective of current conditions and a better foundation for setting the UCGC starting in 2025.[173]

### *Panel Determination*

**The Panel approves FEI's proposed Base 2024 unit cost growth capital of $9,300 per gross customer addition.** The Panel notes that this UCGC amount aligns closely with the projected 2024 UCGC of $9,654 per gross customer addition[174] and better reflects current cost conditions compared to the historical average approach. The Panel rejects the CEC's recommendation to apply a five-year regression period. We are persuaded that FEI's methodology will likely yield a more accurate and sustainable basis for setting Growth capital expenditures within the term of the Rate Framework. The Panel notes this $9,300 represents the starting 2024 Base UCGC input to FEI's Growth capital formula as shown in Section 3.1 of this decision. According to FEI's Growth capital formula, the starting UCGC amount will be updated each year of the term of the Rate Framework for the inflation factor, productivity factor, and GCA. Section 3.1.4 of this decision further discusses the use of GCA as the basis for the calculation of the growth factor for FEI's Growth capital.

## 3.1.3 Inflation Factor

The use of an inflation or I-Factor in a multi-year PBR framework recognizes that utility costs are subject to the general inflationary pressures occurring in the economy.[175] FortisBC requests to continue using a weighted composite I-Factor consisting of: (i) labour indexed to Statistics Canada's Average Weekly Earnings for BC (AWE:BC), and (ii) non-labour indexed to the "All-items Index" for the Consumer Price Index for BC (CPI:BC).[176]

[169] RCIA Final Argument, p. 15.
[170] BCSEA Final Argument, p. 18.
[171] The CEC Final Argument, p. 25.
[172] The CEC Final Argument, p. 25.
[173] FEI Reply Argument, p. 73.
[174] Exhibit B-1-2, p. C-77.
[175] Exhibit B-1-2, p. C-4.
[176] Exhibit B-1-2, p. C-4.

However, FortisBC proposes to use fixed labour and non-labour weightings in the Rate Framework instead of updating the labour and non-labour weightings annually as in the Current MRP.[177]

Expressed as a formula, FortisBC outlines that the I-Factor determination for the Rate Framework is as follows:[178]

$$\mathbf{I_t = L\% \times AWE{:}BC_{t-1} + N\% \times CPI{:}BC_{t-1}}$$

Where:

**I** = inflation factor

**t** = forecast year

**L** = labour weighting

**AWE:BC** = labour index

**N** = non-labour weighting

**CPI:BC** = non-labour index

**t-1** = most recent July to June values of the previous year to the forecast year

FortisBC requests a fixed labour weighting of 50 percent for FEI (fixed non-labour weighting of 50 percent) and 60 percent for FBC (fixed non-labour weighting of 40 percent) for the term of the Rate Framework. These weightings are based on the average of the 2019 to 2023 actual labour and non-labour weightings that were approved during the term of the Current MRP for each utility.[179] By way of comparison, if the same methodology to calculate the fixed labour and non-labour weightings had been used in the Current MRP, FortisBC calculates that the fixed labour weighting would have been 51 percent for FEI (non-labour weighting of 49 percent) and 60 percent for FBC (non-labour weighting of 40 percent) for the term of the Current MRP.[180] If these fixed weightings were then applied to FEI's and FBC's indexing formulas in the Current MRP, FortisBC clarifies that this would have resulted in a reduction to FEI's and FBC's total Formula O&M, as well as FEI's Growth capital.[181] The 10-year historical actual labour and non-labour weightings from 2014 to 2023 for FortisBC also show that the labour/non-labour splits for each year have generally remained relatively close to 50/50 for FEI and 60/40 for FBC.[182]

FortisBC states that the main reason to move to fixed labour and non-labour weightings for the Rate Framework is to increase acceptance of the I-Factor calculation and potentially increase regulatory efficiency. This assessment is based on the number and types of IRs received by FortisBC in the Annual Reviews during the Current MRP related to labour and non-labour weightings.[183] In support of its proposal, FortisBC also notes: (i) fixed weightings were approved in FortisBC's 2014 to 2019 PBR plans; (ii) the term of the Rate Framework is relatively short, thus limiting the potential for significant variations; and (iii) the impact of weighting changes on a year-to-year basis on FEI's and FBC's O&M and FEI's Growth capital envelopes is not material.[184]

[177] Exhibit B-1-2, pp. C-4 to C-5.

[178] Exhibit B-1-2, p. C-5.

[179] Exhibit B-1-2, p. C-4.

[180] Exhibit B-4, BCUC IR 6.1.

[181] Exhibit B-4, BCUC IR 6.1.1.

[182] Exhibit B-9, the CEC IR 6.1.

[183] Exhibit B-1-2, p. C-5; Exhibit B-4, BCUC IR 6.3; Exhibit B-9, the CEC IR 6.1.

[184] Exhibit B-1-2, pp. C-5 to C-6.

FortisBC states that ultimately, both fixed or annually set labour and non-labour weightings are reasonably representative of actual labour and non-labour weightings and there is no notable difference between the two approaches from a customer or shareholder perspective.[185] Thus, FortisBC is amenable to either approach but recommends the fixed labour and non-labour weighting approach for the Rate Framework for the reasons described above.[186]

### *Positions of the Parties*

Except for the CEC and BCOAPO, interveners either support,[187] do not oppose,[188] or have no comments regarding FortisBC's proposed I-Factor.

The CEC recommends that FortisBC maintain the Current MRP's approach, stating that fixed labour and non-labour weightings introduce "significant backward-looking bias" to the detriment of using more recent O&M actuals in determining the I-Factor.[189]

BCOAPO makes no specific recommendation to adjust the determination of the I-Factor but submits that its determination is "relatively generous" in favour of FortisBC considering the definitions of AWE:BC and CPI:BC. Primarily, BCOAPO notes that the AWE:BC allows for increases in the rates of pay as well as volume changes in terms of the number of hours worked in BC. As such, volume changes represent an additional allowance that are "up and above" the change in the rate of pay. For the CPI:BC, BCOAPO submits that this index includes volatile services and products that may not be indicative of the mix of products and services that FortisBC purchases to provide service to its ratepayers, and there are other measures of CPI that are available from Statistics Canada which may be more representative.[190]

In reply to the CEC, FortisBC acknowledges that there would be an eight-year difference between the first year of data in 2019 and the last year of the proposed Rate Framework in 2027. However, the data indicates there is little material difference over the years. As such, FortisBC does not expect the change in I-Factor approach to result in significant variations compared to the approach of using the latest actual year results.[191]

In reply to BCOAPO, FortisBC submits that there is no evidence that either AWE:BC or CPI:BC is generous to FortisBC. FortisBC argues that AWE:BC provides a well-rounded view of wage employment in BC and the volume factor could have the effect of increasing or decreasing AWE:BC which could be favourable or unfavourable to FortisBC. Similarly, CPI:BC is a broad measure of inflation for the overall BC economy that represents the rate of price changes for finished goods and services across all of BC. As a broad measure, CPI:BC may include some factors that are less applicable to FortisBC; however, this could be favourable or unfavourable to FortisBC. Ultimately, FortisBC considers that the breadth of both indices is beneficial, as it ensures that they are well-

[185] Exhibit B-9, the CEC IR 6.1.
[186] Exhibit B-4, BCUC IR 6.3.
[187] ICG Final Argument, PDF page 10.
[188] BCSEA Final Argument, p. 7; RCIA Final Argument, p. 9.
[189] The CEC Final Argument, p. 16.
[190] BCOAPO Final Argument, pp. 18–19.
[191] FortisBC Reply Argument, p. 34.

rounded and representative of the inflationary factors in the economy. FortisBC further notes that AWE:BC and CPI:BC have been reviewed and approved by the BCUC and other regulators in the past.[192]

*Panel Determination*

**The Panel approves an I-Factor including a fixed labour weighting of 50 percent and fixed non-labour weighting of 50 percent for FEI. The Panel also approves an I-Factor including a fixed labour weighting of 60 percent and fixed non-labour weighting of 40 percent for FBC.**

The Panel finds that the formula to determine the I-Factor using a weighted composite of the AWE:BC and CPI:BC inflation indices continues to be reasonable. The formula, as well as the inflation indices, is the same as previously approved for FortisBC in the Current MRP and the Panel is persuaded by FortisBC's argument that no change to either the formula or the indices is warranted at this time.

Concerning the use of fixed labour and non-labour weightings, the Panel agrees with FortisBC that the change in approach is not material given that FortisBC's historical actual labour and non-labour weightings from 2014 to 2023 have been relatively stable from year to year. The Panel notes that the average of those 10-years of data is consistent with the proposed fixed labour/non-labour split of 50/50 for FEI and 60/40 for FBC. As such, the Panel accepts that the fixed labour and non-labour weightings as proposed provides for a simpler approach, and that this may result in regulatory efficiencies at no loss to the reasonableness of the I-Factor overall.

### 3.1.4 Growth Factor

The following sections review first, the growth factor for FEI's and FBC's index-based O&M, and then the growth factor for FEI's Growth capital.

#### Growth Factor for FEI's and FBC's Index-Based O&M

As shown in the formulas in Section 3.1 above, FortisBC proposes to continue to use the average number of customers as the basis of the growth factor for FEI's and FBC's Formula O&M. FortisBC states that it is widely accepted that the number of customers is one of the primary cost drivers for a utility's operations and proposes to maintain using the average number of customers as the growth factor for both FEI's and FBC's O&M indexing formulas.[193] FortisBC explains that experts commonly use the number of customers to measure output trends and to calculate the productivity growth trends of utilities.[194] FortisBC's expert, Dr. Kaufmann,[195] states that because FEI's and FBC's indexing formulas are applied on a per-customer basis, the appropriate output measure for both utilities is the number of customers.[196]

[192] FortisBC Reply Argument, pp. 35–36.

[193] Exhibit B-1-2, p. C-11.

[194] Exhibit B-1-2, p. C-11.

[195] FortisBC retained the services of Lawrence R. Kaufmann, Ph.D. (Dr. Kaufmann) to provide independent expert advice regarding the growth and productivity factors in the indexing formulas of FortisBC's proposed Rate Framework (Exhibit B-1, Appendix C1-1, p. 2).

[196] Exhibit B-1-2, p. C-11; Exhibit B-1, Appendix C1-1, p. 9.

In addition, FortisBC proposes to continue using a forecast with subsequent true-up mechanism for the growth factors.[197] FortisBC explains that using a forecast ensures the utilities have the necessary funds to connect customers and operate the business in the year the funds are required to be spent. FortisBC recognizes that by using a forecast, a forecast variance will result in either an under- or over-recovery of costs. FortisBC's proposed forecast and true-up mechanism adjusts FEI's and FBC's O&M expenditures for the forecast variance and removes any concerns of forecasting bias.[198] FortisBC submits that the forecast and true-up mechanism has worked as anticipated and that there is no compelling reason to change the current approach.[199]

In the Current MRP, the BCUC directed FortisBC to apply a growth factor multiplier of 75 percent (referred to by FortisBC as a 0.75 discount) to the average number of customers for FEI's and FBC's Formula O&M. In setting the 0.75 discount in the Current MRP Decision, the BCUC noted it is used to arrive at an index-based proxy to calculate the relationship between costs and number of customers given that it is not intuitively reasonable that the O&M cost impact of adding an additional customer is 100 percent.[200]

For the Rate Framework, FortisBC proposes to eliminate the 0.75 discount applied to the growth factor for FEI's and FBC's Formula O&M.[201] FortisBC states that the application of a discount to the growth factor used in the O&M indexing formula is not warranted and amounts to double counting of the effects of economies of scale on cost growth trends since the economies of scale are already reflected in the productivity growth factors (discussed in Section 3.1.5 of this decision).[202] In other words, FortisBC's position is that the O&M costs are already reduced by the calculated productivity factor which considers the relationship between the growth in the average number of customers and O&M costs for the industry as a whole; therefore, including a 0.75 discount on the average number of customers within the formula for FEI's and FBC's index-based O&M effectively amounts to a double counting of its effect on O&M costs.[203]

FortisBC clarifies that changes in circumstances, such as operational changes, are not relevant to the consideration of the proposed elimination of the 0.75 discount factor. Rather, applying a discount to the growth factor is inappropriate due to its fundamental inconsistencies with cost theory and the theory behind the indexing formulas and productivity analysis as explained above.[204]

Dr. Kaufmann was asked to comment on the appropriateness of the discount applied to the growth factor in FEI's and FBC's O&M indexing formulas.[205] Dr. Kaufmann confirms FortisBC's view and explains that economies of scale (or lack of a 1:1 relationship between the growth in O&M costs and the average number of customers) are reflected in the productivity factor calculations, not in the growth factor.[206] Dr. Kaufmann states that in a well-designed cost recovery mechanism, the productivity factor and customer growth factor have two distinct purposes: (i) the productivity factor is designed to capture all the factors contributing to achieved cost

[197] Exhibit B-1-2, p. C-10.
[198] Exhibit B-1-2, p. C-12.
[199] Exhibit B-1-2, p. C-13.
[200] Current MRP Decision, pp. 36–37.
[201] Exhibit B-1-2, p. C-10.
[202] Exhibit B-1-2, p. C-13.
[203] Exhibit B-1-2, pp. C-13 to C-14.
[204] Exhibit B-4, BCUC IR 8.1.
[205] Exhibit B-1, Appendix C1-1, p. 28.
[206] Exhibit B-1-2, p. C-14.

efficiencies, and (ii) the customer growth factor scales revenues upward or downward in response to changes in the scale of output as measured by customer growth.[207] There should accordingly be a 1:1 relationship between the number of customers served and the value of revenues received.[208] Dr. Kaufmann emphasizes that a discount on the growth factor would not be reasonable given his recommended productivity factors, as discussed in Section 3.1.5 of this decision, and that other experts have acknowledged that a discount on the growth factor is mathematically incorrect.[209] Dr. Kaufmann cites a May 2021 article from the Electricity Journal that focuses on developing an appropriate index-based framework for adjusting allowed O&M revenue in incentive regulation plans. Specifically, Dr. Kaufmann highlights from the article that an important element of a "consistent cost-based treatment of output growth" is recognizing that changes in output (i.e. customer numbers) do not measure or reflect "the effect of output growth on cost," but instead "these are captured in the productivity trend." [210]

Based on the foregoing, FortisBC proposes that the discount applied to the average number of customers as used to forecast growth in FEI's and FBC's O&M indexing formulas be eliminated, and that the growth factor be set at 100 percent of the average number of customers within the Rate Framework.[211]

### *Positions of the Parties*

BCSEA supports FortisBC's proposal to eliminate the discount to the growth factor on O&M, while BCOAPO, RCIA, and the CEC oppose the elimination. ICG has no opinion and MoveUP does not comment.[212] BCOAPO submits that the BCUC should not approve the requested elimination of the discount to the growth factor on O&M given the upward pressure this would have on rates for both FEI and FBC.[213]

RCIA submits that FortisBC's proposal to remove the 0.75 discount to the growth factor on O&M in effect suggests a 1:1 relationship between the change in the average number of customers and the change in O&M costs. However, RCIA notes a discount factor has been used in the past two multi-year PBR frameworks – at 0.75 in the Current MRP and at 0.50 in the preceding plan. RCIA supports continuing the existing 0.75 discount to the growth factor on O&M in the Rate Framework.[214]

The CEC submits that the divergence between Formula O&M and net customer additions over the term of the Current MRP indicates that FortisBC's Formula O&M including a 0.75 discount to the growth factor has not resulted in underfunding of operations on account of the observed customer growth. The CEC recommends that the BCUC direct FortisBC to maintain the 0.75 discount to the growth factor on O&M given the sufficiency of funding already provided by the formula. However, if the BCUC accepts FortisBC's proposal with respect to the elimination of the discount factor from the growth factor on O&M, then the CEC recommends that the BCUC direct FortisBC to formulate a 'replacement' growth adjustment factor reflecting actual prior years' correlation

[207] Exhibit B-1-2, p. C-14; Exhibit B-1, Appendix C1-1, p. 30.
[208] Exhibit B-1-2, p. C-14; Exhibit B-1, Appendix C1-1, p. 30.
[209] Exhibit B-1-2, pp. C-14 to C-15.
[210] Exhibit B-1-2, pp. C-14 to C-15; Exhibit B-1, Appendix C1-1, pp. 28–30.
[211] Exhibit B-1-2, p. C-16.
[212] BCSEA Final Argument, p. 10; RCIA Final Argument, pp. 10–11; the CEC Final Argument, pp. 22–23; ICG Final Argument, PDF page 10; BCOAPO Final Argument, pp. 22, 29.
[213] BCOAPO Final Argument, pp. 22, 29.
[214] RCIA Final Argument, pp. 10–11.

between Formula O&M and net customer additions aimed at maintaining a certain coefficient level in a compliance filing to the Application.[215]

While ICG does not opine on this matter, it does submit that FBC's request to change the discount is not based on operational changes or new evidence, but rather on the opinion of Dr. Kaufmann. ICG submits that the BCUC can exercise its experience and judgement on this matter.[216]

In reply to BCOAPO, FortisBC submits that it is neither fair nor reasonable to base a decision on a matter of economic theory on an intervener's preference to reduce O&M costs with no rationale or evidence.[217]

In reply to RCIA and the CEC, FortisBC submits that the question before the BCUC is whether to accept the expert opinion of Dr. Kaufmann, the academic authority cited by Dr. Kaufmann, and the jurisdictional review, or the submissions of interveners. FortisBC submits that the BCUC must put significantly more weight on the expert opinion of Dr. Kaufmann in this case, as there is no reasonable evidentiary basis to prefer the position of interveners.[218] FortisBC also notes that no party has filed expert evidence in this proceeding questioning Dr. Kaufmann's opinion, nor has any party cited academic articles, regulatory decisions, or any authority of any kind questioning or casting doubt on Dr. Kaufmann's evidence in this proceeding.[219]

In reply to the CEC's suggested compliance filing for a 'replacement' growth adjustment factor, FortisBC submits that there is no relationship between the discount factor and the correlation coefficient between the growth factor and the Formula O&M. Further, FortisBC notes that Formula O&M is based on average customer count, not net customer additions.[220]

### *Panel Determination*

**The Panel approves the use of the forecast average number of customers, with a true-up to actual when available, as the basis of the growth factor for FEI's and FBC's O&M indexing formulas.** The Panel finds that average number of customers is one of the primary cost drivers for O&M costs for FEI and FBC and it is reasonable and appropriate for use in the utilities' respective O&M indexing formulas. We accept that using the growth in the average number of customers as the basis of the growth factor aligns with Dr. Kaufmann's evidence. The Panel also notes that using the average number of customers in this manner is consistent with FortisBC's approvals in the Current MRP. Given that the previously approved forecast and true-up mechanism has worked as anticipated, the Panel agrees with FortisBC that there is no compelling reason to change the current approach.

**The Panel approves the use of the growth factor without any discount for FEI's and FBC's O&M indexing formulas.** The Panel acknowledges that under the Current MRP, the growth factor for FortisBC's O&M indexing formulas included a 0.75 discount to reflect the expectation that there are productivity gains attributable to economies of scale in O&M costs when adding new customers (i.e. that it is not intuitively reasonable that the

[215] The CEC Final Argument, p. 23.
[216] ICG Final Argument, PDF page 10.
[217] FortisBC Reply Argument, p. 50.
[218] FortisBC Reply Argument, p. 48.
[219] FortisBC Reply Argument, pp. 49–50.
[220] FortisBC Reply Argument, p. 51.

O&M cost impact of adding an additional customer is 100 percent). The Panel considers it reasonable to anticipate that there will continue to be the potential for productivity gains due to economies of scale over the term of the Rate Framework. However, the Panel finds that a discount applied to the growth factor would amount to double counting of such productivity gains. The Panel is persuaded by Dr. Kaufmann's evidence discussed in Section 3.1.5 of this decision, which was not refuted, that the productivity factor captures productivity gains associated with economies of scale. Economies of scale, productivity gains, and the productivity factor are discussed in detail in Section 3.1.5 of this decision.

#### Growth Factor for FEI's Growth Capital

As shown in the formulas in Section 3.1 and discussed in Section 3.1.2 above, FortisBC proposes to continue to use GCA as the basis of the growth factor for FEI's Growth capital. Similar to the proposal and reasoning in the preceding section on Formula O&M, FortisBC also intends to continue the use of a true-up mechanism for FEI's Growth capital.[221] FortisBC submits that this approach has worked as anticipated and that there is no reason to change this approach.[222] FortisBC also maintains that a 100 percent multiplier for FEI Growth capital should continue, as was approved in the Current MRP Decision.[223]

### *Positions of the Parties*

RCIA and BCSEA are the only interveners to comment on this matter. RCIA does not oppose the use of GCA as proposed as the most appropriate method for FEI's Growth capital.[224] BCSEA, however, opposes FortisBC's proposal for FEI Growth capital and suggests adding a discount factor to GCA.[225]

BCSEA submits that while there are many ways in which the Rate Framework could be adjusted to reduce the incentive for FEI to grow the gas delivery system and add new customers, at this time, it recommends that a discount factor of 0.50 be applied to GCA within FEI's formula for Growth capital. BCSEA believes that deliberately expanding the gas delivery system would exacerbate the growing problem of how to reduce GHG emissions from natural gas.[226]

In response to BCSEA, FortisBC submits that adding a discount factor to discourage adding customers to FEI's natural gas system would violate the Fair Return Standard and would be an error of law. FortisBC explains that FEI's Growth capital funding is not an incentive to grow the gas system but is necessary for FEI to comply with its legislative obligation to serve customers.[227]

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[221] Exhibit B-1-2, p. C-10.

[222] Exhibit B-1-2, p. C-13.

[223] Exhibit B-1-2, p. C-13.

[224] RCIA Final Argument, pp. 13–14.

[225] BCSEA Final Argument, p. 10.

[226] BCSEA Final Argument, pp. 2, 10.

[227] FortisBC Reply Argument, pp. 52–54. Pursuant to section 59 of the UCA, the BCUC is responsible for establishing rates that are not unjust, unreasonable, unduly discriminatory or unduly preferential. In discharging its duty under section 59 of the UCA, the BCUC must ensure that shareholders of regulated utilities are afforded a reasonable opportunity to earn a fair return on their invested capital (Fair Return Standard).

*Panel Determination*

**The Panel approves the use of forecast gross customer additions, with a true-up to actual when available, as the basis of the growth factor for FEI's Growth capital formula.** In the Current MRP Decision, FortisBC demonstrated that there is a strong correlation between FEI's Growth capital and GCA. The BCUC accepted the clear connection between the number of new customer attachments and Growth capital expenditures based on the evidence submitted by FortisBC. This Panel echoes those findings and agrees that GCA continues to be the most appropriate basis for the growth factor for FEI's Growth capital formula within the Rate Framework. Given that the previously approved forecast and true-up mechanism has worked as anticipated, the Panel further agrees with FortisBC that there is no compelling reason to change the current approach.

The Panel is not persuaded by BCSEA's proposal to impose a 0.50 discount to the growth factor as a method to reduce FEI's incentive to grow the gas delivery system and ultimately reduce new customer additions. The Panel agrees with FortisBC that FEI requires Growth capital funding to fulfil its obligation under the UCA to serve customers and to continue to provide fair and reliable service to customers. However, the Panel acknowledges that increasing the number of customers will likely result in an increase in overall GHG emissions, thereby exacerbating the challenge to decarbonize FEI's system, as discussed in the 2022 FEI Long-Term Gas Resource Plan Decision.[228] The Panel considers, however, that imposing a discount factor to GCA, as recommended by BCSEA, is not the most appropriate method to address this issue.

### 3.1.5 Productivity Factor

As shown in the formulas in Section 3.1 above, FortisBC proposes to continue to use a productivity factor, or X-Factor, in its indexing formulas for both FEI and FBC.

There are two components of the X-Factor: (1) an industry O&M partial factor productivity (O&M PFP); and (2) a stretch factor. FortisBC explains that the O&M PFP is intended to capture the effects of economies of scale and productivity improvements that have been realized within the utility industry. In contrast, the stretch factor is designed to reflect the incremental productivity improvements the utility can reasonably be expected to achieve over the term of its PBR plan.[229] The function of the X-Factor in both the Current MRP and the Rate Framework is to constrain the formula spending envelope of the utilities to below the level of inflation based on an industry productivity value and a company-specific stretch factor value.[230]

FortisBC retained the services of Dr. Kaufmann, an expert in the field of productivity studies, to conduct two separate productivity studies for FEI's and FBC's respective industries and to recommend an appropriate evidenced-based X-Factor for each of FEI's and FBC's indexing formulas.[231] Based on his analysis, Dr. Kaufmann recommends the following X-Factor values for FEI and FBC:[232]

[228] FEI 2022 Long Term Gas Resource Plan, Decision and Order G-78-24 dated March 20, 2024 (2022 FEI Long-Term Gas Resource Plan Decision), pp. 48–49.
[229] Exhibit B-17, ICG IR 2.1.
[230] Exhibit B-16, the CEC IR 18.1.
[231] Exhibit B-1-2, p. C-6.
[232] Exhibit B-1-2, p. C-6.

- FEI: an X-Factor of 0.38 percent, consisting of a 0.28 percent O&M PFP and a 0.10 percent stretch factor for FEI's O&M and Growth capital indexing formulas.

- FBC: an X-Factor of 0.20 percent, consisting of a 0.20 percent O&M PFP and a zero percent stretch factor for FBC's O&M indexing formula.

In the Current MRP, FortisBC proposed to apply a zero percent X-Factor for both FEI and FBC. However, the BCUC directed an X-Factor of 0.5 percent, inclusive of the stretch factor, for both FEI and FBC.[233] At the time, FortisBC did not conduct a productivity study to support its X-Factor proposals. Rather, FortisBC based its X-Factor proposals on the Total Factor Productivity (TFP) studies conducted by experts in other North American jurisdictions.[234] The BCUC determined that if the X-Factor was to apply to a utility's entire operation, it would be reasonable for the TFP studies to be applicable to FortisBC.[235] However, as the X-Factor applied only to O&M expenses and a small part of FortisBC's capital expenditures, the BCUC concluded that TFP studies were not sufficiently relevant to be applied to FEI and FBC for the purpose of determining their X-Factors.[236]

Dr. Kaufmann states that the BCUC correctly found that TFP evidence from other jurisdictions is not entirely appropriate for determining the utilities' allowed O&M expenses.[237] In Dr. Kaufmann's view, an O&M PFP, which focuses on the industry O&M productivity growth, is a more appropriate measure for calibrating FortisBC's indexing formulas.[238]

Dr. Kaufmann notes that the previously approved 0.5 percent X-Factor was based on the BCUC's experience and judgement since there was no explicit O&M PFP evidence on the record at the time for the BCUC to consider.[239] Dr. Kaufmann submits that his recommendations respond directly to the BCUC's past concerns. Instead of drawing on TFP evidence applied elsewhere, Dr. Kaufmann developed new evidence on O&M productivity growth that is more relevant to be applied to FEI and FBC.[240] This evidence is a better fit for rate-setting frameworks where the X-Factor applies only to O&M expenses and a small part of the capital expenditures.[241]

Dr. Kaufmann states that his main task was to estimate the industry O&M PFP trends for FEI's and FBC's Rate Framework.[242] To estimate O&M PFP trends, it is necessary to compile and utilize industry-wide datasets for both the gas distribution and electric distribution industries.[243] Industry-wide datasets require the compilation of extensive cross-sectional data (i.e. data on utilities across the entire United States (US)) and extensive time series data (i.e. long series of data across time for each selected utility).[244] The use and applicability of US data for calculating the industry productivity trends for Canadian utilities have also been reviewed and approved by

[233] Current MRP Decision, pp. 49 and 61–62.
[234] Exhibit B-1-2, p. C-6.
[235] Current MRP Decision, p. 59.
[236] Current MRP Decision, p. 59.
[237] Exhibit B-1, Appendix C1-1, p. 2.
[238] Exhibit B-1-2, p. C-7.
[239] Exhibit B-4, BCUC IR 7.3.
[240] Exhibit B-4, BCUC IR 7.3.
[241] Exhibit B-4, BCUC IR 7.3.
[242] Exhibit B-4, BCUC IR 7.5.
[243] Exhibit B-4, BCUC IR 7.5.
[244] Exhibit B-4, BCUC IR 7.5.

various Canadian regulators.[245] Dr. Kaufmann explains that due to the lack of uniform and standardized datasets for Canadian electric and gas utilities, it is not possible to estimate long-run O&M PFP trends for the Canadian gas distribution or electricity distribution industries.[246]

Dr. Kauffmann explains that using a 15-year period to estimate productivity trends has become widespread in incentive regulation. This period is long enough to average out the annual "ebbs and flows" in utility expenditures and thereby minimize the impact of year-to-year volatility, while still reflecting current experience.[247] By balancing these objectives, a 15-year sample period is likely to provide a reliable measure of long-run O&M PFP trends, whereas using only the last five years of data would not strike the right balance.[248] Therefore, Dr. Kaufmann uses a sample period from 2007 to 2022 to estimate the long-run O&M PFP trends for FEI and FBC. The 2022 endpoint of this sample period represents the most recent year for which relevant data are available to calculate O&M PFP.[249]

FEI's recommended O&M PFP factor of 0.28 percent is based on an estimate of O&M PFP growth in a sample of 54 US natural gas distributors from 2007 to 2022.[250] FBC's recommended O&M PFP productivity value of 0.20 percent is based on an estimate of O&M PFP trends in a sample of 82 US electric utilities from 2007 to 2022.[251]

Given that FBC is a vertically integrated electric utility, to account for FBC's small size and dispersed operations, Dr. Kaufmann's analysis for FBC considered two separate samples of electric utilities. The first sample was a broad-based, 82-company sample that comprised nearly the entire US electric utility industry. The second sample was a sub-set of the first proxy group comprising 20 relatively small US vertically integrated electric utilities.[252] Table 8 below illustrates the results of the O&M PFP growth studies of these two samples.

**Table 8: O&M PFP Trend for US Electric Utility Industry from 2007 to 2022[253]**

| Sample | Period | Customer Growth | O&M Growth | Industry Input Price | O&M Quantity Growth | O&M PFP Growth |
|---|---|---|---|---|---|---|
| **82 US Electric Utilities** | 2007-2022 | 0.91% | 3.26% | 2.55% | 0.71% | 0.20% |
| **20 Small US VIEUs** | 2007-2022 | 0.42% | 3.39% | 2.55% | 0.84% | -0.42% |

Note to Table 8: VIEUs are vertically integrated electric utilities

Dr. Kaufmann concludes the O&M PFP trend that uses the entire 82-company sample is a more appropriate basis for FBC's productivity factor than the small company alternative. While FBC's cost structure may in theory be more similar to its small company peers, the differences in output growth between FBC and the small company sample are stark. Given this disparity, and the theoretical and precedential support for using the

[245] FortisBC Final Argument, p. 22.
[246] Exhibit B-12, RCIA IR 12.3.
[247] Exhibit B-1, Appendix C1-1, p. 10.
[248] Exhibit B-1, Appendix C1-1, p. 10; FortisBC Final Argument, p. 26; Exhibit B-4, BCUC IR 7.6. Per Exhibit B-13, BCUC IR 45.6: Dr. Kaufmann confirms that if the most recent five years (2017 to 2022) of data were used instead of a 15-year sample, the PFP for FEI and FBC would be 0.72 percent and 1.41 percent, respectively.
[249] Exhibit B-1, Appendix C1-1, p. 10.
[250] Exhibit B-1-2, p. C-7; Exhibit B-4, BCUC IR 7.2.
[251] Exhibit B-1-2, p. C-9; Exhibit B-4, BCUC IR 7.2.
[252] Exhibit B-1-2, p. C-9.
[253] Exhibit B-1-2, Table C1-5 on p. C-9.

largest possible sample to calibrate productivity factors, Dr. Kaufmann recommends that FBC's productivity factor be equal to the industry-wide, long-run estimate of 0.20 percent O&M PFP growth.[254]

Dr. Kaufmann states that the O&M PFP value has no conceptual or empirical relationship to either company's own cost savings[255] and that productivity factors must rely on data that are "external" to the utility's own experience.[256] Well-designed incentive regulation plans create strong performance incentives for FEI and FBC by relying on productivity factors based on industry-wide, long-term trends in their respective industries.[257] Dr. Kaufmann explains that FEI's and FBC's customers benefit from the plan's stretch factors and, more importantly, from cost savings attained by the companies under incentive regulation that are rebased into rates established at the outset of new regulatory plans.[258]

Dr. Kaufmann states that a degree of judgement is inherent, and inevitable, in any determination of a reasonable stretch factor.[259] His recommended stretch factors of 0.10 percent and zero percent, respectively, for FEI and FBC are based on the following considerations:[260]

1) The BCUC's previously approved X-Factors (and implicit stretch factors);

2) Cost benchmarking evidence[261] relative to the gas distribution industry for FEI and the electric distribution industry for FBC; and

3) The cost savings that FEI/FBC achieved during their current and previous incentive regulation plans.

In Dr. Kaufmann's opinion, a reasonable judgement is that the effects of the third consecutive incentive plan and FEI's cost performance entirely offset each other, primarily because FEI's cost performance is very close to the industry norm, which typically implies that the potential for incremental cost performance gains is relatively modest.[262] Dr. Kaufmann recommended a higher stretch factor for FEI compared to FBC primarily based on the empirical evidence showing that FBC has displayed superior cost performance while FEI has displayed average cost performance.[263]

FortisBC submits that Dr. Kaufmann's recommendations are based on clear and persuasive reasoning and expert analysis, which is unchallenged by any evidence put forward in this proceeding.[264]

### *Positions of the Parties*

Both BCSEA and RCIA submit that the BCUC should rely on the evidence of FortisBC's expert regarding the

[254] Exhibit B-1, Appendix C1-1, p. 19; Exhibit B-1-2, p. C-9.
[255] Exhibit B-4, BCUC IR 7.2.
[256] Exhibit B-1, Appendix C1-1, p. 13.
[257] Exhibit B-1, Appendix C1-1, p. 13.
[258] Exhibit B-1, Appendix C1-1, p. 13.
[259] Exhibit B-1, Appendix C1-1, p. 20.
[260] Exhibit B-4, BCUC IR 7.2.
[261] Per Exhibit B-4, BCUC IR 7.2: Dr. Kaufmann states that cost benchmarking evidence indicates that FEI is an average cost performer in the gas distribution industry and that FBC is superior cost performer in the electricity distribution industry.
[262] FortisBC Final Argument, p. 34.
[263] Exhibit B-13, BCUC IR 45.1; FortisBC Final Argument, p. 35.
[264] FortisBC Final Argument, pp. 16–17.

X-Factor and do not oppose the proposed X-Factor values.[265] BCOAPO, ICG, and the CEC have varying comments, and MoveUP does not comment.[266]

BCOAPO submits that the BCUC should not approve the proposed reductions to the X-Factor given the upward pressure this would have on rates for both FEI and FBC.[267]

ICG submits that the X-Factor for FBC should remain at 0.5 percent, as decreasing the X-Factor would decrease the incentives for FBC to achieve productivity savings in Formula O&M. However, if the BCUC decides to follow Dr. Kaufmann's analysis, then ICG submits that the technical analysis of the X-Factor performed by Dr. Kaufmann should be given little weight. In the past, the X-Factor was determined with consideration of technical evidence and then by the BCUC as the final arbiter of rates. In this case where the technical evidence is based on US data as opposed to Canadian data, ICG submits that there is even more reason for the BCUC to rely on its experience and judgement rather than the analysis of Dr. Kaufmann. ICG also submits that the O&M PFP should be based on current data and recommends using the period from 2017 to 2022 to calculate the O&M PFP for FBC. Although the period includes a worldwide pandemic, it does reflect current data and gives less weight to data that can be assumed to reflect very different operating circumstances.[268]

The CEC submits that peer selection is a very important determinant for O&M PFPs in order to establish relevance of the indexing technique. While the CEC understands the reasons for not including Canadian peers in the study, it is not clear the degree to which the competition faced by the sampled US utilities is comparable to that experienced by FEI and FBC. The CEC submits that the sampled utilities' O&M PFP results over the last five years are more indicative of 'things-to-come' than those of the 10 proceeding years (i.e. 2004 to 2016) and should be reflected in FortisBC's O&M PFP. The CEC recommends that the BCUC give little weight to the resulting O&M PFPs provided by Dr. Kaufmann. The CEC further recommends the use of the more recent five years of data instead of the 15-year sample for the O&M PFP. For the stretch factor, the CEC suggests that the BCUC maintain the simpler formulaic approach from the Current MRP whereby stretch factors (if any) are implied in the single X-Factor given the degree of judgment involved in the determination of stretch factors.[269]

In reply to interveners, FortisBC submits that its proposed X-Factors are reasonable and well-justified based on the expert evidence of Dr. Kaufmann. FortisBC states that the positions taken by BCOAPO, ICG, and the CEC ignore the expert evidence in favour of the exercise of judgement without any basis in theory or evidence.[270]

In reply to BCOAPO, FortisBC submits that maintaining the X-Factors from the Current MRP for the Rate Framework simply because this would not increase O&M costs is not a fair nor reasonable approach. FortisBC submits that BCOAPO offers no argument or rationale for why those X-Factors are justified now based on the evidentiary record of this proceeding.[271]

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[265] BCSEA Final Argument, pp. 7–9; RCIA Final Argument, p. 9.
[266] BCOAPO Final Argument, pp. 22, 29; the CEC Final Argument, pp. 19–21; ICG Final Argument, PDF pages 8–9.
[267] BCOAPO Final Argument, pp. 22, 29.
[268] ICG Final Argument, PDF pages 8–9.
[269] The CEC Final Argument, pp. 19–21.
[270] FortisBC Reply Argument, p. 36.
[271] FortisBC Reply Argument, pp. 36–37.

In reply to ICG's comment on Canadian versus US data, FortisBC submits that ICG's position is incorrect and should be disregarded for three reasons: (i) the productivity factor is not based on comparisons to other utilities as ICG assumes, rather, standard industry practice is to use index-based methods to establish the long-run industry-wide productivity growth; (ii) Dr. Kaufmann could not have used Canadian data due to the lack of uniform and standardized datasets for Canadian electric and gas utilities; and (iii) the BCUC and other regulators have approved the use and applicability of US data for industry productivity trends for Canadian utilities.[272]

In reply to the CEC's comment on peer selection, FortisBC clarifies that the productivity factor is determined by industry-wide productivity trends, not peer comparisons. Therefore, for both the gas distribution and electricity distribution industries, Dr. Kaufmann did not conduct a peer comparison, but instead his focus was on collecting as much data as possible to reflect the entirety and diversity of the utility industry to estimate the industry productivity trends. FortisBC submits that Dr. Kaufmann's use of a broad a sample of utilities to calculate gas and electric industry O&M PFP growth trends is also supported by the BCUC and other regulators.[273]

In reply to the CEC's and ICG's comments on the use of 5- versus 15-year data to calculate the O&M PFP, FortisBC submits that a five-year period would be contrary to standard industry practice and an unprecedently short period of time on which to determine a reliable long-term productivity trend.[274]

In reply to the CEC's comment regarding the stretch factor, FortisBC states that the exercise of judgement in determining the stretch factor does not mean that the BCUC should disregard relevant empirical evidence. Dr. Kaufmann's approach of starting with the existing stretch factors and then considering the results of the O&M per customer benchmarking analysis, and the fact that this is FortisBC's third consecutive multi-year rate-setting framework are reasonable and provide a coherent structure for the determination of the stretch factor.[275] FortisBC submits that it is beneficial to recognize the O&M PFP and stretch factor separately within the X-Factor because they play separate roles in a well-designed incentive regulation plan. The productivity factor is grounded in the "competitive market paradigm," which establishes a link between long-run industry-wide productivity trends and the appropriate "offset" that is applied to the industry-wide inflation factor. The stretch factor is a company-specific metric, informed by some form of cost benchmarking as well as the history of incentive regulation in each jurisdiction. It can and should vary depending on the company's cost performance, and therefore its potential to achieve incremental cost savings under a multi-year PBR plan.[276]

### *Panel Determination*

**The Panel finds it appropriate to apply a productivity factor (X-Factor) in the Rate Framework, composed of an industry O&M partial factor productivity value and a stretch factor.** The Panel is persuaded by Dr. Kaufmann's evidence that the O&M PFP component of the X-Factor is intended to capture productivity improvements and the effects of economies of scale that have been realized within the utility industry, whereas the stretch factor is designed to reflect the incremental productivity improvements the utility can reasonably be expected to achieve over the term of the Rate Framework. The Panel considers having separate productivity values and stretch

[272] FortisBC Reply Argument, p. 40.
[273] FortisBC Reply Argument, pp. 41–42.
[274] FortisBC Reply Argument, pp. 43–47.
[275] FortisBC Reply Argument, p. 38.
[276] FortisBC Reply Argument, pp. 38–39.

factors enhances transparency and promotes understanding for all interested parties as opposed to simply having an aggregated X-Factor.

**The Panel approves an X-Factor of 0.55 percent for FEI and 0.45 percent for FBC, to be used in the respective indexing formulas. The approved X-Factor for FEI incorporates an industry O&M partial factor productivity value of 0.28 percent and a stretch factor of 0.27 percent, while the X-Factor for FBC incorporates an industry O&M partial factor productivity value of 0.20 percent and a stretch factor of 0.25 percent.** The determinations of the respective O&M PFPs and stretch factors for FEI and FBC will be discussed next.

The Panel is persuaded by Dr. Kaufmann's evidence on the appropriateness of using an O&M PFP as opposed to the TFP to measure productivity improvements achieved in the utility industry. This is consistent with the findings from the Current MRP Decision, and the Panel notes no interveners raised issues with the use of the PFP versus the TFP. The Panel accepts that the O&M PFP as described by Dr. Kaufmann is appropriately intended to capture industry productivity, not the actual productivity realized by FEI or FBC.

**The Panel accepts the use of the industry O&M partial factor productivity values of 0.28 percent for FEI and 0.20 percent for FBC as supported by the evidence of Dr. Kaufmann.** The calculation of the O&M PFP values for both FEI and FBC is based on empirical analysis, using Dr. Kaufmann's determination of the best available data and employing a number of judgment-based decisions. The Panel acknowledges that using industry-wide data does present some challenges including relying on US data due to a lack of Canadian-specific data and using data from utility entities that may be of significantly different sizes than FEI or FBC. However, the Panel accepts that Dr. Kaufmann has used the best available data to derive the proposed O&M PFP values.

The Panel notes that one of the key judgment-based decisions reflected in the evidence in the determination of the O&M PFP values was the time frame associated with the historical industry data. The Panel finds it reasonable to use 15 years of data for the purpose of determining the PFP as proposed by Dr. Kaufmann, but notes that selecting alternative time periods, such as five years as proposed by the CEC, could result in significantly different O&M PFP values. The Panel is not satisfied that selecting the most recent five years would be the optimal representation of historical results given the volatility that arises when using five years of data. The Panel is further persuaded by Dr. Kaufmann's arguments for the use of 15 years of data as a widespread industry norm to estimate reliable, long-run trends for O&M PFP growth.

The Panel accepts that productivity gains attributable to economies of scale are captured in the O&M PFP and considers Dr. Kaufmann's evidence in this regard to be persuasive. The Panel notes no interveners took issue with this matter nor was any evidence submitted to refute Dr. Kaufmann's evidence. As discussed in Section 3.1.4 above, given that the O&M PFP captures the effects of economies of scale, there is no need to include an adjustment to the growth factor for the same purpose, as it would amount to double counting. However, the Panel considers it reasonable to anticipate that there will continue to be the potential for productivity gains due to economies of scale over the term of the Rate Framework.

The Panel rejects the stretch factors proposed by FortisBC. The Panel is not persuaded that stretch factors of 0.10 percent and zero percent for FEI and FBC, respectively, are reasonable for the term of the Rate Framework. The Panel notes that Dr. Kaufmann relies on an element of judgment in his recommendation for the proposed stretch factors. The Panel considers that FEI and FBC continue to have further potential opportunities for productivity improvements and economies of scale beyond those reflected in the proposed stretch factors. This

is evidenced by the total Formula O&M savings realized over the Current MRP term as shown in Table 1 of Section 2.1 of this decision. It is the judgment of the Panel that neither FEI nor FBC have reached such a high productivity performance level as to preclude the potential for further improvement. During a period of heightened uncertainty driven by the energy transition and concerns about affordability, it is particularly important for utilities and incumbent upon them to continue to strive for increased productivity in all aspects of their operations. Accordingly, **the Panel finds it just and reasonable to use a stretch factor of 0.27 percent for FEI and 0.25 percent for FBC**.

## 3.2 Forecast Capital

FortisBC proposes to continue to forecast FEI's gross Sustainment and Other capital, and FBC's gross Growth, Sustainment, and Other capital in the Rate Framework.[277] This is the same treatment as under the Current MRP.[278] Variances on FEI's and FBC's forecast capital are subject to earnings sharing.[279] The following sections review FEI's and FBC's capital forecasts for the term of the Rate Framework.

### 3.2.1 FEI's Forecast Capital

In the Application, FEI seeks approval for the level of Sustainment and Other capital expenditures to be included in delivery rates for the years 2025 to 2027. FEI states that due to the uncertainty over future gas demand levels from changes in climate policy, it has adjusted its capital planning process by reviewing the scope of its capacity-driven projects with a focus on meeting near-term capacity requirements (i.e. pre-2030).[280] FEI acknowledges, however, that it has not explicitly considered hydrogen integration in its capital planning process, as the quantity, location, and timelines for hydrogen use remain uncertain.[281] Rather, FEI advises it is currently conducting a study to assess hydrogen's impact on its system, which FEI anticipates will be completed in 2027.[282]

Sustainment Capital

FEI's Sustainment capital expenditures cover gas system improvements to transmission and distribution assets to maintain the safety, reliability and integrity of the system. Sustainment capital includes expenditures for meter recall programs, system replacements and upgrades, and mains and service renewals and alterations.[283] Table 9 below summarizes FEI's forecast Sustainment capital expenditures by category for the Rate Framework term, alongside the 2023 and 2024 approved amounts for comparison.

[277] Exhibit B-1-2, p. A-3, Figure C3-1 on p. C-68; Exhibit B-4, BCUC IR 17.1.
[278] Current MRP Decision, p. 131.
[279] Exhibit B-1-2, Figure C3-1 on p. C-68.
[280] Exhibit B-1-2, pp. C-70 to C-71
[281] Exhibit B-4, BCUC IR 18.2.
[282] Exhibit B-13, BCUC IR 47.1.
[283] Exhibit B-1-2, p. C-79.

**Table 9: FEI Approved and Forecast Sustainment Capital Expenditures 2023 to 2027 ($000s)[284]**

| | 2023 Approved | 2024 Approved | 2025 Forecast | 2026 Forecast | 2027 Forecast |
|---|---|---|---|---|---|
| Customer Measurement | 30,015 | 30,494 | 14,295 | 13,459 | 13,422 |
| Transmission System Relilability & Integrity | 47,937 | 49,573 | 60,065 | 75,133 | 66,469 |
| Distribution System Reliability | 15,341 | 17,709 | 21,245 | 17,254 | 9,237 |
| Distribution System Integrity | 36,043 | 32,852 | 29,993 | 25,887 | 36,356 |
| **Total Sustainment Capital (Gross)** | **129,336** | **130,628** | **125,599** | **131,733** | **125,484** |
| Sustainment CIAC | (4,342) | (4,342) | (4,436) | (8,443) | (4,615) |
| **Total Sustainment Capital (Net)** | **124,994** | **126,286** | **121,163** | **123,290** | **120,869** |

FEI's projected Sustainment capital for each year of the Rate Framework is expected to remain consistent with the levels approved for 2023 and 2024. FEI anticipates customer measurement spending will decrease starting in 2025 due to the AMI project, which replaces residential diaphragm meters which would have needed to be replaced with new ultrasonic meters. AMI capital will be added to FEI's rate base and is excluded from regular Sustainment capital expenditure forecasts. [285] However, FEI expects that this decline will be offset by increased transmission system reliability and integrity capital expenditures driven by increased spending on pipeline alterations to address a rising number of regulatory compliance-driven class location upgrades[286] and expanded pipeline inspection costs, reflecting the recently approved use of electromagnetic acoustic transducer tools for in-line inspection.[287]

Other Capital

FEI's Other capital expenditures include spending on equipment, facilities, information systems, and a new category added for corporate security. FEI states that starting in 2025, it will track corporate security costs, previously split between information systems and Sustainment capital, as a new portfolio under Other capital.[288] Table 10 below provides the 2025 to 2027 forecast Other Capital expenditures by category as well as the 2023 and 2024 approved expenditures for comparison.

**Table 10: FEI Approved and Forecast Other Capital Expenditures 2023 to 2027 ($000s)[289]**

| | 2023 Approved | 2024 Approved | 2025 Forecast | 2026 Forecast | 2027 Forecast |
|---|---|---|---|---|---|
| Equipment | 12,270 | 12,240 | 14,989 | 16,123 | 18,421 |
| Facilities | 14,686 | 11,349 | 18,727 | 13,053 | 8,551 |
| Information Systems | 24,458 | 24,563 | 25,300 | 25,800 | 26,500 |
| Corporate Security | 3,100 | 3,100 | 8,887 | 7,720 | 7,741 |
| **Total Other Capital** | **54,514** | **51,252** | **67,904** | **62,696** | **61,213** |

FEI's projected Other capital for each year of the proposed Rate Framework is higher than the approved amounts for 2023 and 2024. FEI states that the increases over the approved amounts are primarily due to a large capital replacement cycle for its aging truck fleet.[290] FEI is also proposing increased investment in

[284] Exhibit B-1-2, Table C3-6 on p. C-81.
[285] Exhibit B-1-2, p. C-81.
[286] Exhibit B-1-2, p. C-83.
[287] Exhibit B-1-2, p. C-84.
[288] Exhibit B-1-2, p. C-97.
[289] Exhibit B-1-2, Table C3-17 on p. C-91.
[290] Exhibit B-1-2, p. C-92.

corporate security capital as discussed in Section 2.2 of this decision.[291] FEI explains that starting in 2025, it is forecasting a $3.6 million increase in capital costs for its patch management program to address evolving security risks with more frequent software updates and expanded scope, as well as enhanced physical security measures to address vulnerabilities in aging camera infrastructure and support technologies.[292]

*Positions of the Parties*

RCIA and BCSEA do not oppose FEI's proposals for Sustainment and Other capital.[293] Other interveners do not comment explicitly on this matter.

RCIA considers the proposed capital budgets reasonable despite inflation and contractor cost increases.[294] RCIA has no objection to FEI's proposed projects and associated expenditures related to Other capital.[295]

BCSEA states that it does not disagree with FEI's forecast of Sustainment and Other capital.[296]

*Panel Determination*

**The Panel approves FEI's three-year capital forecasts for gross Sustainment and Other capital expenditures for 2025 to 2027, as set out in Tables 9 and 10 above, to be incorporated in FEI's delivery rates.** The Panel views FEI's forecast amounts to be reasonable and justified reflecting historical actuals and the current operating environment.

However, the Panel notes that FEI's study to assess hydrogen's impact on its system is anticipated to be completed in 2027, which falls within the term of the Rate Framework. Accordingly, **the Panel directs FEI to address hydrogen integration in its next rates application after the conclusion of the Rate Framework.** Specifically, FEI is to provide projections on the specific impact hydrogen integration will have on the capacity of its system and required infrastructure investments. This directive is intended to ensure that FEI's capital planning process remain adaptive to the evolving energy landscape while meeting the needs of system demand forecasts.

### 3.2.2 FBC's Forecast Capital

FBC seeks approval of the level of Regular capital expenditures for each year of the proposed term of the Rate Framework from 2025 to 2027.[297] FBC's Regular capital forecasts are divided into the following three categories: Growth capital, which includes investments to accommodate new customer connections and load growth;[298] Sustainment capital, which consists of expenditures for system improvements to support forecast load and meet

[291] Exhibit B-1-2, pp. C-97 to C-98.
[292] Exhibit B-1-2, p. C-98.
[293] RCIA Final Argument, pp. 15, 17; BCSEA Final Argument, p. 18.
[294] RCIA Final Argument, p. 15.
[295] RCIA Final Argument, p. 17.
[296] BCSEA Final Argument, p. 18.
[297] Exhibit B-1-2, p. C-72.
[298] Exhibit B-1-2, p. C-105.

the safety, reliability, and integrity of the system;[299] and Other capital expenditures for equipment, facilities, information systems, and a new category for corporate security expenditures.[300]

FBC submits that its forecast approach to capital planning is consistent with the approach in the Current MRP (i.e. bottom-up).[301] Using this approach, FBC proposes to increase the levels of capital spending within the proposed term of the Rate Framework relative to the approved expenditures over the Current MRP. Table 11 below summarizes the 2023 and 2024 approved expenditures and forecast gross Regular capital expenditures for 2025 to 2027.

**Table 11: FBC Approved and Forecast Regular Capital Expenditures 2023 to 2027 ($000s)[302]**

| | 2023 Approved | 2024 Approved | 2025 Forecast | 2026 Forecast | 2027 Forecast |
|---|---|---|---|---|---|
| Growth Capital | 30,072 | 24,568 | 41,349 | 45,035 | 46,357 |
| Sustainment Capital | 44,710 | 51,652 | 75,664 | 72,116 | 71,310 |
| Other Capital | 17,658 | 17,213 | 25,070 | 24,922 | 22,699 |
| **Total Regular Capital (Gross)** | **92,440** | **93,434** | **142,082** | **142,074** | **140,365** |

FBC states the primary drivers for the increase in Growth, Sustainment, and Other capital forecasts are the province's increased focus on electrification, the need to improve reliability, the need to address the age and condition of assets to meet codes and standards, and the increase in cyber and physical security risks.[303]

The following sections review the forecast capital expenditures for each of the Growth, Sustainment, and Other capital portfolios.

Growth Capital

Table 12 below summarizes FBC's forecast Growth capital expenditures over the 2025 to 2027 Rate Framework term, along with the approved capital expenditures for 2023 and 2024.

**Table 12: FBC Approved and Forecast Growth Capital Expenditures 2023 to 2027 ($000s)[304]**

| | 2023 Approved | 2024 Approved | 2025 Forecast | 2026 Forecast | 2027 Forecast |
|---|---|---|---|---|---|
| Transmission | 6,223 | 1,088 | 16,418 | 19,323 | 20,149 |
| Distribution | 1,899 | 1,716 | 1,775 | 1,747 | 1,814 |
| New Connects | 21,951 | 21,764 | 23,156 | 23,965 | 24,395 |
| **Total Growth (Gross)** | **30,072** | **24,568** | **41,349** | **45,035** | **46,357** |
| CIAC (New Connect) | (10,218) | (6,925) | (8,085) | (8,364) | (8,485) |
| **Total Growth (Net)** | **19,854** | **17,643** | **33,264** | **36,671** | **37,871** |

[299] Exhibit B-1-2, p. C-109.
[300] Exhibit B-1-2, p. C-129.
[301] Exhibit B-2, p. 25.
[302] Exhibit B-1-2, Table C3-27 on p. C-104.
[303] Exhibit B-1-2, pp. C-136 to C-137.
[304] Exhibit B-1-2, Table C3-28 on p. C-105.

FBC's transmission Growth capital includes expenditures for nine discrete projects.[305] FBC states the primary drivers for these projects are system improvements to accommodate load growth and to ensure there is adequate supply during periods of peak demand and adverse weather conditions.[306] FBC notes that its service area has experienced extreme weather conditions, including record low temperatures, resulting in prolonged drought conditions and subsequent low supply of hydro-electric storage resources, and record high temperatures, resulting in wildfires during the summer seasons.[307] FBC plans to undertake five Growth capital projects to accommodate load growth in the City of Kelowna.[308] FBC forecasts summer and winter peaks for the City of Kelowna to increase by approximately 8 percent by 2027, as compared to the projected summer and winter 2024 peaks.[309] Load growth in the City of Kelowna is due to significant population growth, new provincial legislation leading to residential densification, electrification of heating loads, and adoption of electric vehicles.[310]

FBC explains that transmission Growth capital expenditures for the Rate Framework are also required to achieve its reliability planning criteria and ensure delivery of reliable supply customers in the Penticton, Oliver, and Princeton areas. According to FBC, parts of its electric system in these three areas do not currently achieve its reliability planning criteria.[311] While FBC considered using pre-contingency operational procedures to defer or avoid these projects altogether, it submits that these procedures are no longer sufficient to achieve the reliability planning criteria throughout the year due to increased load from customers.[312]

FBC states that it uses the reliability planning criteria to identify the need for capital investments for local networks that are not otherwise required by applicable standards and regulations.[313] FBC confirms that, although it has not updated its planning criteria for the proposed term of the Rate Framework,[314] it is not aware of any new applicable standards, codes, or regulations that will come into effect in its service area during the term of the Rate Framework that were not applicable over the Current MRP term.[315]

Sustainment Capital

Table 13 below summarizes FBC's forecast expenditures for Sustainment capital from 2025 to 2027 and the approved capital expenditures for the years 2023 and 2024.

[305] Exhibit B-1-2, Table C3-30 on p. C-106.
[306] Exhibit B-1-2, p. C-106.
[307] Exhibit B-1-2, p. B-13.
[308] Exhibit B-1-2, pp. C-106 to C-108; DG Bell Second Distribution Transformer Addition, Glenmore Station Capacity Upgrade, Saucier Second Distribution Transformer Addition, Glenmore Low Voltage Bus Capacity and Equipment Upgrades and Reconductor 51L and 60L projects.
[309] Exhibit B-4, BCUC IR 23.4. The approximately 8 percent increase is based off of a 382 megawatt (MW) forecast for 2027 compared to 354 MW in 2024 for Summer Peak, and a 387 MW forecast for 2027 compared to 359 MW in 2024 for Winter Peak.
[310] Exhibit B-4, BCUC IR 23.5.
[311] Exhibit B-1-2, pp. C-106 and C-108.
[312] Exhibit B-4, BCUC IR 23.8.
[313] Exhibit B-13, BCUC IR 49.3.
[314] Exhibit B-13, BCUC IR 49.4.
[315] Exhibit B-13, BCUC IR 49.2.

**Table 13: FBC Approved and Forecast Sustainment Capital Expenditures 2023 to 2027 ($000s)[316]**

| | 2023 Approved | 2024 Approved | 2025 Forecast | 2026 Forecast | 2027 Forecast |
|---|---|---|---|---|---|
| Generation | 7,623 | 7,225 | 12,823 | 13,298 | 15,274 |
| Transmission Sustainment | 9,159 | 12,800 | 13,604 | 9,149 | 8,991 |
| Stations Sustainment | 6,841 | 8,209 | 20,486 | 23,627 | 24,783 |
| Distribution Sustainment | 17,480 | 18,219 | 22,446 | 19,014 | 18,291 |
| Telecommunications | 3,606 | 5,199 | 6,304 | 7,028 | 3,971 |
| **Total Sustainment (Gross)** | **44,710** | **51,652** | **75,664** | **72,116** | **71,310** |
| Sustainment CIAC | (1,410) | (614) | (765) | (791) | (816) |
| **Total Sustainment (Net)** | **43,300** | **51,038** | **74,899** | **71,326** | **70,494** |

FBC's forecast Sustainment expenditures are primarily driven by improvements to generation and stations equipment that are required to upgrade aging assets to meet current codes and standards, address the condition and age of infrastructure, and improve reliability.[317] FBC's expenditures for the generation category almost double between the 2024 approved ($7.2 million) and 2027 Forecast ($15.3 million). FBC notes these projects are necessary to address critical path items related to the condition, structural capacity, operational requirements, and safety of hydraulic dam structures and generating equipment areas.[318] Similarly, forecast capital expenditures for the stations sustainment category approximately triple between the 2024 approved ($8.2 million) and 2027 Forecast ($24.8 million). Table 14 below further breaks down the capital forecast for stations sustainment.

**Table 14: FBC Approved and Forecast Stations Sustainment Capital Expenditures 2023 to 2027 ($000)[319]**

| | 2023 Approved | 2024 Approved | 2025 Forecast | 2026 Forecast | 2027 Forecast |
|---|---|---|---|---|---|
| Station Urgent Repairs | 617 | 653 | 680 | 759 | 701 |
| Station Assessment/Minor Planned Projects | 1,196 | 1,059 | 1,454 | 1,498 | 1,549 |
| Spare Parts | - | - | 1,940 | 3,484 | 8,164 |
| Station Sustainment Programs | 4,485 | 3,796 | 7,354 | 6,743 | 6,859 |
| Station Upgrade/Replacement Projects | 543 | 2,701 | 9,060 | 11,143 | 7,509 |
| **Total Station Sustainment** | **6,841** | **8,209** | **20,486** | **23,627** | **24,783** |

Based on the capital forecasts for stations sustainment shown above for 2025 through 2027, FBC anticipates a substantive increase in three key categories:

- Spare Parts – this new program is expected to commence in 2025 to comply with Transmission System Planning Performance Standards, which became effective in BC on July 1, 2020. This program also addresses supply chain issues, resulting in increased lead times for necessary equipment.[320] FBC states it has based the forecasts for 2025 through 2027 on the timing of scheduled milestone payments with the manufacturer, which is 10 percent in the first year, 20 percent in the second year, and the remaining 70 percent in the third year.[321]

[316] Exhibit B-1-2, Table C3-33 on p. C-110.
[317] Exhibit B-1-2, p. C-136; Exhibit B-12, RCIA IR 15.1.
[318] Exhibit B-1-2, p. C-111.
[319] Exhibit B-1-2, Table C3-36 on p. C-117.
[320] Exhibit B-1-2, p. C-118.
[321] Exhibit B-12, RCIA IR 16.2.

- Station Sustainment Programs – FBC intends to develop new programs to support an "all inclusive" approach to station condition assessment during the term of the Rate Framework.[322]

- Station Upgrade/Replacement Projects – FBC proposes to undertake seven projects involving the replacement of substation equipment to address condition issues and aging infrastructure.[323]

While FBC has not explicitly included investments for climate adaptation and resilience within its forecast capital expenditures, it considers climate adaptation and resilience to be a driver of FBC's forecast Regular capital expenditures for Growth and Sustainment capital. A few examples in FBC's 2025 to 2027 forecast capital expenditures of investments with climate adaptation and resiliency benefits include:[324]

- FBC will repair grounding and bonding and replace insulators on transmission lines to aid in wildfire mitigation;

- FBC will implement distribution field recloser controller upgrades with remote monitoring and control to aid FBC's overall Wildfire Mitigation Plan; and

- FBC recently updated the transformer cooling specifications to consider higher ambient temperatures and updated the design criteria for transmission and distribution to account for higher wind and snow loadings.

Other Capital

Table 15 below provides the 2025 to 2027 forecast Other capital expenditures by category as well as the 2023 and 2024 approved expenditures for comparison.

**Table 15: FBC Approved and Forecast Other Capital Expenditures 2023 to 2027 ($000)[325]**

| | 2023 Approved | 2024 Approved | 2025 Forecast | 2026 Forecast | 2027 Forecast |
|---|---|---|---|---|---|
| Equipment | 4,099 | 3,717 | 6,307 | 6,194 | 5,842 |
| Facilities | 4,305 | 4,096 | 6,945 | 6,792 | 4,763 |
| Information Systems | 8,246 | 8,372 | 9,150 | 9,400 | 9,550 |
| Corporate Security | 1,008 | 1,028 | 2,668 | 2,536 | 2,544 |
| **Total Other Capital** | **17,658** | **17,213** | **25,070** | **24,922** | **22,699** |

FBC explains that its capital expenditures for equipment and facilities are forecast to increase over the term of the Rate Framework, as they are entering a large capital replacement cycle due to their age. FBC is also proposing to increase its investments in corporate security, including increased expenditures in patch management.[326] In recent years, FBC notes that its expenditures for patching have increased to respond to evolving security risks and to reduce the threat landscape and vulnerabilities as discussed in Section 2.2 of this decision.[327]

[322] Exhibit B-1-2, p. C-119.
[323] Exhibit B-1-2, p. C-120.
[324] Exhibit B-4, BCUC IR 25.1.
[325] Exhibit B-1-2, Table C3-42 on p. C-129.
[326] Exhibit B-1, p. C-137.
[327] Exhibit B-1, p. C-135.

### *Positions of the Parties*

RCIA, BCSEA and ICG are the only interveners to comment on the level of FBC's forecast capital expenditures for the term of the Rate Framework.

BCSEA supports FBC's forecast level of regular Sustainment, Growth, and Other capital expenditures and agrees that the three-year capital forecasts are required for the safety, reliability and integrity of FBC's electrical system in response to electrification.[328]

RCIA does not object to the approvals sought by FBC for its forecast Sustainment[329] and Growth[330] capital expenditures. While RCIA expresses concern about the level of increase in the forecast expenditures for Other capital, it views these expenditures necessary for the evolving and operating environment of FBC and also does not object to the forecast Other capital expenditures over the Rate Framework term.[331]

ICG submits that FBC's forecast Regular capital expenditures for 2025 are 52 percent, or $48.6 million, higher than the 2024 approved amounts and submits that this increase is not justified. ICG notes the three drivers for this increase are load growth, aging assets, and increased threats to the system. ICG submits that these drivers were also present in the Current MRP term, so they cannot be used to justify the 52 percent increase over 2024 approved. Further, ICG argues that there have been no changes in the operational, regulatory, or political environment that could justify such a large step change increase in capital expenditures. ICG recommends that no increase to Regular forecast capital expenditures for 2025 should be approved or that any increase approved by the BCUC should be limited to 5 percent over 2024 approved, with further increases also limited to 5 percent for each subsequent year of the Rate Framework.[332]

In reply to ICG, FBC submits that its forecast capital expenditures are reasonable because deferring capital investments will only put greater pressure on customers in future years and result in increased system risks relating to safety and reliability. FBC also explains that its forecast expenditures are required to serve load growth in the City of Kelowna, support market conditions and meet industry standards, guidelines, and regulations.[333]

### *Panel Determination*

**The Panel approves FBC's three-year capital forecasts for gross Growth, Sustainment, and Other capital expenditures for 2025 to 2027, as set out in Tables 12, 13, and 15 to be incorporated in FBC's rates.** The Panel finds that FBC's Growth capital forecasts are reasonable given the evidence provided in this proceeding regarding anticipated demand growth over the term of the Rate Framework. FBC's evidence also highlights that capital expenditures are necessary to improve reliability. The Panel is persuaded by FBC's explanation that it is unable to defer or avoid projects, as its pre-contingency operational procedures are no longer sufficient to achieve reliability planning criteria, which have remained consistent since the Current MRP term. The Panel finds

[328] BCSEA Final Argument, p. 17.
[329] RCIA Final Argument, p. 15.
[330] RCIA Final Argument, p. 14.
[331] RCIA Final Argument, p. 17.
[332] ICG Final Argument, PDF page 12.
[333] FortisBC Reply Argument, pp. 75–77.

that these expenditures are necessary and any further deferral of such expenditures could further strain affordability in the future. The Panel views that FBC's Sustainment capital forecasts are also reasonable given that FBC's service area experiences severe weather conditions resulting in the need for additional investments in system reliability. Lastly, the Panel views that FBC's Other capital forecasts are reasonable given cyclicality of replacement work, as well as forecast increased spending on corporate security due to heightened cyber security risks in its operating environment.

The Panel acknowledges ICG's concerns regarding the significant increase in FBC's capital expenditures. However, the Panel views that ICG's recommendation to limit the increase in capital expenditures for each subsequent year of the Rate Framework to five percent is arbitrary and is not supported by any evidence in this proceeding. The Panel also views that such a limit would not be reasonable given the continued inflationary pressures in FBC's operating environment.

### 3.3 Forecast Late Payment Charges

Late Payment Charges is a component of Other Revenue that is approved for forecast treatment and is subject to earnings sharing in the Current MRP. FortisBC is proposing to continue the same treatment for Late Payment Charges in the Rate Framework.[334]

Prior to 2023, FortisBC used a three-year average of historical actuals to forecast Late Payment Charges. In 2023 and 2024, FortisBC changed its approach to forecasting Late Payment Charges for both FEI and FBC using the average of the previous year's actual late payment charges and the current year's projected late payment charges. In support of the change in the forecasting approach, FortisBC stated that factors such as the COVID-19 pandemic, implementation of customer relief measures, and ongoing inflationary impacts resulted in historical results which do not provide an accurate representation of expected future late payment charges.[335]

While the BCUC found FortisBC's forecast Late Payment Charges reasonable for the setting of 2024 delivery rates, in the FEI 2024 Annual Review Decision,[336] the BCUC directed FEI to evaluate impacts of alternative methodologies for forecasting Late Payment Charges, including forward-looking and backward-looking approaches as part of its next revenue requirements application (i.e. this Application). This is because the BCUC noted that any variances between forecast and actual Late Payment Charges are subject to earnings sharing and may therefore be perceived as susceptible to under-forecasting of revenues.[337]

In the Application, FortisBC submits that it evaluated both forward-looking and backward-looking approaches to forecasting Late Payment Charges as per the BCUC's direction in the FEI 2024 Annual Review Decision. FortisBC performed this analysis for both FEI and FBC. Based on its analysis, FortisBC considers that its current forecasting approach continues to be reasonable for the term of the Rate Framework.[338] Even though the economic impacts of the COVID-19 pandemic have dissipated, FortisBC states that its current approach for both FEI and FBC remains appropriate because it excludes historical years where peak pandemic and inflationary impacts likely

[334] Exhibit B-1-2, p. C-148.
[335] Exhibit B-1-2, pp. C-148 to C-150.
[336] FEI 2024 Annual Review of Delivery Rates, Decision and Order G-334-23 dated December 7, 2023 (FEI 2024 Annual Review Decision).
[337] FEI 2024 Annual Review Decision, pp. 10–11.
[338] Exhibit B-1-2, pp. C-148 to C-150.

influenced late payment charges. Further, in the near term, FortisBC anticipates that there may be continued volatility in late payment charges and, as such, the appropriate approach to forecasting is to use the most recent actual and projected results.[339]

### *Positions of the Parties*

BCSEA is the only intervener to comment on this matter and supports continuing the updated methodology that was approved in 2023.[340]

### *Panel Determination*

**The Panel approves the proposed forecast methodology for Late Payment Charges for both FEI and FBC, consistent with the methodology used in 2023 and 2024.** The Panel acknowledges FortisBC's analysis of alternative forecast methodologies, and the Panel agrees with FortisBC's conclusion that the proposed methodology is the most appropriate with the information currently available. If that information changes within the term of the Rate Framework, the Panel views that the BCUC can assess any recommendations for changes to the forecast methodology in the Annual Reviews, if and as needed.

## 3.4 Service Quality Indicators and Targeted Incentives

This section summarizes FortisBC's proposed service quality indicators (SQIs) for FEI and FBC. SQIs are metrics that measure a utility's quality of service and represent a broad range of business processes that represent the customer experience.[341] FortisBC explains that SQIs monitor each utility's performance to ensure that any efficiencies and cost reductions from the multi-year PBR framework do not result in a degradation of the quality of service to customers. In developing the proposed suite of SQIs for the Rate Framework, the criteria used to establish the SQIs for previous multi-year rate plans in 1998, 2004, 2014, and 2020 were considered. FortisBC submits that these criteria continue to remain appropriate.[342]

Similar to the Current MRP, FEI and FBC intend to report each year's results in Annual Reviews to allow a comparison of each utility's performance against the benchmarks and thresholds for each SQI (as applicable).[343] In general, a threshold is the minimum performance required, and a failure to meet a threshold could result in penalties being assessed during Annual Reviews. A benchmark is considered a target, based on industry standard or best practice, and there is no penalty if it is not achieved.[344] FortisBC intends to continue the review process for SQIs, including the potential for penalties, in Annual Reviews.[345]

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[339] Exhibit B-1-2, p. C-149.

[340] BCSEA Final Argument, p. 14.

[341] Exhibit B-1-2, p. C-176.

[342] Exhibit B-1-2, p. C-176. There are six criteria, which are: value to customers, controllable, cost effective, simple and transparent, traceable and quantifiable, and flexible.

[343] Exhibit B-1-2, pp. C-178 to C-179.

[344] Current MRP Decision, pp. 87–88.

[345] Exhibit B-1-2, pp. C-178 to C-179. The Consensus Recommendation was approved by Order G-14-15 and provides guidance on the objectives of performance ranges and the review process for SQI results. The Consensus Recommendation was used to evaluate SQIs in Annual Reviews during the Current MRP term as well as the preceding multi-year PBR framework term.

FortisBC's recommendations for SQIs for FEI and FBC are discussed in the following sections.

### 3.4.1 FEI's Service Quality Indicators

Except for the introduction of a new suite of information indicators to report on the result of FEI's activities related to the energy transition, FEI largely recommends the continuation of its existing suite of SQIs from the Current MRP to measure service quality over the term of the Rate Framework with a couple of adjustments.[346] The discussion in this section focuses on the areas where an adjustment or change is proposed when compared to the Current MRP. The introduction of energy transition information indicators as well as possible targeted incentives will be discussed in Section 3.4.2 of this decision. Table 16 below compares FEI's current and proposed SQIs, with the green-shaded areas highlighting changes to the existing indicators and new indicators.

**Table 16: Comparison of FEI Current and Proposed SQIs Except for Energy Transition Indicators[347]**

| | | Current | | *Proposed* | |
|---|---|---|---|---|---|
| **Safety Indicators** | | Benchmark | Threshold | Benchmark | Threshold |
| **Annual results** | **Emergency Response Time** | >= 97.7% | 96.2% | >=97.7% | 96.2% |
| **Annual results** | **Telephone Service Factor (Emergency)** | >= 95% | 92.8% | >=95% | 92.8% |
| **3 Year rolling average** | **All Injury Frequency Rate** | <= 2.08 | 2.95 | <= 1.64 | 2.21 |
| **Annual results** | **Public Contacts with Gas Lines** | <=8 | 12 | <=6 | 10 |
| **Responsiveness to Customer Needs Indicators** | | | | | |
| **Annual results** | **First Contact Resolution** | >= 78% | 74% | >=78% | 74% |
| **Annual results** | **Billing Index** | <= 3 | 5 | <=3 | 5 |
| **Annual results** | **Meter Reading Completion** | >= 95% | 92% | Informational | Informational |
| **Annual results** | **Telephone Service Factor (Non Emergency)** | >= 70% | 68% | >=70% | 68% |
| **Annual results** | **Meter Exchange Appointment Activity** | >=95% | 93.8% | >=95% | 93.8% |
| **Annual results** | **Customer Satisfaction Index** | Informational | Informational | Informational | Informational |
| **Annual results** | **Average Speed of Answer** | Informational | Informational | Informational | Informational |
| **Reliability Indicators** | | | | | |
| **Annual results** | **Transmission Reportable Incidents** | Informational | Informational | Informational | Informational |
| **Annual results and 5 Year rolling average** | **Leaks per KM of Distribution System Mains** | Informational | Informational | Informational | Informational |

[346] Exhibit B-1-2, p. C-180.

[347] Exhibit B-1-2, Table C6-2 on p. C-182.

All Injury Frequency Rate

The all injury frequency rate SQI measures employee safety performance based on injuries per 200,000 hours worked.[348] FEI proposes to lower the benchmark from 2.08 in the Current MRP to 1.64 for the Rate Framework. FEI states that this recommended change in the benchmark is based on the 2021 to 2023 rolling average, where recent results have been better than the Current MRP benchmark. FEI also proposes reducing the threshold from 2.95 to 2.21, aligning with its past practice of setting the threshold at two standard deviations from the recent 10-year history of three-year rolling averages of annual results.[349]

Public Contacts with Gas Lines

The public contacts with gas lines indicator measures number of line damages per 1,000 BC 1 Calls received.[350] FEI proposes to reduce the benchmark from 8 in the Current MRP to 6 for the Rate Framework. FEI states that this change is based on the average of results from 2021 to 2023, reflecting a downward trend in gas line contacts. FEI attributes this improvement to increased awareness through workshops with municipalities, excavating contractors, and a higher number of calls generated by the BC 1 Call program. FEI also suggests adjusting the threshold from 12 to 10, in line with positive historical performance.[351]

Meter Reading Completion (formerly Meter Reading Accuracy)

This SQI compares the number of meters that are read to those scheduled to be read.[352] FEI proposes to rename the meter reading accuracy metric in the Current MRP to meter reading completion in the Rate Framework to better reflect its focus on the number of scheduled meters read. FEI also proposes changing this indicator to an informational indicator without benchmarks or thresholds given that the anticipated AMI deployment over the term of the Rate Framework will create a mix of manual and advanced meters, making current measures ineffective. FEI states that once AMI is fully implemented, it will reassess the metric for potential reintroduction with updated benchmarks.[353]

### *Positions of the Parties*

All Injury Frequency Rate

MoveUP and RCIA agree with FEI's proposed adjustments to the all injury frequency rate SQI.[354]

[348] Exhibit B-1, Appendix C6-1, p. 6.
[349] Exhibit B-1-2, p. C-183; Exhibit B-1, Appendix C6-1, p. 7.
[350] Exhibit B-1, Appendix C6-1, p. 8.
[351] Exhibit B-1-2, p. C-184.
[352] Exhibit B-1, Appendix C6-1, p. 13.
[353] Exhibit B-1, pp. C-184 to C-185.
[354] MoveUP Final Argument, p. 12; RCIA Final Argument, p. 35.

Public Contacts with Gas Lines

RCIA argues that FEI's gas line contact incidents remain high compared to other provinces and urges more investment in awareness initiatives. RCIA posits that if FEI's awareness and collaboration efforts are effectively reducing line hits, FEI should further invest in these initiatives.[355]

The CEC recommends addressing uncertainties in line locate documentation and coordination with third parties. The CEC notes that a significant portion of gas line damages may be due to unclear communication or misunderstanding of FEI asset locations, or improper execution of instructions by excavators.[356] The CEC suggests that the BCUC direct FEI to discuss potential line locate process modifications, and potential funding through penalties on at-fault excavators, as was done in Ontario in a compliance filing.[357]

In reply, FEI states it does not see a need for increased O&M funding to mitigate gas line contacts, as it believes current investments have improved performance. FEI states that there is no evidence supporting the CEC's claim that uncertainties in line locate documentation contribute to gas line hits; rather, the evidence shows most incidents result from excavators not following safety protocols.[358] FEI also argues that administrative penalties for at-fault excavators would be a matter for government to implement, not FEI.[359]

Meter Reading Completion (formerly Meter Reading Accuracy)

RCIA does not object to the change of FEI's meter reading completion SQI to an informational SQI.[360]

The CEC recommends that the BCUC direct FEI to maintain its Meter Reading Accuracy SQI until AMI is complete, gradually adjusting it to cover remaining manual meter readings during the transition.[361]

In reply, FEI posits that changing the meter reading completion SQI to an informational indicator is justified, as the AMI deployment will reduce manual meters, making benchmarks ineffective for evaluating service quality. FEI also finds the CEC's proposal to gradually adjust the SQI for manual meters unclear and administratively burdensome, as fluctuating meter types would complicate assessment.[362]

Other

BCSEA generally supports FEI's proposed changes to SQIs.[363]

[355] RCIA Final Argument, pp. 30–34.
[356] The CEC Final Argument, p. 31.
[357] The CEC Final Argument, p. 31.
[358] FEI Reply Argument, pp. 87–88.
[359] FEI Reply Argument, p. 87.
[360] RCIA Final Argument, p. 36.
[361] The CEC Final Argument, p. 32.
[362] FEI Reply Argument, p. 89.
[363] BCSEA Final Argument, pp. 21–22.

RCIA recommends new SQIs for both telephone and online channels, as current SQIs only cover phone interactions.[364] RCIA also recommends new SQIs for service line installations and alterations.[365] RCIA opposes using the customer satisfaction index to assess satisfaction with FEI's service gas line installations and alterations, arguing that concerns from this small customer group would be diluted within the broader customer base.[366]

In reply, FEI argues that RCIA's proposed new SQIs for non-telephone customer service channels and service line installations are unnecessary and impractical. FEI contends that non-telephone inquiries are primarily self-serve, making response time an unreliable service quality measure, and that most complex issues are still handled via telephone, which is already tracked. FortisBC states that implementing new SQIs would require costly system upgrades without clear benefits. Regarding service line installations, FortisBC asserts that complaints are minimal, and external factors like permits and seasonality make establishing a fair metric difficult and the existing customer satisfaction index already captures concerns about installation delays, ensuring service quality is monitored effectively.[367]

### *Panel Determination*

**The Panel approves FEI's proposed service quality indicators in Table 16 above.**

The Panel finds that FEI's proposed changes to the SQIs are reasonable and well-supported by the evidence presented. The safety-related SQI changes are consistent with the positive performance trends demonstrated by FEI. The Panel recognizes the concerns raised regarding gas line hit incidents but agrees with FEI that current O&M initiatives to mitigate gas line contacts have improved performance, and that further investments are not warranted at this time. As for the CEC's comments on gas line contact incidents, the Panel agrees with FEI that there is insufficient evidence to demonstrate that uncertainties in line locate documentation contribute to gas line hits. Additionally, we acknowledge that imposing penalties for gas line hits by at-fault excavators falls outside the BCUC's authority.

Regarding RCIA's recommendations for new SQIs, the Panel agrees with FEI that implementing new measures for non-telephone customer service channels and service line installations would impose unnecessary costs and operational complexity without a clear benefit. Similarly, the Panel does not find the introduction of new SQIs to be justified given FEI's existing performance monitoring mechanisms, such as the customer satisfaction index which already captures relevant customer concerns.

Additionally, the Panel views that gradually adjusting the meter reading completion SQI during the transition to AMI would be administratively burdensome and unnecessary, as AMI deployment will fundamentally alter the metrics and make existing benchmarks ineffective. The Panel accepts that with the implementation of AMI, this SQI is better represented as an informational SQI. The Panel further notes FEI's commitment to reassess the metric for potential reintroduction with updated benchmarks once the AMI transition is complete.

[364] RCIA Final Argument, p. 36.
[365] RCIA Final Argument, p. 37.
[366] RCIA Final Argument, p. 38.
[367] FEI Reply Argument, pp. 94–98.

### 3.4.2 FEI's Energy Transition Informational Indicators and Targeted Incentives

In response to stakeholder feedback, FEI proposes to introduce a new suite of four informational indicators related to the energy transition for the Rate Framework.[368] FEI states that it has been tracking the proposed indicators and previously reporting these results through various filings, such as its annual sustainability report and Demand Side Management annual report.[369] Table 17 below outlines the four proposed energy transition informational indicators and their historical results.

**Table 17: FEI Energy Transition Informational Indicators[370]**

| Performance Measure | Description | 2020 Results | 2021 Results | 2022 Results | 2023 Results |
|---|---|---|---|---|---|
| Scope 1 Emissions | Total direct GHG emissions from FEI owned or controlled sources ($MtCO_2e$) | 0.14 | 0.15 | 0.24 | 0.14[130] |
| Renewable and Low Carbon Energy Supply Volume | Acquired annual Renewable Gas and Low Carbon Energy supply (TJ) | 306 | 790 | 2,295 | 2,778 |
| Natural Gas for Transportation Volume | Total gas consumed by CNG and LNG customers (TJ) | 2,413 | 2,652 | 3,077 | 3,117 |
| Demand Side Management Energy Savings | Measure of lifetime gas savings from conservation and energy management programs (TJ)[131] | 7,937 | 12,304 | 10,811 | 10,104 |

FEI states that the proposed "Scope 1 Emissions" measure shown in the table above aligns with the actions that FEI is taking to reduce the emissions from its own operations, while the other three measures align with the actions that FEI is taking to reduce emissions as part of FEI's Clean Growth Pathway to 2050. These actions are increasing the supply of renewable and low-carbon gases, advancing low- and no-carbon transportation, and investing in energy efficiency.[371]

While the energy transition indicators differ from traditional SQIs by not directly measuring or relating to its service quality, FEI submits that the new indicators will provide valuable context on how FEI is addressing the energy transition. FEI considers that it is appropriate to classifying the new indicators as informational, without benchmarks, thresholds, or penalties at this time.[372] FEI states that penalties would not be suitable because performance on the new indicators depends on external factors, such as policy changes, regulatory approvals, and market conditions.[373] FEI also notes that existing government policies, including the Carbon Tax and Low Carbon Fuel Standard, already drive GHG reductions, thereby making penalties duplicative of government regulations.[374]

In FEI's view, the above-noted energy transition informational indicators will offer a number of advantages and benefits, including:[375]

[368] Exhibit B-1-2, p. C-185.
[369] Exhibit B-1-2, p. C-186.
[370] Exhibit B-1-2, p. C-186.
[371] FortisBC Final Argument, pp. 144–145.
[372] Exhibit B-1-2, p. C-185; FortisBC Final Argument, p. 148.
[373] Exhibit B-4, BCUC IR 33.1; Exhibit B-14, BCOAPO IR 18.2.
[374] Exhibit B-4, BCUC IR 33.1; FortisBC Final Argument, p. 149.
[375] FortisBC Final Argument, p. 146.

- They will demonstrate FEI's progress in reducing emissions and support understanding of its energy transition efforts;
- They will provide transparency, accountability, and motivation for improvement;
- They align with standard utility sustainability reporting practices; and
- They are simple to implement without requiring an incentive framework.

FEI further submits that, similar to targeted incentives or performance incentive mechanisms (PIMs), these informational indicators emphasize achieving desired outcomes, rather than focusing on the specific methods to obtain those outcomes.[376]

When asked about alternative energy transition informational indicators, FEI explains that the following indicators are not suitable at this time:

- Tracking hydrogen deployment: FEI states that hydrogen is not yet part of its renewable energy supply and that it is currently conducting a hydrogen blending study (expected to be completed by 2027) to assess the gas system's readiness. FEI submits that it will reassess the need for this tracking metric after the hydrogen blending study's completion.[377]

- Reporting overall customer emissions (i.e. Category 11, Scope 3 GHG emissions): FEI states that such reporting is inappropriate and not useful, as overall customer emissions fluctuate due to factors beyond FEI's control, such as weather, and offer limited insight into its GHG reduction efforts. Further, FEI submits that Category 11, Scope 3 reporting in the Annual Reviews would divert focus from more relevant discussions.[378]

- GHG Reduction Standard (GHGRS) progress: FEI states that the details of the GHGRS, including the allocation of the annual cap on gas customer GHG emissions, have not been established by the BC Government at this time and no additional guidance has been provided. However, FEI would consider including an informational indicator related to the GHGRS once the standard is established.[379]

Targeted Incentives

FEI states that the Rate Framework is designed so that PIMs could be added onto the Rate Framework, beginning in any year of the term or as part of FEI's next iteration of a rate-setting framework. However, if the BCUC wishes to explore PIMs, FEI states that it could propose such incentives through either a standalone application or as part of a second phase to this proceeding. Specifically, FortisBC would explore and develop potential incentives and based on the results of this assessment, determine which incentives for FEI and/or FBC to bring forward to the BCUC. FortisBC would require at least four months to develop a proposal.[380]

At this time, however, FEI reiterates that it prefers informational indicators over targeted incentives related to the energy transition. This is due to concerns about disproportionate incentives, unintended consequences, and

[376] FortisBC Final Argument, p. 146.
[377] Exhibit B-4, BCUC IR 33.6 and 33.7.
[378] Exhibit B-4, BCUC IR 33.5.1.
[379] Exhibit B-8, BCSEA IR 3.1.
[380] Exhibit B-4, BCUC IR 44.6.

uncertainty related to long-term planning which are challenges that properly designed targeted incentives will need to address. In other words, poorly designed incentives may create excessive rewards relative to customer benefits or utility costs to achieve the targeted outcome and could shift focus away from other performance areas that do not have incentives. Further, frequent changes in the design of targeted incentives inhibit efficient planning and encourage short-term solutions.[381]

### *Positions of the Parties*

BCSEA, RCIA, and the CEC generally support FEI's four proposed energy transition informational indicators, while BCOAPO expresses concerns. Certain interveners also provide recommendations.

BCSEA supports FEI's proposed energy transition informational indicators. BCSEA also accepts FEI's argument that it would be premature to implement a separate metric to track hydrogen development.[382] BCSEA agrees with FEI that informational indicators are preferable to targeted incentives at this time, and it is not opposed to FortisBC proposing PIMs in the future.[383]

BCSEA submits that FEI's progress in reducing its customers' GHG emissions is a very important element of its role in the clean energy transition.[384] In addition to the energy transition informational indicators proposed by FEI, BCSEA recommends that the BCUC require FEI to report on an informational basis, the annual BC GHG emissions resulting from customers' combustion of gas delivered by FEI (i.e. Category 11, Scope 3 GHG emissions).[385] BCSEA acknowledges that Category 11, Scope 3 emissions tend to change from year to year for reasons that are difficult to isolate and beyond FEI's control, such as weather, but submits that this can be addressed by way of explanations and other techniques, such as averaging and weather normalization.[386]

RCIA supports FEI's proposed energy transition indicators as informational indicators at this time.[387] RCIA also submits that while tracking GHG emissions under the GHGRS and corresponding emissions cap would be a useful indicator, it is reasonable to delay implementing this indicator until the GHGRS is more clearly defined.[388]

The CEC generally supports FEI's proposed energy transition informational indicators and agrees with FEI's position regarding the tracking of hydrogen development.[389] However, the CEC recommends: (i) that the BCUC direct FEI to allow flexibility in the design of the Renewable and Low Carbon Energy Supply Volume indicator, so that it can be enabled to capture the breakdown by the type of renewable and low-carbon gas (i.e. renewable natural gas (RNG), hydrogen, etc.) and the embedded weighted average cost of the acquired supply,[390] and (ii) that the BCUC direct FEI to develop customer emissions performance informational indicators to be considered,

[381] FortisBC Final Argument, p. 150.
[382] BCSEA Final Argument, pp. 22–23.
[383] BCSEA Final Argument, p. 25.
[384] BCSEA Final Argument, p. 24.
[385] BCSEA Final Argument, pp. 23–24, 28.
[386] BCSEA Final Argument, p. 23.
[387] RCIA Final Argument, pp. 38, 42.
[388] RCIA Final Argument, pp. 38, 42.
[389] The CEC Final Argument, pp. 3, 33–34.
[390] The CEC Final Argument, pp. 3, 34.

alongside a cohort of well-designed targeted incentives, and to report on the progress at future Annual Reviews.[391]

BCOAPO expresses concern that FortisBC is not proposing true, measurable energy transition indicators with benchmarks and thresholds or key performance indicators.[392] BCOAPO asks the BCUC to direct FortisBC to develop meaningful key performance indicators and associated targets to measure progress towards the energy transition and provide detailed commentary on the energy transition informational indicators in the larger context of the energy transition, as part of the Annual Reviews during the term of the Rate Framework.[393] BCOAPO is concerned that FortisBC does not consider it appropriate or in the public interest to be penalized for not achieving the proposed energy transition informational indicators.[394]

In reply, FEI opposes BCSEA's and the CEC's recommendation to report customers' emissions on an informational basis, arguing that it would be unhelpful due to annual fluctuations "that cannot be clearly explained or normalized," which could lead to misinterpretations.[395] FEI maintains that customers' emissions are not a reliable indicator of FEI's performance and prefers focusing on metrics that it can directly influence, such as investments in Renewable and Low Carbon Supply Volume and Demand Side Management Energy Savings. FEI states that it "cannot directly control how much energy it delivers to customers during peak winter periods when heating requirements are highest."[396]

FEI also opposes the CEC's recommendation for the breakdown in the Renewable and Low Carbon Energy Supply Volume indicator, arguing it is unnecessary, as the indicator currently focuses solely on RNG, with other low-carbon gases still under exploration.[397] Further, FEI argues that reporting on the weighted average cost of the acquired supply is irrelevant to the purpose of the energy transition indicators, as it does not reflect FEI's GHG reduction efforts, but rather its commodity costs, which are outside the scope of the Annual Reviews.[398]

Finally, in response to BCOAPO's concerns, FEI argues that its proposed energy transitional SQIs should remain informational, emphasizing that imposing penalties tied to benchmarks beyond its control would violate the Fair Return Standard. FEI considers that the proposed indicators aim to provide transparency, accountability, and incentives for progress, while aligning with industry practices. FEI maintains that this approach is reasonable and helps the BCUC and stakeholders to effectively monitor FEI's energy transition efforts.[399]

Overall, the CEC recommends that the BCUC reject a number of FortisBC's proposed changes to the Rate Framework and instead proceed with a framework more like what the CEC proposed, until FortisBC completes its plans for targeted incentives and develops the associated performance metrics.[400]

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[391] The CEC Final Argument, pp. 3, 34.
[392] BCOAPO Final Argument, p. 12.
[393] BCOAPO Final Argument, pp. 28–29.
[394] BCOAPO Final Argument, pp. 13–14.
[395] FortisBC Reply Argument, p. 90.
[396] FortisBC Reply Argument, pp. 90–91.
[397] FortisBC Reply Argument, p. 91.
[398] FortisBC Reply Argument, p. 92.
[399] FortisBC Reply Argument, pp. 93–94.
[400] The CEC Final Argument, pp. 8, 43.

In reply to the CEC, FortisBC submits that the CEC's submission regarding the value of targeted incentives does not address the challenges with developing targeted incentives or explain why informational indicators are not sufficient at this time.[401]

### *Panel Determination*

**The Panel approves the introduction of the four energy transition indicators to the suite of service quality indicators for FEI, on an informational basis, as shown in Table 17 above.** The Panel does not support implementing penalties or incentives tied to these indicators at this time, as there are no legislated targets that currently warrant these measures. The Panel acknowledges that trends in energy transition indicators may require a reassessment in the future. Should these trends indicate a need for further action, then the BCUC may reconsider the role of benchmarks, thresholds, or targeted incentives. However, at present, these indicators serve primarily as a tool for monitoring and transparency rather than performance enforcement.

The Panel acknowledges that the energy transition is evolving, with significant uncertainties ahead. However, given that FEI's initiatives related to the energy transition and its related targets will ultimately affect rates, the Panel views these broader issues as within the scope of the Rate Framework and therefore, energy transition indicators will provide context to proposed rates changes in future Annual Reviews.

As detailed below, the Panel rejects FEI reporting on Renewable and Low Carbon Energy Supply Volume at the highest level and accepts the CEC's recommendation for FEI to provide the breakdown of this indicator. Regarding the CEC's recommendation for FEI to provide the weighted average cost of the acquired Renewable and Low Carbon Energy Supply Volume supply, the Panel agrees with FEI that no additional reporting is required, as the cost of acquired supply does not relate to FEI's reduction of GHG emissions over time, but rather, the commodity cost of FEI's energy supply. The Panel also agrees with FEI that the weighted average cost of RNG is not a suitable proxy for affordability, as it is a small part of FEI's revenue requirements and varies across customer segments.

**For the Renewable and Low Carbon Energy Supply Volume indicator, the Panel directs FEI to also include specific reporting on the mix of renewable and low-carbon gas sources, as well as the percentage of these sources in its total gas supply, in each Annual Review.** The Panel notes that only up to 1.45 percent[402] of FEI's total gas consumed by customers in 2023 may be deemed to be from renewable and low-carbon gas, all of which comes from RNG. Given FEI's Long-Term Gas Resource Plan target of 25 percent renewable and low-carbon gas in its total gas supply by 2030, the Panel is concerned about FEI's ability to meet this goal.[403] Therefore, the Panel finds it essential to track progress on the mix of renewable and low-carbon gas sources annually rather than wait for FEI's next Long-Term Gas Resource Plan. Since FEI states that the Renewable and Low Carbon Energy Supply Volume indicator currently focuses solely on RNG, with other renewable and low-carbon gases still under exploration, it must also expand its reporting to include these additional sources.

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[401] FortisBC Reply Argument, p. 25.

[402] 2.778 petajoules of RNG supply acquired divided by 192.1 petajoules of total gas consumed. See Exhibit B-1-2, p. C-186 and Exhibit B-12, RCIA IR 37.1.

[403] FEI notes that its 2022 Long-Term Gas Resource Plan envisions having approximately 25 percent of its total gas supply from renewable and low-carbon gas by 2030. See Exhibit B-1-2, p. C-171. Further, FEI notes that the total gas consumed by customers in 2023 was 192.1 petajoules and all of the 2,778 terajoules (or 2.778 petajoules) in renewable and low-carbon energy supply acquired by FEI in 2023 was RNG. See Exhibit B-12, RCIA IR 37.1 and Exhibit B-4, BCUC IR 33.6.

**Finally, the Panel directs FEI to include an informational indicator for Scope 3 emissions as part of its energy transition informational indicators.** The Panel agrees with BCSEA that understanding Scope 3 emissions provides valuable insight into FEI's progress towards energy transition. While FEI may not have full control over these emissions, the Panel notes that tracking them offers insights into its overall impact without penalizing FEI for any lack of progress in that regard.

### 3.4.3 FBC's Service Quality Indicators

FBC proposes to continue its existing suite of SQIs to measure service quality in the Rate Framework.[404] While FBC considers the existing SQIs to remain appropriate, it intends to change the metrics of certain SQIs. Table 18 below compares FBC's current and proposed SQIs, with the green-shaded areas highlighting changes to existing indicators. The discussion in this section focuses on areas where changes are proposed.

**Table 18: Comparison of FBC Current and Proposed SQIs[405]**

| | | Current | | *Proposed* | |
|---|---|---|---|---|---|
| **Safety Indicators** | | Benchmark | Threshold | Benchmark | Threshold |
| **Annual results** | **Emergency Response Time** | >= 93% | 90.6% | >=93% | 90.6% |
| **3 Year rolling average** | **All Injury Frequency Rate** | <= 1.64 | 2.39 | <=1.31 | 2.56 |
| **Responsiveness to Customer Needs Indicators** | | | | | |
| **Annual results** | **First Contact Resolution** | >= 78% | 74% | >=78% | 74% |
| **Annual results** | **Billing Index** | <= 3 | 5 | <=3 | 5 |
| **Annual results** | **Meter Reading Completion** | >= 98% | 96% | Informational | Informational |
| **Annual results** | **Telephone Service Factor** | >= 70% | 68% | >=70% | 68% |
| **Annual results** | **Customer Satisfaction Index** | Informational | Informational | Informational | Informational |
| **Annual results** | **Average Speed of Answer** | Informational | Informational | Informational | Informational |
| **Reliability Indicators** | | | | | |
| **Annual results** | **System Average Interruption Duration Index - Normalized** | 3.22 | 4.52 | 3.24 | 4.71 |
| **Annual results** | **System Average Interruption Frequency Index - Normalized** | 1.57 | 2.19 | 1.64 | 2.25 |
| **Annual results** | **Generator Forced Outage Rate** | Informational | Informational | Informational | Informational |
| **Annual results** | **Interconnection Utilization** | Informational | Informational | Informational | Informational |

[404] Exhibit B-1-2, p. C-186.

[405] Exhibit B-1-2, Table C6-7 on p. C-187.

All Injury Frequency Rate

The all injury frequency rate SQI measures employee safety performance based on injuries per 200,000 hours worked.[406] FBC proposes to lower the benchmark from 1.64 in the Current MRP to 1.31 under the Rate Framework and increase the threshold from 2.39 to 2.56. FBC's proposed benchmark reflects the positive SQI performance results for the three-year period of 2021 to 2023.[407] The proposed threshold is based on the most recent 10-year history of SQI results which includes poorer performance levels for the years 2014 and 2015.[408]

Meter Reading Completion (formerly Meter Reading Accuracy)

FBC proposes to rename the SQI for meter reading accuracy to meter reading completion for the term of the Rate Framework. FBC explains that the revised name more accurately reflects the results of the SQI, which compares the number of read meters to the number of meters scheduled to be read. Further, FBC requests to change this metric to an informational indicator and remove the existing benchmark and threshold.[409]

FBC explains that this change will continue to reflect the SQI's relatively stable performance in recent years and addresses stakeholder feedback during the November 2023 consultation, where stakeholders noted reduced value in continuing the meter reading completion metric due to the consistency that AMI brings to meter reading completion. [410]

Reliability SQIs

FBC measures the reliability of its transmission and distribution system using the system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI) metrics.[411] SAIDI measures the amount of time the average customer's power is off during the year after adjusting for the impact of major events.[412] SAIFI is the average number of interruptions per customer served per year after adjusting for the impact of major events.[413]

FBC proposes to adjust the SAIDI metric by raising the benchmark from 3.22 in the Current MRP to 3.24 in the Rate Framework and raising the threshold from 4.52 to 4.71.[414] Similarly, for the SAIFI metric, FBC intends to raise the benchmark from 1.57 in the Current MRP to 1.64 in the Rate Framework and increase the threshold from 2.19 to 2.25.[415]

[406] Exhibit B-1, Appendix C6-2, p. 5.
[407] Exhibit B-2-1, p. C-188
[408] Exhibit B-1, Appendix C6-2, p. 6, footnote 4; Current MRP Decision, Table 25 on p. 88.
[409] Exhibit B-2-1, p. C-188.
[410] Exhibit B-1, Appendix C6-2, p. 10.
[411] Exhibit B-1, Appendix C6-2, p. 13.
[412] Exhibit B-1, Appendix C6-2, p. 14.
[413] Exhibit B-1, Appendix C6-2, p. 15.
[414] Exhibit B-2-1, Table C6-10 on p. C-189.
[415] Exhibit B-2-1, Table C6-11 on p. C-189.

Consistent with the approach in the Current MRP, FBC proposes to revise the threshold and benchmark for both reliability SQIs over the term of the Rate Framework. [416] For both reliability SQIs, FBC calculates the recommended benchmarks using recent SQI results from 2020 to 2023 and the recommended thresholds using historical results from 2010 to 2023.[417] While the proposed benchmark and threshold levels reflect higher tolerances, FBC submits that these levels will not contribute to a further degradation in service reliability.[418]

### *Positions of the Parties*

Few interveners oppose FBC's SQI changes. Only ICG and BCOAPO comment on these SQIs.

ICG requests that FBC provide an informational metric to compare its rates with BC Hydro rates at every Annual Review.[419]

BCOAPO submits that FortisBC did not incorporate stakeholder feedback regarding rate affordability. BCOAPO asserts that FortisBC contradicts itself by claiming that its proposal considers affordability while also indicating that affordability cannot be included as an SQI. BCOAPO made this submission for both FEI and FBC.[420]

In reply to ICG, FBC states it does not see a need to compare its rates to BC Hydro's rates for several reasons. FBC explains that rates will be different due to variations in rate schedules, customer consumption levels, and structural and policy differences. FBC considers it unfair to have its shareholders bear the cost differences between its service rates and BC Hydro rates.[421]

In reply to BCOAPO, FortisBC submits that affordability is a relative measure that is defined differently by different customer segments and that there is no specific level of increase that can be used to measure affordability or affordable rates in either the short term or the long term. FortisBC further submits that affordability should therefore be viewed through the lens of its ability to decarbonize the system and transition to low-carbon fuels at the lowest reasonable cost, while also maintaining safe, reliable and resilient service.[422]

### *Panel Determination*

**The Panel approves FBC's proposed service quality indicators in Table 18 above.**

The Panel finds that FBC's proposed changes to the SQIs are reasonable and well-supported by the evidence presented. We further find that proposed adjustments to benchmark and threshold levels for the all injury frequency rate and reliability SQIs will not result in a degradation to FBC's service quality. Additionally, the Panel agrees that a change in the SQI for meter reading completion to an informational metric is warranted given the introduction of AMI and that FBC has achieved relatively stable performance in recent years.

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[416] Exhibit B-1, Appendix C6-2, pp. 15–16.
[417] Exhibit B-2-1, p. C-189.
[418] Exhibit B-4, BCUC IR 1.35.2.1.
[419] ICG Final Argument, PDF page 13.
[420] BCOAPO Final Argument, p. 16.
[421] FortisBC Reply Argument, pp. 27–31.
[422] FortisBC Reply Argument, pp. 19–20.

The Panel rejects ICG's recommendation to compare FBC rates to BC Hydro rates annually, as this comparison would not be meaningful or appropriate given the differences in rate structure and operating environment between the two utilities.

The Panel acknowledges BCOAPO's concerns regarding affordability for both FEI and FBC but agrees with FortisBC's position that affordability is subjective and largely depends on the economic position of the individual customer or a household. The Panel acknowledges that rate increases impact all customers and specifically and more disproportionately, low-income customers. However, there is no specific level that can be used to meaningfully measure affordability across FortisBC's customer base at this time.

### 3.5 Annual Review Process Including Demand/Load Forecast Methodology

Annual Reviews are a key element of the Current MRP to set FEI's delivery rates and FBC's rates each year and to review the respective performance of the utilities during the prior year. In the Current MRP Decision, the BCUC set out the following items to be addressed in each Annual Review in addition to setting rates:[423]

1. Review of the current year projections and the upcoming year's forecast, including the following items:
    a. Customer growth, volumes and revenues;
    b. Year-end and average customers, and other cost information including inflation;
    c. Expenses, determined by the indexing formula plus items forecast annually;
    d. Capital expenditures (as provided for by the capital forecast with FEI's Growth capital determined by the indexing formula), plus other items forecast annually;
    e. Plant balances, deferral account balances and other rate base information and depreciation and amortization to be included in rates; and
    f. Projected earnings sharing for the current year and true-up to actual earnings sharing for the prior year;
2. Identification of any efficiency initiatives that the utilities have undertaken, or intend to undertake, that require a payback period extending beyond the Current MRP term with recommendations to the BCUC with respect to the treatment of such initiatives;
3. Review of any exogenous events FortisBC or stakeholders have identified that should be put forward to the BCUC for review;
4. Review of FEI's and FBC's performances with respect to SQIs and to bring forward recommendations to the BCUC where there has been a "sustained serious degradation" of service;
5. Assessment of recommendations with respect to any SQIs that should be reviewed in future Annual Reviews;
6. Reporting on the Clean Growth Innovation Fund status for FEI only; and

[423] Current MRP Decision, p. 167.

7. Assessment of and recommendations to the BCUC on potential issues or topics for future Annual Reviews.

The BCUC also stated that it may include any other topic for review as it considers necessary in the Annual Reviews.[424]

Reflecting on the Current MRP, FortisBC states that the Annual Reviews have provided a successful forum to communicate and review: (i) annual performance; (ii) new or changed requirements; and (iii) successes and challenges experienced by the utilities. In FortisBC's view, the Annual Review process has provided for a streamlined rate-setting process while still allowing for issues to be explored and evidence gathered for the BCUC's decision making.[425]

As such, FortisBC proposes for the Annual Reviews to continue to be an important and regular touch point in the proposed Rate Framework to provide transparency and review topics related to rate setting, service quality, and the energy transition.[426] FortisBC states that the Annual Reviews will also continue to provide an opportunity for rate impacts and affordability to be considered and that the proposed Annual Review applications will contain generally the same information as the applications in the Current MRP.[427] Further, FortisBC proposes that the Annual Review process (i.e. one round of written IRs, a workshop and written final and reply submissions) remain the same for the proposed Rate Framework as compared to the Current MRP.[428]

Notwithstanding the above, FortisBC states that some efficiencies within the current Annual Reviews have diminished over time and that clearer scoping of the topics permitted to be explored in IRs (or at the workshop) would improve the Annual Review process for the proposed Rate Framework. FortisBC cites various occasions in which the BCUC has stated in its decisions concerning the Annual Reviews that, "[t]he purpose of the Annual Review is not to unravel or revisit the MRP Decision…" or that "[o]nce an MRP is approved, it should be given the opportunity to work as intended and should not be adjusted due to annual fluctuations in certain individual components of the plan." FortisBC asserts that these findings are instructive and therefore, it seeks clearer parameters at the outset of this Rate Framework on the topics that are out of scope in Annual Reviews.[429]

While FortisBC proposes to continue the Current MRP's Annual Review process, it suggests that certain components of the Rate Framework, such as FEI's and FBC's demand/load forecasting methods, once approved, should be scoped out of Annual Reviews to improve regulatory efficiency and reduce costs.[430]

More specifically, FortisBC proposes a list of seven topics which should be out of scope for Annual Reviews during the Rate Framework, which are: [431]

[424] Current MRP Decision, p. 167.
[425] Exhibit B-1-2, pp. C-20 to C-21.
[426] Exhibit B-8, BCSEA IR 1.3; Exhibit B-11, MoveUP IR 4.4.
[427] Exhibit B-9, the CEC IR 1.1; Exhibit B-8, BCSEA IR 1.7.
[428] Exhibit B-1-2, p. C-20.
[429] Exhibit B-1-2, p. C-21.
[430] Exhibit B-1-2, pp. A-20, A-22 and C-22.
[431] Exhibit B-1-2, p. C-22.

- The approved methodology for calculating each of the I-Factor and X-Factor as well as any chosen economic indexes for labour and non-labour;

- The methodology for calculating the growth factor;

- The methods used to forecast demand/load each year for FEI and FBC;

- The methodology to calculate each year's index-based O&M and FEI Growth capital, including the use of the growth factor;

- The total amount of forecast capital expenditures;

- Projects or initiatives that are approved by the BCUC through a CPCN or other separate application process, or by government order in council; and

- For the FEI Biomethane Program and FBC Rate Schedule 96 Electric Vehicle Direct Current Fast Charging Service, the merits of the program, the program design, and the rate design as approved by the BCUC through other proceedings.

Except for the recommendation to scope-out the demand/load forecast methods, FortisBC states that it is not proposing any topics which have been implicitly out of scope under the Current MRP or any previous FortisBC rate-setting framework.[432] FortisBC does not consider that the proposed scoping will impact the transparency of the rate-setting process.[433] However, such scoping will allow all parties to focus on the in-scope issues and generally improve the efficiency of the Annual Reviews.[434]

When asked about the proposal to scope-out the methods used to forecast demand and load each year for FEI and FBC, FortisBC explained that this proposal means that questions about the appropriateness of the forecasting method, or the availability/results of using alternative forecasting methods, would be out of scope. However, FortisBC proposes that questions to examine the drivers behind changes and variances in the demand/load forecasts would be in-scope.[435] FortisBC considers that the methods used to forecast demand/load each year may be scoped-out for the following reasons:[436]

- Demand/load forecast methods can be efficiently reviewed and tested in this proceeding. The methods proposed by FEI and FBC to forecast demand and load for each year are as set out in the Application and are the same as the existing forecast methods from the Current MRP;[437]

- There is no evidence to suggest that demand/load forecast methods require annual modification at this time, as the demand/load forecasts included in the Annual Reviews are near-term forecasts used to set rates for one year and FortisBC expects that the methods will continue to work as intended;

[432] Exhibit B-4, BCUC IR 10.4; Exhibit B-7, BCOAPO IR 11.2; Exhibit B-11, MoveUP IR 4.10.
[433] Exhibit B-11, MoveUP IR 4.10.
[434] Exhibit B-1-2, p. C-22; Exhibit B-4, BCUC IR 10.4; Exhibit B-7, BCOAPO IR 7.10.
[435] Exhibit B-4, BCUC IR 10.1.
[436] Exhibit B-4, BCUC IR 10.2.
[437] Exhibit B-1-2, pp. C-141 to C-145.

- Customers are not exposed to demand/load forecast variances (positive or negative), as these variances to revenue are trued-up and flowed-through to customers in the proposed Rate Framework; and

- A thorough review of the performance of the demand/load forecast methods over multiple years should occur at the end Rate Framework term once there is more data to perform such an evaluation.

### *Positions of the Parties*

Other than ICG's support of FortisBC's suggestion to more firmly establish the scope of the Annual Reviews,[438] interveners who commented generally did not agree or expressed concerns about FortisBC's proposal to change the scope of Annual Reviews. RCIA did not comment.

The CEC is concerned about how FortisBC's proposed scope changes will be governed and "where the lines will be drawn" regarding the in- or out- of-scope items, and provides a list of demand/load forecast questions to illustrate this point.[439]

BCSEA states that it supports continuing the Annual Reviews, as well as the established annual review process (i.e. one round of written IRs, a workshop, and written final and reply submissions), but it is concerned about FortisBC's request to approve a list of topics that are out of scope for the Annual Reviews. In BCSEA's view, the best approach to address out-of-scope items is for the utility to object to responding to IRs in the Annual Reviews that it considers to be out of scope and for the BCUC to make a ruling at that time.[440] BCSEA notes that FortisBC specifically asks for exclusion of the methods for demand/load forecasting from the Annual Reviews. While FortisBC expects that the methods will continue to work as intended, BCSEA submits that it should be left to the future BCUC panels handling the Annual Reviews to determine if the topic should be in- or out of scope.[441]

BCOAPO is concerned that FortisBC is placing too much emphasis on regulatory efficiency at the expense of regulatory effectiveness. Placing limits on the scope of the Annual Reviews which are focused on marginal efficiency gains is moving in the wrong direction. Instead, FortisBC should be assisting stakeholders and interveners with understanding rate pressures and evaluating potential rate mitigation strategies, including associated trade-offs in managing the energy transition.[442]

MoveUP recommends that FortisBC's proposed scoping should not be adopted and states that the utilities are free to decline to respond to IRs that they consider irrelevant or immaterial to a proceeding.[443]

[438] ICG Final Argument, PDF page 8.
[439] The CEC Final Argument, pp. 36–37.
[440] BCSEA Final Argument, p. 12.
[441] BCSEA Final Argument, pp. 12–13.
[442] BCOAPO Final Argument, p. 17.
[443] MoveUP Final Argument, p. 12.

In reply to the CEC, FortisBC submits that it is quite clear which questions will be in- or out of scope in the examples provided concerning FortisBC's forecast demand/load. Given FortisBC's forecast performance and lack of any opposition to the methods, FortisBC considers that it is reasonable to approve the forecasting methods for the term of the Rate Framework.[444]

In reply to interveners in general, FortisBC argues that interveners have mischaracterized the issue as FortisBC merely proposes to more clearly scope the Annual Reviews to exclude matters that are already approved and are not up for reconsideration. FortisBC reiterates that its proposed approach will improve regulatory efficiency, without any impact on regulatory effectiveness. It will also provide a clear basis on which FortisBC can object to IRs, explaining that it typically chooses to respond to IRs because the opposition to the scoping proposal in this proceeding exemplifies the resistance that FortisBC expects to receive if it refuses to respond to an IR. The purpose of more clearly defining the scope of Annual Reviews in advance is to guide interveners away from asking IRs or pursuing arguments on matters that are not up for debate.[445]

### *Panel Determination*

**The Panel approves the continuation of the Annual Reviews, as well as the methods set out in Section C4.2 of the Application used to forecast demand and load each year for FEI and FBC. However, except for the demand/load forecast methods for the Rate Framework, the Panel denies the requested changes to the scope of the Annual Reviews.**

The Panel agrees that the Annual Review process should continue in the Rate Framework and that the content (list of items) of FortisBC's Annual Review applications, as set out in the Current MRP, remains appropriate. The regulatory review process of the Annual Reviews has worked well, subject to amendment by the BCUC as needed,[446] as an efficient approach to prospectively set FEI's delivery rates and FBC's rates each year, as well as assess the performance of the utilities in the prior year compared to other revenue requirement application processes, and should be allowed to continue.

However, except for the demand/load forecast methods for the Rate Framework, the Panel agrees with the interveners' submissions concerning the proposed scope changes to the Annual Reviews. While acknowledging FortisBC's suggestion that some efficiencies within the current Annual Reviews have diminished over time, the Panel considers that more detailed scoping of the Annual Reviews is not necessary. The BCUC's Rules of Practice and Procedure provide sufficient processes for parties to dispute the merits of any IRs and for the BCUC to settle the matter.[447] Future BCUC panels appointed to conduct the Annual Reviews should be free to make determinations concerning the proper scope of these reviews, in light of the information available at that time. Notwithstanding, in the absence of new information, it is this Panel's expectation that the Annual Reviews will not revisit the approved components of the Rate Framework.

Concerning FEI's and FBC's demand/load forecasting methods, the Panel agrees, however, with FortisBC that the evidence and record in this proceeding are sufficient for this Panel to make a determination on FortisBC's proposed methods to forecast demand and load for each year of the term of the Rate Framework. The purpose

[444] FortisBC Reply Argument, pp. 59–60.
[445] FortisBC Reply Argument, pp. 57–59.
[446] As seen in the FBC Annual Review for 2020 and 2021 Rates, for example.
[447] BCUC Rules of Practice and Procedure established by Order G-296-24, Rules 13.04 and 13.05.

of the demand/load forecasts provided in the Annual Reviews is to provide a one-year forecast of energy, as well as customer counts for the residential, commercial, and industrial rate classes, which are then used to set rates for the single test year of each Annual Review.[448]

In this proceeding, FortisBC has provided a detailed account of the forecasting methods it proposes to use for each utility, including analyses of the historical forecast variances for these methods. The Panel is satisfied, for FEI, that FortisBC has adequately responded to the BCUC's directive in the FEI Annual Review for 2024 Delivery Rates to discuss alternative methods for forecasting non-natural gas for transportation liquified natural gas demand in this proceeding.[449] Accordingly, the Panel finds that in light of the relatively short term of the Rate Framework, it would not be an effective use of ratepayer funds to explore the merits of FortisBC's methods to forecast demand and load again in each Annual Review. The Panel notes that no interveners oppose the proposed forecasting methods for either FEI or FBC. The Panel expects, however, that the annual demand/load forecasts themselves derived from the approved forecasting methodology will be provided by FortisBC in the Annual Reviews for review and approval.

### 3.6 Three-Year Term and Beyond

FortisBC requests a three-year term for the Rate Framework from 2025 to 2027 for both FEI and FBC. FortisBC states that towards the end of the three-year term, it will review and assess the Rate Framework and submit a proposal to either extend the Rate Framework or to recommend a new rate-setting framework for review and approval by the BCUC.[450]

Three-Year Term

The proposed three-year term is shorter than the five-year term of the Current MRP, the six-year term of the rate plan that preceded the Current MRP, and the five-year term of rate plans in various other jurisdictions.[451] FortisBC considers that reducing the term from the typical five years to three years sufficiently addresses the uncertainty caused by the energy transition.[452] FortisBC considers that a three-year term strikes a reasonable balance between managing the uncertainty inherent in the energy transition, while also providing a long enough timeframe to achieve regulatory efficiencies and provide certainty on the rate mechanisms in place for resource allocation purposes.[453] FortisBC states that three years is a reasonable timeframe to expect further policy developments regarding the role that gas and electric utilities will play in BC's future, after which there would be an opportunity to evaluate whether a change to the Rate Framework is needed.[454] FortisBC also notes a three-year term to 2027 will also be the midway point to 2030, with 2030 being a significant milestone for many climate goals set out by government.[455]

[448] Exhibit B-1-2, p. C-140.
[449] FEI Annual Review Decision, p. 11.
[450] Exhibit B-1-2, pp. C-3 to C-4.
[451] Exhibit B-1-2, Table B2-10 on p. B-33; FortisBC Final Argument, p. 12.
[452] Exhibit B-4, BCUC IR 5.1.
[453] Exhibit B-1-2, pp. C-3 to C-4; Exhibit B-4, BCUC IR 5.1.
[454] Exhibit B-4, BCUC IR 5.1.
[455] Exhibit B-1-2, pp. C-3 to C-4.

### *Positions of the Parties*

BCSEA and MoveUP support FortisBC's proposed three-year term, while RCIA and BCOAPO have varying comments.[456] Other interveners do not comment explicitly on this matter.

BCSEA submits that the three-year term provides sufficient time for policy to further develop to address the uncertainty caused by the energy transition. BCSEA views that the Annual Reviews within the proposed term offer an efficient opportunity for parties to implement any minor changes and to determine if major changes will be required in the future.[457]

MoveUP submits that the three-year term represents a compromise between the disadvantages of locking into a prolonged framework through a volatile fixed term, and a less efficient regulatory process of annual or biennial full-scale revenue requirements processes.[458]

RCIA submits that a term longer than three years, such as five years, would be preferable, as it would incentivize FortisBC to seek the cost efficiencies inherent in four- and five-year plans.[459] However, if the BCUC determines a three-year term is appropriate, RCIA cautions against an option to extend the term. If an extension is considered, RCIA recommends that the BCUC establish a deadline for FortisBC to make this filing.[460]

While BCOAPO does not oppose FortisBC's proposed three-year term, it is concerned that FortisBC wholly retains the optionality associated with either requesting an extension of the Rate Framework or submitting a new rate plan.[461]

In reply to RCIA, FortisBC recognizes the incentive and efficiency benefits of a five-year term and considers that the Rate Framework is flexible enough such that a five-year term could be set.[462] However, FortisBC submits that its proposed three-year term, with the potential to extend, is preferable given the uncertainties posed by the energy transition.[463]

In reply to RCIA's and BCOAPO's submissions on the option to extend, FortisBC submits it does not have the power to extend the Rate Framework based on its own self-interest, nor would it attempt to do so.[464] FortisBC submits that a review of policy or other changes related to the energy transition would be the primary factor in whether to apply for an extension with approval of any extension ultimately being decided by the BCUC.[465] FortisBC submits that it would likely commence consultation with BCUC staff and interveners regarding the next

[456] BCSEA Final Argument, pp. 5–6; MoveUP Final Argument, p. 7; RCIA Final Argument, p. 8; BCOAPO Final Argument, p. 23.
[457] BCSEA Final Argument, p. 6.
[458] MoveUP Final Argument, p. 7.
[459] RCIA Final Argument, p. 8.
[460] RCIA Final Argument, p. 8.
[461] BCOAPO Final Argument, p. 23.
[462] FortisBC Reply Argument, p. 32.
[463] FortisBC Reply Argument, p. 32.
[464] FortisBC Reply Argument, p. 33.
[465] FortisBC Reply Argument, p. 33.

rate-setting process in mid-2026. Interim rates can also be approved during the application review process in 2027; therefore, a filing deadline is not required.[466]

Beyond the Three-Year Term

As part of its jurisdictional review for the Application, FortisBC notes that both revenue cap and price cap type multi-year PBR frameworks have been used by natural gas and electric utilities across Canada. However, FortisBC notes that all natural gas distributors' price cap plans include a mechanism to adjust the rates for average use variances and mitigate the demand risk (similar to FEI's revenue stabilization adjustment mechanism) which effectively transforms their price cap plans into a form of revenue cap in practice.[467]

### *Positions of the Parties*

MoveUP and BCOAPO are the only interveners to provide forward-looking commentary beyond the proposed three-year term.

MoveUP submits that the utility sector in BC is in the early stages of a profound transition and given the challenges ahead, the corresponding process of regulatory transition is lagging.[468] Traditional forms of regulation such as cost of service, integrated resource planning, and PBR are premised on continuity and incremental rates and trajectories of change, on linear projections from the past.[469] MoveUP submits that an evergreen approach, similar to that of resource-planning, is needed for rate-setting.[470] MoveUP cautions that containing a gas utility's short-term rates without full regard for the enhanced resources it will need in order to meet the challenges of energy transition in the long term risks inter-generational inequity wherein today's ratepayers' savings leave tomorrow's captive ratepayers paying.[471] MoveUP also suggests re-visiting the notion that FEI's delivery rates and FBC's rates can be set using the same rate-setting framework given the opposing forces acting on their costs due to the energy transition.[472]

BCOAPO submits that under the Rate Framework there is no effective means for an "outcome" driven assessment of FortisBC's overall management of O&M expenses and capital expenditures nor of whether the rate increases are sustainable and represent affordable outcomes for ratepayers. BCOAPO submits that the Rate Framework, with a "bottom up" view of costs, presents challenges of transparency and accountability for rate-setting purposes. BCOAPO views that in an era of energy transition and aging infrastructure, it is critical to consider alternative rate frameworks (such as cost of service) and alternative Annual Review processes that would allow for "top-down" review and "outcome" driven assessment for future rate-setting.[473] BCOAPO submits that PBR is an acceptable methodology to set rates in a business as usual environment; however, when

[466] FortisBC Reply Argument, p. 33.
[467] Exhibit B-1-2, p. B-35.
[468] MoveUP Final Argument, pp. 2–3.
[469] MoveUP Final Argument, p. 3.
[470] MoveUP Final Argument, p. 6.
[471] MoveUP Final Argument, p. 4.
[472] MoveUP Final Argument, p. 10.
[473] BCOAPO Final Argument, p. 15.

setting rates for 2028 and beyond, BC's aggressive energy policies and target deadlines, as well as the federal government's climate change related policies, deadlines and taxes have effectively rendered PBR outdated.[474]

In reply, FortisBC notes that both cost of service and PBR have been in use for decades and continue to persist not only in BC, but across Canada and the rest of North America. FortisBC submits that both cost of service and PBR regimes have demonstrated over the decades that they are flexible forms of rate regulation that can be adjusted to accommodate changes in circumstances. This has been exhibited in BC and in FortisBC's own rate-setting processes. Given their wide-spread and long-standing use, substantive evidence and analysis would be needed to demonstrate that cost of service and PBR regimes are no longer viable.[475]

### *Panel Determination*

**The Panel approves a three-year term from 2025 to 2027 for the Rate Framework for both FEI and FBC.** The Panel views that FortisBC's proposal to shorten the term of the Rate Framework to three years as compared to the five-year term of the Current MRP is appropriate in light of the uncertainties that both utilities are facing regarding the energy transition. A three-year term recognizes these uncertainties while still giving sufficient time for the utilities to achieve some of the benefits of multi-year PBR plans, including regulatory efficiency and productivity savings.

The Panel declines to comment on "the potential to extend beyond 2027"[476] after the approved three-year term ends in 2027. FortisBC is correct that any future application after this term ends in 2027 will be subject to review and approval by the BCUC.[477] However, as FortisBC noted, this term will take FortisBC half way to 2030, which is a significant milestone for many climate goals set out by government.[478] As such, this Panel anticipates that FortisBC will be coming to the BCUC with a new rates application as opposed to an extension application at the end of the Rate Framework term.

The Panel considers it advisable to make some observations regarding FortisBC's next rates application in light of the energy transition and the need for continued evolution of FEI's and FBC's multi-year PBR frameworks in response. The Panel agrees with various interveners' commentary on the importance of addressing issues of affordability in future rate frameworks. As noted in Section 2.2 of this decision, the Panel views the Rate Framework as a short-term solution that will allow FortisBC to continue its operations more-or-less as usual up to 2027 while providing additional flexibility to respond to the uncertainties of the energy transition. However, various interveners have correctly observed that the current operating environment is no longer "business as usual" and future rate plans should depart from "business as usual" frameworks.[479] The Panel agrees that the next rates application may need to depart markedly from the multi-year PBR framework as adopted by the Current MRP and Rate Framework due to matters such as government policy changes, the impact of increased electrification, the evolution of the energy transition, further changes to the operating environment, and ratepayer affordability. We believe that a rate model that assesses the appropriate price for delivery of service

[474] BCOAPO Final Argument, p. 27.
[475] FortisBC Reply Argument, p. 22.
[476] Exhibit B-1-2, p. C-3.
[477] FortisBC Reply Argument, p. 33.
[478] Exhibit B-1-2, pp. C-3 to C-4.
[479] BCOAPO Final Argument, p. 27; MoveUP Final Argument, pp. 2–3.

and builds a rate framework around that optimal price, may be a more appropriate mechanism for a future incentive plan for both FEI and FBC that better addresses these concerns.

**In its next rates application for the period beginning January 1, 2028, the Panel provides the following directions to FortisBC:**

- **For FEI and FBC, evaluate the merits of a price cap model that takes a top-down approach to rate-setting, such that the customer's rate is the starting point as opposed to the end product;**
- **For FEI, evaluate alternate rate frameworks based on a jurisdictional review or other research that begin with an optimal gas delivery price as the starting point;**
- **Evaluate whether such a new common rates plan could reasonably be implemented for both FEI and FBC given potentially different impacts of the energy transition on their operations, or whether the next rates plan would merit separate rate frameworks for each of the two utilities; and**
- **For FEI and FBC, evaluate targeted incentives that may be appropriate to introduce to further incent FEI's and FBC's energy transition work.**

For clarity, the Panel is not prescribing the form or content of FortisBC's next rates plan application. The Panel is only directing FortisBC to evaluate and seriously consider alternative rate-setting frameworks in the period building up to its next rates application to better address the needs of the energy transition and affordability. The ultimate proposal that FortisBC submits in its rates application after 2027 will be up to its own discretion based on its comprehensive evaluation of these alternative methodologies.

## 4.0 Other Matters

This section reviews other matters including FEI's Clean Growth Innovation Fund (CGIF), FEI's core market administration expense (CMAE), exogenous factor treatment of FEI's 2021 flooding costs, FEI's and FBC's supporting studies on various topics for the calculation of FortisBC's revenue requirements which are filed by FortisBC alongside the proposed Rate Framework, and issues raised in letters of comment.

### 4.1 FEI's Clean Growth Innovation Fund

FEI's CGIF was first approved in the Current MRP Decision (2020 CGIF). The purpose of the 2020 CGIF was to provide incremental funding for FEI to keep pace with the renewable gas targets set out in the CleanBC Plan.[480]

In finding that it was reasonable and in the public interest for FEI's customers to bear the cost of the 2020 CGIF, the BCUC identified the following benefits for customers: [481]

- Improving gas pipeline inspections and reducing inspection costs;
- Providing cleaner and more affordable energy sources;
- Mitigating the risk of future rate increases; and

[480] Current MRP Decision, p. 155.

[481] Exhibit B-1-2, p. C-158; Current MRP Decision, pp. 155–156.

- Ensuring the long-term viability of the gas utility by reducing the risk of stranded assets through the development of new technologies.

Over the Current MRP term, FEI states that the 2020 CGIF was primarily used to decarbonize the gas value chain (namely, the initiatives identified in the 2nd and 4th bullets above).[482] FEI states that the 2020 CGIF has helped achieve the goals identified by the BCUC in the Current MRP Decision and has provided other significant benefits that will help to support the clean energy transition and CleanBC decarbonization goals.[483]
In the Rate Framework, FEI proposes to maintain a majority of the administrative features of the 2020 CGIF in a next iteration of the CGIF, as well as the expansion of certain investment criteria (2025 CGIF).[484]

Proposed Continuation of Administrative Features for the 2025 CGIF

FEI requests to continue the following administrative features from the 2020 CGIF into the 2025 CGIF: [485]

1. Collection of an Innovation Fund basic charge fixed rate rider of $0.40 per month from all customers;

2. A non-rate base deferral account (CGIF deferral account) attracting a weighted average cost of capital rate of return, to record the funding collected through the Innovation Fund rate rider and the offsetting innovation expenditures;

3. Return any net unused balance in the CGIF deferral account to customers at the end of the term of the Rate Framework; and

4. A governance structure including an innovation working group, external advisory council, and executive steering committee.

Proposed Enhancements to the 2025 CGIF

FEI proposes that the 2025 CGIF continue the gas decarbonization funding activities already established under the 2020 CGIF, while expanding the scope of funding to address other impacts of climate adaption and the energy transition. In particular, a key focus area for the 2025 CGIF will be to invest in cost-effective technology solutions that will help support FEI's customers through the energy transition. Another area of focus FEI has identified relates to gas system infrastructure resilience. The impacts of climate change are already being realized in the form of extreme weather events in BC including wildfires, floods, extreme heat, and extreme cool. These weather systems that would have been considered highly anomalous in the past, are now occurrences that make energy system resilience increasingly important and a prime innovation opportunity that will benefit FEI customers. FEI states that the enhanced scope of the 2025 CGIF will support technologies which are vital to BC's clean energy transition, help to achieve performance breakthroughs and cost reductions on emerging technologies, and provide greater access to cost-effective, safe, and resilient solutions for FEI's customers.[486]

[482] Exhibit B-1-2, p. C-158.
[483] Exhibit B-1-2, p. C-170.
[484] Exhibit B-1-2, pp. C-157 and C-174.
[485] Current MRP Decision, pp. 146, 156-157; Exhibit B-1-2, pp. A-20, C-174.
[486] Exhibit B-1-2, p. C-170.

To support the proposed funding scope, FEI proposes one addition to the 2020 CGIF evaluation criteria – energy system resilience benefits.[487] Accordingly, the 2025 CGIF evaluation criteria for funding use would be as follows:[488]

1. Carbon dioxide-equivalent (CO2e) reduction potential in BC;
2. Non-CO2e emission reduction (NOx, SOx) potential in BC;
3. Potential energy system resilience benefits for FEI's customers;
4. Energy cost mitigation potential for FEI's customers;
5. Amount of co-funding secured (from applicant and third parties); and
6. Relevant experience of the applicant project team.

In addition, the 2025 CGIF funding scope would include the following application categories, two of which are new (cost mitigation and resilience):[489]

1. **Production:** the development of low-carbon gaseous fuel technologies;
2. **Distribution:** adapting the existing gas delivery system to distribute low-carbon gaseous fuels such as hydrogen;
3. **End use:** the development of end-use technologies, including dual-fuel innovations, to assist FEI's customers through the energy transition;
4. **Cost mitigation:** investment in technological solutions that reduce costs for customers;
5. **Resilience:** investment in technological solutions that will improve the resiliency of the gas delivery systems in response to adverse climatic events;
6. **Carbon capture and storage:** investments in end-use carbon capture and storage; and
7. **Generalized low carbon:** initiatives that broadly advance decarbonization and support CleanBC emission reduction objectives.

In support of these funding scope enhancements, FEI states that the purpose of the CGIF is to accelerate the pace of clean energy innovation, to achieve performance breakthroughs and cost reductions, and to provide cost-effective, safe, reliable and resilient solutions for FEI's customers. These goals directly benefit FEI customers who consume FEI's products and services on a daily basis and therefore, receive the direct benefits of funding innovation.[490]

[487] Exhibit B-1-2, p. C-170.
[488] Exhibit B-1-2, pp. C-170 to C-171.
[489] Exhibit B-1-2, p. C-171.
[490] Exhibit B-4, BCUC IR 32.2.1.

### *Positions of the Parties*

The CEC, Air Products, BCSEA, and RCIA are the only interveners to comment explicitly on the CGIF, generally supporting the continuation of the CGIF but with varying submissions on the mechanics of such a continuation.

The CEC supports FEI's proposed addition of cost mitigation and resilience as new application categories in the 2025 CGIF and FEI's continued efforts related to clean energy innovation including the proposed investments in the new application areas. The CEC recommends that the BCUC approve the 2025 CGIF.[491]

Air Products does not generally oppose FEI's 2025 CGIF; however, Air Products expresses concerns about FEI's recovery of hydrogen production development costs from either O&M costs or the 2025 CGIF.[492]

BCSEA agrees that FEI's 2020 CGIF has performed well and supports the proposed continuation of the administrative features of the 2020 CGIF into the 2025 CGIF. However, BCSEA does not support FEI's addition of cost mitigation and resilience as new application categories for the 2025 CGIF. BCSEA submits that while the two application categories are intrinsically desirable, neither is sufficiently tied to decarbonizing the FEI gas system to warrant investments under the 2025 CGIF. Further, BCSEA submits that FEI has failed to demonstrate that it could not innovate in these areas outside of the 2025 CGIF.[493]

RCIA opposes the fixed basic charge rate rider of $0.40 and recommends the 2025 CGIF be funded by ratepayers with a volumetric charge rate rider instead.[494] RCIA submits that CGIF funding should be aligned with the benefits reasonably expected to accrue to the ratepayers, which RCIA argues favours higher-volume consuming customers.[495] RCIA does not support FEI's addition of cost mitigation as a new application category for the 2025 CGIF.[496] RCIA submits that while innovations to reduce costs are welcome and would appear to fall within the intended scope of the 2025 CGIF, RCIA does not agree that CGIF investments should be used to reduce FEI's Formula O&M expenditures.[497] RCIA also expresses concern about the potential for undisclosed conflicts of interest to arise and recommends that CGIF expenditures should be audited before the end of the Rate Framework term.[498] While RCIA does not suggest there have been any issues to date, RCIA submits that to preserve the integrity of the CGIF and provide assurances to ratepayers, audits should, among other things, investigate any real or perceived conflicts of interest and confirm whether all funding meets the established eligibility criteria.[499]

In reply to Air Products, FEI clarifies that the 2025 CGIF excludes funding for commercially available technologies that would be considered under the normal course of business, does not provide FEI with any interest in any

[491] The CEC Final Argument, pp. 25–28.
[492] Air Products Final Argument, p. 1-2.
[493] BCSEA Final Argument, pp. 20–21.
[494] RCIA Final Argument, p. 18.
[495] RCIA Final Argument, p. 20.
[496] RCIA Final Argument, p. 26.
[497] RCIA Final Argument, pp. 26–27.
[498] RCIA Final Argument, p. 28.
[499] RCIA Final Argument, p. 28.

third-party project or company, does not pay for hydrogen production for FEI, and does not contribute to any FEI hydrogen development costs.[500]

In reply to BCSEA, FEI states that the two new application areas are both directly linked to decarbonization and the 2025 CGIF would fund pre-commercial technologies that FEI could not innovate itself. FEI submits that cost is often the primary constraint on decarbonization efforts and so there is a need to fund innovative and non-commercially available technologies to reduce customers' costs. Similarly, FEI submits that resilience will support the clean energy transition in the context of a changing climate as the gas system adapts to extreme weather events.[501]

In reply to RCIA, FEI submits that while high-volume customers may benefit from reductions in commodity costs, lower-volume residential customers will benefit from lower rates if higher-volume customers can be retained on the system. FEI argues that the benefits of the 2025 CGIF are broad-based and generally favour all customers. Therefore, a fixed rate rider remains the most equitable way of funding the 2025 CGIF.[502] In regards to O&M expenditures, FEI states it does not expect to realize savings in Formula O&M from investments in the 2025 CGIF, as funding is only for pre-commercial technologies resulting in a material timing difference between CGIF funding and any cost-mitigation benefits that may be realized.[503] In regards to RCIA's suggestion for an audit of the fund, FEI submits that this would add additional layers of protection to an already multi-level governance process when the established governance structure is already robust.[504]

### *Panel Determination*

**The Panel finds that the 2020 CGIF has performed well over the Current MRP term and approves the continuation of the 2025 CGIF subject to the determinations below.** While the Panel finds the 2020 CGIF performed well and that the 2025 CGIF should continue, the Panel expects FEI to consider alternate mechanisms to the CGIF in its next rates plan. The Panel views that the 2020 CGIF and the 2025 CGIF were incremental mechanisms to help FEI work towards 2030 goals per the CleanBC Plan, but as 2030 approaches, the CGIF may no longer be the most effective tool for FEI to employ after the end of the Rate Framework term. To address this concern, **the Panel directs FEI in its next rates application to (i) provide a comprehensive report of the utility of the CGIF in regard to its stated objectives; (ii) evaluate the need for continuation of the CGIF; and (iii) evaluate alternate mechanisms that might address these objectives including a review of any relevant mechanics in other Canadian jurisdictions.**

**The Panel approves FEI to do the following for the 2020 CGIF and the 2025 CGIF for the Rate Framework:**

- **To return the ending balance in the 2020 CGIF deferral account to customers through amortization of the balance over one year, beginning January 1, 2025;**
- **To continue to collect a 2025 CGIF rate rider amount of $0.40 per month from all customers during the term of the Rate Framework;**

[500] FortisBC Reply Argument, p. 84.
[501] FortisBC Reply Argument, pp. 79–80.
[502] FortisBC Reply Argument, p. 78.
[503] FortisBC Reply Argument, p. 81.
[504] FortisBC Reply Argument, p. 82.

- **To establish a non-rate base 2025 CGIF deferral account, attracting a weighted average cost of capital return, to record the funding collected through the 2025 CGIF rate rider less innovation expenditures; and**

- **To return any residual balance in the 2025 CGIF deferral account to customers at the end of the term of the Rate Framework through a disposal mechanism subject to approval by the BCUC.**

The Panel views that continuing the $0.40 per month basic rate rider remains appropriate for the same reasons that such a funding structure was established in the 2020 CGIF (i.e. matching of costs and benefits, simplicity of administration for FEI, understandability of bill impact for customer, and stability of funds for both parties). No evidence has been provided in this proceeding to suggest the contrary.

The Panel also finds that continuing the governance structure of the 2020 CGIF in the 2025 CGIF is appropriate, as it has functioned well over the Current MRP term, with no evidence provided to suggest it will not continue to do so for the term of the Rate Framework. The Panel does not see a need to add further safeguards such as an audit to the already robust governance structure and views that such an additional measure would increase costs with no additional benefits. The Panel also notes that Annual Reviews offer parties a chance to assess and make inquiries about annual CGIF investments on a timely basis during both the Current MRP term and the Rate Framework term.

**However, the Panel denies FEI's proposed enhancements to the 2025 CGIF funding scope and directs FEI to continue using the funding scope from the 2020 CGIF for its 2025 CGIF.** The Panel views that the two additional categories of cost mitigation and resilience are within the normal operations of FEI such that they should be funded via other means and not via the 2025 CGIF, as its purpose is to fund innovations outside of FEI's normal course operations that will help it to keep pace with the targets set out in the CleanBC Plan.

### 4.2 FEI's Core Market Administration Expense

The CMAE budget funds the costs that FEI's Gas Supply department incurs to plan, manage, and optimize the commodity and midstream gas supply portfolios, mitigate unneeded resources, manage the credit exposure to counterparties, and minimize the impact of unfavourable upstream regulatory developments.[505] FEI states that since these activities are performed to serve core market customers, the CMAE budget is recovered separately from delivery costs through gas cost recovery rates. These gas supply functions are undertaken to: (i) acquire baseload gas, which is recovered via FEI's cost of gas charge; and (ii) manage supply to meet daily load requirements and transport gas to various interconnects, which are recovered via FEI's storage and transport charges. Variances between the actual gas costs incurred and the forecast gas costs embedded in gas cost recovery rates are captured in the gas cost deferral accounts and refunded to or recovered from customers as part of future commodity and midstream rates.[506]

During the Current MRP term, FEI has been filing for approval of the CMAE budget as part of its Annual Review process.[507] The year-end actual CMAE costs are reviewed separately as part of the Status Report filed by April 30 of the following year. The allocation of the 2021 CMAE between the gas cost deferral accounts, namely the

[505] Decision and Order G-319-20 annual Review for 2020 and 2021 Delivery Rates, p. 14.
[506] Decision and Order G-319-20 annual Review for 2020 and 2021 Delivery Rates, p. 14.
[507] Exhibit B-1-2, Section C4, p. C-146.

Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA), is based on allocation percentages of 30 percent and 70 percent, respectively. FEI states that this allocation reflects the level of work performed by employees in the Gas Supply department to support each of the commodity and midstream gas supply portfolios.[508]

In the Annual Review decision for the FEI 2020 and 2021 Delivery Rates, the BCUC directed FEI to (i) include a comprehensive review of CMAE costs including whether these costs are conducive to a formulaic approach or whether they should continue to be forecast with flow-through treatment as part of gas recovery rates, and (ii) whether the current allocation percentages to the CCRA and MCRA remain appropriate in its next multi-year PBR plan application (i.e. this Application).[509]
In the Application, FEI considers a formulaic approach and recovering CMAE costs through delivery charges. FEI ultimately does not propose these approaches for the following reasons:

- CMAE costs are incurred to support various gas supply related activities for sales customers. If these were to be included in delivery charges, then transportation service customers would bear some of those costs without having caused them.[510]
- Adopting a formulaic approach would result in these costs being subject to earnings sharing as opposed to the actual costs flowing to customers.[511]
- Even though the actual year-over-year CMAE dollar amount variances are small compared to the size of FEI's O&M expense, they vary considerably from year to year.[512]

As such, FEI seeks approval to continue to forecast the CMAE budget by cost component. FEI submits for this purpose, using a new, simplified template, which combines the previous three separate categories of CMAE costs of subscriptions and memberships, sundries, and training and travel into a single category; and combines the previous two categories of MoveUP and management and exempt employee labour costs into a single category. FEI proposes submitting the CMAE budget for approval as a separate application at or near the same time as FEI's Third Quarter Gas Cost Report and to review the prior year's forecast to actual CMAE variances at the same time. FEI also proposes to continue to treat CMAE as part of FEI's cost of gas and to allocate 25 percent of costs to the CCRA and 75 percent to the MCRA, and to record the variances between forecast and actual CMAE in the CCRA and MCRA using the same allocation as is used to allocate the forecast.[513]

The proposed allocation between CCRA and MCRA, which is a change from the current allocation percentages, is based on an internal survey of FEI staff that are involved with the gas supply activities to determine the proportion of their time spent on each portfolio. The resulting time spent on MCRA, CCRA and RNG activities was averaged across all staff and showed that 25 percent of staff time is spent on CCRA activities, 70 percent is spent on MCRA activities, and 5 percent is spent on RNG activities. Rather than making an accounting entry to move 5 percent of Gas Supply costs to the RNG account, for which costs are recovered through a rate rider on FEI's Storage & Transport charges (Storage & Transport charges are used to recover MCRA costs), FEI considered it more efficient to amend the allocation between CCRA and MCRA so that the cost of RNG activities undertaken

[508] Decision and Order G-319-20 Annual Review for 2020 and 2021 Delivery Rates, p. 14.
[509] Decision and Order G-319-20 Annual Review for 2020 and 2021 Delivery Rates, p. 16.
[510] Exhibit B-1, Appendix C4-3, p. 5.
[511] Exhibit B-1, Appendix C4-3, p. 5.
[512] Exhibit B-1, Appendix C4-3, pp. 5–6.
[513] Exhibit B-1, Appendix C4-3, pp. 2, 11.

by FEI's gas supply staff formed part of the MCRA allocation of costs which is aligned with how FEI recovers much of its RNG costs through the aforementioned rate rider.[514] This shift in cost allocation decreases the cost of gas charges and increases the storage and transport charges with an overall effect of $nil on rate schedules 1 and 2 and a small net decrease of $0.001/gigajoule for rate schedules 3 and 5.[515]

### *Positions of the Parties*

BCSEA is the only intervener to comment and does not oppose FEI's proposed treatment of the annual CMAE costs.[516]

### *Panel Determination*

**The Panel approves FEI's proposal to continue to treat CMAE as part of the commodity cost of gas for the Rate Framework.** The Panel is convinced that the CMAE costs are incurred to support gas supply related activities for FEI's sales service customers and not transportation service customers and therefore should not be recovered through delivery rates. Additionally, **the Panel approves for the Rate Framework, FEI's proposed new CMAE allocation of 25 percent to the CCRA and 75 percent to the MCRA and to record variances between forecast and actual using the same allocation.** The Panel views that FEI provided sufficient evidence in the proceeding, including a survey of gas supply staff, to justify this change in allocation.

**The Panel approves FEI's proposal to submit the CMAE budget for approval, as well as review of prior year's forecast to actuals, as a separate application at or near the same time as the Q3 Gas Cost Report and to remove this from the Annual Reviews for the Rate Framework.** The Panel is persuaded that combining the CMAE variance reporting from the last completed year with a current year CMAE projection and test year CMAE forecast into a single review process will provide a more comprehensive and efficient review and approval of the CMAE budget. The Panel believes that submitting this report at around the same time as the Q3 Gas Cost Report will provide the BCUC with sufficient time for review.

**However, the Panel denies FEI's proposed new template for the CMAE budget and directs FEI to keep the current cost categories in the BCUC Template for CMAE Budget Application, which is the format prescribed in Order G-23-15, Appendix B.** The Panel views that combining cost categories would take away details that are helpful in analyzing the budget and comparing that budget to prior year actual spending, and thereby ultimately reducing transparency of these costs.

## 4.3 FEI's 2021 Flooding Costs

In November 2021, there were a series of "atmospheric rivers" in southern BC which caused extensive flooding affecting some of FEI's assets and customers.[517] From 2021 to 2022, FEI incurred approximately $3.734 million of incremental O&M expenses, capital costs, and billing credits provided to customers related to this flooding. In 2023, FEI received insurance proceeds of $2.013 million (net of a $1 million deductible), related to its flooding costs. The sum of the unrecovered remaining balance of $0.068 million plus the $1 million deductible totals to $1.068 million and represents FEI's out-of-pocket costs related to flood remediation. FEI requests exogenous

[514] Exhibit B-4, BCUC IR 28.1.
[515] Exhibit B-4, BCUC IR 28.1.1, Table 6.
[516] BCSEA Final Argument, p. 14.
[517] FortisBC Energy Inc. Annual Review for 2023 Delivery Rates Application, p. 151.

factor treatment for the $1.068 million in 2021 flooding costs. This amount exceeds the exogenous factor materiality threshold of $0.500 million.[518] If approved, FEI states it will record the O&M and the cost of service impacts of the $1.068 million in the existing flow-through deferral account in 2024, consistent with the accounting treatment used in the past for other exogenous factors, with recovery in delivery rates in 2025.[519]

*Positions of the Parties*

No interveners provide submissions on this matter.

*Panel Determination*

**The Panel approves exogenous factor treatment for the $1.068 million in 2021 flooding costs for FEI.** The Panel finds that exogenous factor treatment is warranted for these costs as they meet the five exogenous factor treatment criteria as described in Table 2 of Section 2.3 of this decision: these costs were attributable entirely to events outside the control of the utility; they were directly related to the exogenous event and outside the base upon which the rates were originally derived; the impact of the event was unforeseen; the costs were prudently incurred; and they exceed FEI's materiality threshold of $0.500 million.

### 4.4 Supporting Studies

In the Application, FortisBC seeks approval of four updated supporting studies for both FEI and FBC and submits that these studies will support the calculation of FortisBC's revenue requirements for the term of the Rate Framework. These studies update FEI's and FBC's depreciation and net salvage rates, lead/lag days, methodologies for allocating common corporate service costs, and capitalized overhead rates.[520]

The Panel reviews each of the supporting studies in the following sections.

#### 4.4.1 Depreciation Studies

Depreciation Rates and Net Salvage Rates

FortisBC's updates to the depreciation rates and net salvage rates for FEI and FBC are based on the results of updated depreciation studies for FEI (2022 FEI Depreciation Study) and FBC (2022 FBC Depreciation Study) (collectively, 2022 Depreciation Studies).[521] Consistent with the depreciation studies filed along with the Current MRP (2017 Depreciation Studies), FortisBC retained Concentric Advisors ULC (Concentric) to perform a review of depreciation rates and net salvage rates for both FEI and FBC. Concentric prepared the 2022 Depreciation Studies based on FEI's and FBC's plant-in-service balances as at December 31, 2022. Further, as in the 2017 Depreciation Studies, Concentric estimated the depreciation rates for FEI and FBC using the straight-line method and used the Average Life Group method of depreciation,[522] which the BCUC accepted in the Current MRP Decision.[523]

[518] Exhibit B-1-2, pp. C-17 to C-18.
[519] Exhibit B-1-2, p. C-18.
[520] Exhibit B-1-2, p. D-1
[521] Exhibit B-1-2, p. D-2.
[522] Exhibit B-1-2, p. D-2.
[523] Current MRP Decision, p. 136.

FortisBC explains that, consistent with previous depreciation studies, the life and net salvage rates were developed using various statistical methods – such as the Iowa type survivor curves, "goodness of fit" criterion, review of actual retirement activity, operational interviews with FEI and FBC staff, and informed judgment based on Concentric's experience in the gas and electric industries.[524]

FortisBC submits that the adoption of the depreciation rates, as outlined in the 2022 Depreciation Studies, is necessary in order to properly reflect the assets' useful lives and a fair allocation and recovery of depreciation expense between current and future ratepayers.[525]
The implementation of the depreciation and net salvage rates from the 2022 FEI Depreciation Study results in a net increase of aggregate depreciation and net salvage expense of approximately $2.0 million per year. Table 19 below shows this impact.

**Table 19: Impact of Implementing 2022 Depreciation Study Recommendations for FEI ($ millions)[526]**

| | Existing | Recommended | Change |
|---|---|---|---|
| Depreciation | 201.9 | 198.0 | (3.9) |
| Net Salvage | 57.1 | 63.0 | 5.9 |
| CIAC | (7.7) | (7.7) | 0.0 |
| **Total** | **251.3** | **253.3** | **2.0** |

For FBC, implementation of the depreciation and net salvage rates from the 2022 FBC Depreciation Study results in a net increase of aggregate depreciation and net salvage expense of approximately $4.3 million per year. Table 20 below shows this impact.

**Table 20: Impact of Implementing 2022 Depreciation Study Recommendations for FBC ($ millions)[527]**

| | Existing | Recommended | Change |
|---|---|---|---|
| Depreciation | 53.8 | 57.0 | 3.2 |
| Net Salvage | 16.0 | 17.2 | 1.2 |
| CIAC | (4.7) | (4.8) | (0.1) |
| **Total** | **65.3** | **69.6** | **4.3** |

FortisBC explains that the increase in net salvage rates is due to increased net salvage activity for both FEI and FBC, accompanied by higher costs of removal largely attributable to higher inflation along with an increase in third-party requests to relocate and remove existing assets for infrastructure accommodation.[528] Concentric confirms that it is appropriate to increase the net salvage estimates in order to "minimize intergenerational equities" (i.e. ensuring that customers using the asset today also pay for the removal of the asset in the future).[529]

[524] Exhibit B-1-2, p. D-2.
[525] Exhibit B-1-2, p. D-24.
[526] Exhibit B-1-2, Table D2-1 on p. D-3.
[527] Exhibit B-1-2, Table D2-5 on p. D-19.
[528] Exhibit B-4, BCUC IR 41.1, 41.3.
[529] Exhibit B-13, BCUC IR 52.2.

Impact of the Energy Transition on FEI's Assets

FEI states that in preparing the 2022 FEI Depreciation Study, it considered accelerated recovery of depreciation expense for its assets in response to the evolving impacts of the energy transition and climate change legislation. However, it did not implement any such measures for the term of the Rate Framework, considering the uncertainty of climate change legislation and higher rate impacts on customers to recover the accelerated depreciation expense.[530]

For the 2022 FEI Depreciation Study, FEI and Concentric submit that while the possible impacts of the energy transition were considered in relation to FEI's future capital investment and retirement expectations, it was concluded that there is not enough information currently available about the possible impacts of climate change legislation related to the energy transition on FEI's assets.[531] Concentric explains that while there is strong evidence that the future of natural gas may be impacted by climate change legislation, it is currently unknown to what extent this change will impact FEI's energy system, although it could be assumed that large-scale retirement of assets may be required between now and 2050.[532] FEI submits that, as the energy transition evolves, Concentric will continue to monitor any developments in FEI and other North American jurisdictions on the possible impacts of climate change legislation on FEI's assets.[533]

FEI intends to file its next depreciation study between 2027 and 2029 and explains that it does not see any advantages to undertaking a new depreciation study earlier than 2027 because the benefits of obtaining new information related to asset lives between now and 2027 would be outweighed by the cost and time to undertake another study before 2027.[534] For its next depreciation study, FEI indicates that it will ask Concentric to review the applicable legislation concerning the energy transition and the associated impacts on FEI's energy system and its natural gas distribution assets.[535]

Additionally, FEI and Concentric explain that while the use of the Equal Life Group method of depreciation was considered for the 2022 FEI Depreciation Study,[536] Concentric ultimately recommended the continued use of the Average Life Group method based on its review of the *Climate Change Accountability Act.* [537] Further, Concentric supports continued application of the Average Life Group method until more information becomes available on the potential impact of emissions reduction targets on FEI's system. Notwithstanding, Concentric acknowledges that a move to the Equal Life Group method may eventually be required to reduce FEI's risk of stranded assets in the future.[538]

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[530] Exhibit B-1-2, p. D-2.
[531] Exhibit B-4, BCUC IR 39.2; Exhibit B-1, Appendix D2-1, pp. 3-2 to 3-3.
[532] Exhibit B-1, Appendix D2-1, pp. 3-2 to 3-3.
[533] Exhibit B-4, BCUC IR 39.2.
[534] Exhibit B-4, BCUC IR 39.1.
[535] Exhibit B-4, BCUC IR 39.3.
[536] Exhibit B-1, Appendix D2-1, p. 3-1 – Concentric explains that "while the Equal Life Group Procedure provides an enhanced matching of depreciation expense to the consumption of service value, the Straight-Line method, Average Life Group Procedure is a commonly used depreciation calculation that has been widely accepted in jurisdictions throughout North America…"
[537] *BC Climate Change Accountability Act*, retrieved from: https://www.bclaws.gov.bc.ca/civix/document/id/complete/statreg/00_07042_01
[538] Exhibit B-4, BCUC IR 39.9.

In the 2022 FEI Depreciation Study, Concentric states that in response to the energy transition, it is common practice to deal with anticipated large-scale retirements through the introduction of an Economic Planning Horizon within the depreciation rate calculations.[539] Per Concentric, a depreciation study utilizing an Economic Planning Horizon for FEI would model interim retirement activity prior to the expected terminal retirement date for assets and, all else equal, will lead to higher depreciation rates and increased delivery rates for FEI.[540]

Further, Concentric states that while future FEI depreciation studies may require the introduction of an Economic Planning Horizon into the depreciation rate calculations,[541] it cannot comment on the necessity of an Economic Planning Horizon for the next FEI depreciation study at this time, as such a recommendation would depend on the information regarding energy transition legislation available at the time of conducting the depreciation study.[542]

FEI considers that anticipating the early retirement of its assets due to the energy transition is inconsistent with BC's Clean Energy Strategy[543] and will continue to invest in decarbonization measures (such as renewable and low-carbon gases) which support the long-term use of the natural gas system.[544] Furthermore, FEI views gas infrastructure as a critical element of the energy system in BC that, among other things, helps meet peak demand during cold weather events.[545]

### *Positions of the Parties*

BCSEA and MoveUP support approval of FortisBC's updated depreciation and net salvage rates.[546] Other interveners do not explicitly comment on this matter.

BCSEA considers the 2022 Depreciation Studies to be reasonable and submits that while there is uncertainty in the energy transition to warrant an adjustment to FEI's depreciation rates at this time, it recommends that the BCUC direct FEI to examine this topic in the next depreciation study.[547]

Regarding the energy transition, MoveUP supports FEI's view that accelerated depreciation should not be applied as a measure to avoid stranded natural gas assets in the absence of additional analysis and an examination of all feasible solutions.[548]

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[539] Exhibit B-1, Appendix D2-1, p. 3-3.
[540] Exhibit B-4, BCUC IR 39.5, 39.7.
[541] Exhibit B-1, Appendix D2-1, p. 3-4.
[542] Exhibit B-4, BCUC IR 39.6.
[543] BC Clean Energy Strategy (2024), p. 19, retrieved from: https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/electricity-alternative-energy/community-energy-solutions/powering_our_future_-_bcs_clean_energy_strategy_2024.pdf ."BC's gas system will also continue to play an important role for many years to come in order to maintain system resiliency, meet peak energy demand, and provide home heating in colder climates."
[544] Exhibit B-4, BCUC IR 39.3.
[545] Exhibit B-2, BCUC Supplemental Information Request no. 1.
[546] BCSEA Final Argument, p. 26; MoveUP Final Argument, p. 10.
[547] BCSEA Final Argument, p. 26.
[548] MoveUP Final Argument, p. 10.

*Panel Determination*

**The Panel approves the changes to FEI's depreciation rates in the amounts set out in Table D2-3 in Section D2 of the Application and the changes to FEI's net salvage rates in the amounts set out in Table D2-4 in Section D2 of the Application, to be used in the determination of delivery rates for the Rate Framework.**

**The Panel also approves the changes to FBC's depreciation rates in the amounts set out in Table D2-7 in Section D2 of the Application and the changes to FBC's net salvage rates in the amounts set out in Table D2-8 of the Application, to be used in the determination of rates for the Rate Framework.**

The Panel considers that FortisBC has provided sufficient evidence that the updated depreciation rates in the 2022 Depreciation Studies conducted by Concentric reflect the useful lives of its assets and a fair allocation and recovery of depreciation expense between current and future ratepayers. The Panel notes the increase in the average composite net salvage percent rates, leading to an increase in net salvage expense of approximately $5.9 million for FEI and $1.2 million for FBC, which is primarily due to an increase in net salvage activity and increased third-party requests to remove and relocate existing assets. Based on these reasons, the Panel finds the updated net salvage rates to be appropriate for FEI and FBC.

The Panel finds it acceptable for FortisBC to apply the Average Life Group method of depreciation for the 2022 Depreciation Studies. The Panel notes FortisBC's submission that Concentric, based on its review of the *Climate Change Accountability Act,* recommends the continued use of the Average Life Group method until such time more information regarding climate change legislation becomes available – because a change in method now may lead to an unwarranted increase in depreciation rates. While FortisBC's evidence supports the acceptability of the Average Life Group method for the 2022 Depreciation Studies, the Panel echoes Concentric's view that future depreciation studies may require FortisBC to move to the Equal Life Group method depending on the possible impacts of climate change legislation.

FEI submits that at this time, there is no evidence to support shortening the useful lives of its assets due to the energy transition, which would negatively impact customers due to increased depreciation rates. Further, Concentric states that while it considered the possible impacts of climate change legislation in the 2022 FEI Depreciation Study, including the introduction of an Economic Planning Horizon, the future impacts of climate change legislation were not sufficiently studied. While the Panel finds these arguments acceptable for the 2022 FEI Depreciation Study, we agree with BCSEA that these impacts should be examined in more detail in the next depreciation study for FEI. **Therefore, the Panel directs that FEI's next depreciation study include a comprehensive review of the impact of the energy transition on FEI's assets – including, but not limited to, a detailed review of potential risks associated with the applicable climate change legislation on FEI's delivery system and adjustments, if any, to depreciation rates in response to the energy transition.** Additionally, FEI indicates that the next depreciation study would be filed between 2027 and 2029, but not earlier than 2027. We agree that the anticipated timing of the next depreciation study is logical, and **the Panel directs that FEI's next depreciation study be filed no later than December 31, 2029**.

### 4.4.2 Lead-Lag Studies

The objective of the Lead-Lag studies is to provide a measure of the cash working capital needs of utilities.[549] This working capital requirement is the capital provided by investors in the company, over and above investments in plant and intangibles. Cash working capital is required to bridge the gap between the time expenditures are required to provide service and the time revenues are received for that service. These periods are expressed in terms of lead or lag days.[550]

In the Application, FortisBC requests approval of updated lead-lag days supported by the 2023 Lead-Lag Studies.[551] FortisBC explains that the updated lead-lag days will be used for the calculation of cash working capital requirements in the revenue requirements calculations for 2025 and beyond until another lead-lag study is performed.[552] The previous lead-lag study was conducted in 2018 for FEI and FBC. FortisBC used the same methodology previously reviewed and approved in FEI's and FBC's 2018 studies for the 2023 Lead-Lag Studies. FortisBC states this methodology also generally reflects the approach used by utilities in other jurisdictions.[553]

FEI's 2023 Lead-Lag Study used 2022 data, the most recent full year of actual data at the time. The study results in a 5.1 day net lag, which is the same as the net lag of 5.1 days from the 2018 Lead-Lag Study. The difference of 0.0 days is the result of a 1.2 day decrease in expenditure lead days, offset by a 1.2 day decrease in revenue lag days. The decrease in expenditure lead days is primarily attributable to a shorter payment lead for carbon tax and provincial sales tax remittances as well as a shorter service lead for O&M expenditures. The decrease in revenue lag days is primarily attributable to a decrease in collection lag for residential customers. [554]

FBC's 2023 Lead-Lag Study also used 2022 actual data to perform the analysis. The study results in a 12.7 day net lag, which is an increase from a net lag of 9.6 days from the 2018 Lead-Lag Study.[555] The difference of 3.1 days is the result of a 4.7 day decrease in expenditure lead days offset by a 1.6 day decrease in revenue lag days. The decrease in expenditure lead days is primarily due to automation of the power purchase payment process, resulting in a shorter payment lead. This was offset by a decrease in revenue lag days primarily due to a decrease in service lag days for residential customers due to an increase in customers billed monthly versus bi-monthly.[556] If the updated lead-lag days had applied, the impact on FBC's 2024 working capital requirements would have been an increase of approximately $2.450 million.[557]

#### *Positions of the Parties*

BCSEA is the only intervener to comment and takes no issue with FortisBC's proposed updated lead-lag days as determined by the 2023 Lead-Lag Studies.[558]

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[549] Exhibit B-1, Appendix D3-1, p. 1.
[550] Exhibit B-1-2, p. D-25.
[551] Exhibit B-1-2, p. D-25.
[552] Exhibit B-1-2, p. D-25.
[553] Exhibit B-1, Appendix D3-1, p. 3.
[554] Exhibit B-1-2, p. D-26.
[555] Exhibit B-1-2, p. D-28.
[556] Exhibit B-1-2, p. D-28.
[557] Exhibit B-1-2, p. D-28.
[558] BCSEA Final Argument, p. 28.

*Panel Determination*

**The Panel approves the proposed Lead-Lag days for FEI as set out in Table D3-1, Section D3.2 of the Application and the Lead-Lag days for FBC as set out in Table D3-2, Section D3.3 of the Application for the Rate Framework.** The Panel acknowledges that the 2023 Lead-Lag Studies take the same approach as the 2018 Lead-Lag Studies and finds that the resulting changes in lead-lag days are reasonable.

### 4.4.3 Corporate Services Study

The corporate services function consists of certain specialized functions that reside in Fortis Inc. (FI) and FortisBC Holdings Inc. (FHI). FI provides corporate service functions for FHI and then FHI passes along a majority of the costs of the activities, along with FHI corporate services, to FEI and FBC.[559] Both methodologies and the nature of the FI and FHI corporate service costs have been reviewed and endorsed by KPMG in the 2023 Corporate Service Cost Study.[560]
The changes included in the 2023 Corporate Service Cost Study as compared to the 2018 study are as follows:

- FI has removed the position of Executive Vice President - Western Utility Operations, the costs of which were fully allocated to FEI and FBC (via FHI) and FortisAlberta Inc. As noted in the 2018 Corporate Service Cost Study, the 2018 Forecast amount for this charge was $0.4 million allocated to FHI.[561]

- Aitken Creek Gas Storage Facility was sold to a subsidiary of Enbridge Inc. on November 1, 2023. This resulted in a decrease to the amount of corporate service costs allocated to FHI by FI because the size of the FHI group became smaller in comparison to the overall FI entity. It also resulted in an increase to the total allocation of corporate service costs to FEI and FBC by FHI because there are fewer entities in the FHI group to allocate its eligible costs to.[562] This divestiture is expected to result in the reallocation of approximately $360,261 in costs to FEI and $105,303 in costs to FBC.[563]

FortisBC states that while there have been changes from the 2018 Corporate Services Study, the general process, nature of eligible corporate service costs, and allocation methodology of corporate services from FI and FHI are generally consistent. FortisBC will continue to rely on these corporate services during the term of the Rate Framework, using the same cost allocation methodology as supported by the 2023 Corporate Services Study.[564]

In the Application, and consistent with the Current MRP, FortisBC seeks approval of the allocation methodology, rather than approval of the forecast of corporate service costs. FortisBC submits the allocation methodologies include a formula that is based on total assets, excluding goodwill, and controllable operating expenses for FI corporate services, and the use of a Massachusetts Formula for FHI corporate service allocations. The actual costs and allocation percentages will vary each year of the Rate Framework term depending on the size of the eligible corporate cost pool at FI and FHI, as well as the relative size of the FI and FHI allocators.[565]

[559] Exhibit B-1-2, p. D-30.
[560] Exhibit B-1-2, p. A-16.
[561] Exhibit B-1-2, p. D-31.
[562] Exhibit B-1-2, p. D-31.
[563] Exhibit B-1, Appendix D4-1, p. 24.
[564] Exhibit B-1-2, pp. D-31 to D-32.
[565] Exhibit B-1-2, p. A-16.

*Positions of the Parties*

BCSEA is the only intervener to comment and takes no issue with FortisBC's proposed methodologies for allocating common corporate service costs from FI and FHI to FEI.[566]

*Panel Determination*

**The Panel approves FortisBC's proposed allocation methodologies for common corporate service costs from FI and FHI to FEI and FBC for the Rate Framework.** The changes reflected in the 2023 Corporate Services Study since the 2018 Corporate Services Study appropriately reflect changes to the Fortis group entities that receive shared services and costs. Further, the Panel accepts that the allocation methodology has been reviewed and endorsed by KPMG without raising any issues.

### 4.4.4 Capitalized Overhead Studies

The overhead capitalization process transfers O&M costs that are related to, but not directly identified with specific capital activities, to capital. Capitalized overhead rates reflect a reasonable basis for capitalization of costs related to capital activities for both FEI and FBC, that have not been directly charged to capital projects.[567] Capitalized overhead rates capture:

- Directly attributable activities that support the construction of multiple capital projects, where the use of a capitalized overhead rate is a more efficient process to allocate these direct costs as compared to direct charging each individual activity to each specific project;[568] and
- Other activities that are not directly attributable to a specific project, such as certain activities performed by human resources, finance, legal and regulatory since these activities are integral in constructing and supporting FEI's and FBC's capital programs.[569]

The capitalized overhead rates determined in the 2023 Capitalized Overhead Studies are assigned to regular capital, which excludes CPCNs and certain other major capital projects. The rationale is that the majority of costs and activities for these types of projects, including incremental external contractor costs, have been charged directly to CPCNs and major projects and therefore do not require a mechanism such as a capitalized overhead rate to allocate additional costs from O&M. Consistent with historical and current practice, the actual amount of overheads capitalized will be recorded at the forecast amount so that there will be no variances in either the capital additions or O&M related to the total amount of capitalized overhead in any given year.[570]

As in 2018, FortisBC engaged KPMG to perform a review of its capitalized overhead methodology. KPMG's 2023 Capitalized Overhead Studies use a similar approach as was undertaken in the capitalized overhead studies prepared in 2018 and approved as part of the Current MRP Decision.[571]

[566] BCSEA Final Argument, p. 28.
[567] Exhibit B-1-2, p. A-17.
[568] Exhibit B-1-2, p. D-41.
[569] Exhibit B-1-2, p. D-41.
[570] Exhibit B-1-2, p. D-42.
[571] Exhibit B-1-2, p. D-42.

For the term of the Rate Framework, for FEI, FortisBC proposes a capitalized overhead rate of 14.5 percent of gross O&M, net of biomethane transferred to the Biomethane Variance Account.[572] This represents a 1.5 percent decrease over the previously approved capitalized overhead rate of 16 percent under the Current MRP. The decrease is attributed to process improvements in areas where direct charging mechanisms now capture more of the management and staff time that is spent on capital activity and greater stability in the rate of capital spending over time.[573] The estimated impact on FEI's delivery rates from the proposed change in the capitalized overhead rate is approximately 0.35 percent for every 1.0 percent change in the capitalized overhead rate. Therefore, all else being equal, decreasing the capitalized overhead rate from 16 percent to 14.5 percent would increase customer delivery rates by approximately 0.52 percent in the year of implementation (i.e. 2025).[574]

For FBC, FortisBC proposes a 15.5 percent capitalization rate, which is a 0.5 percent increase from the previously approved capitalized overhead rate of 15 percent under the Current MRP.[575] This increase in the capitalized overhead rate aligns with the increase in FBC's capital activity. In 2018, budgeted capital expenditures were approximately 51 percent of the gross O&M and direct capital expenditures, whereas in 2023, budgeted capital expenditures were approximately 56 percent of gross O&M and direct capital expenditures.[576] The estimated impact on FBC's rates is approximately 0.17 percent for every 1 percent change in the capitalized overhead rate. Therefore, all else equal, increasing the capitalized overhead rate from 15 percent to 15.5 percent would decrease customer rates by approximately 0.09 percent in the year of implementation (i.e. 2025).[577]

### *Positions of the Parties*

BCSEA is the only intervener to comment and takes no issue with FortisBC's proposals for capitalized overhead rates.[578]

### *Panel Determination*

**The Panel approves FEI's proposed capitalized overhead rate of 14.5 percent to be used in the determination of delivery rates for the Rate Framework. The Panel approves FBC's proposed capitalized overhead rate of 15.5 percent to be used in the determination of rates for the Rate Framework.** The Panel acknowledges that the 2023 Capitalized Overhead Studies take the same approach as the 2018 Capitalized Overhead Studies, with the resulting changes being reasonably explained in the Application.

## 4.5 Letters of Comment

The BCUC received two letters of comment in this proceeding. In May 2024, MoveUP filed a letter of comment requesting an opportunity to comment on the issues raised in the BCUC's letter requesting FortisBC to provide supplemental information relating to the impacts of the energy transition and climate change on the proposed

[572] Exhibit B-1-2, p. A-17.
[573] Exhibit B-1, Appendix D5-1, p. 33.
[574] Exhibit B-1-2, p. A-17.
[575] Exhibit B-1-2, p. A-17.
[576] Exhibit B-1, Appendix D5-2, p. 35.
[577] Exhibit B-1-2, p. A-17.
[578] BCSEA Final Argument, p. 28.

Rate Framework.[579] In November 2024, Mr. Brian Messer filed a letter of comment concerning FEI's practices of contractor use and its implications within the context of the Rate Framework.[580]

### *Positions of the Parties*

FortisBC states that it has addressed MoveUP's letter of comment in its Final Argument, which sets out why the proposed Rate Framework enables FEI and FBC to navigate the energy transition over the next three years.[581] FortisBC responded to the concerns raised in Mr. Messer's letter of comment in its Final Argument.[582]

Interveners either did not comment or had no opinion on the two letters of comment.[583]

### *Panel Discussion*

The Panel views that the regulatory process in this proceeding including two rounds of intervener IRs and final arguments provided sufficient opportunity for MoveUP to raise and explore its concerns related to energy transition as indicated in its letter of comment.[584] The Panel also views that FortisBC's response to Mr. Messer's letter of comment is reasonable. The Panel finds that the Rate Framework is adequate to incentivize FortisBC to control costs and that the approved SQIs enable the BCUC to monitor service quality.

## 5.0 Summary of Panel Determinations on FortisBC's Proposals

For the convenience of readers, Table 21 below summarizes the Panel's determinations on the various key components of the Rate Framework, as well as other approvals for the term of the Rate Framework, as compared to FortisBC's proposals. This table is not intended to capture every nuance nor the exact wording of the Panel discussions and determinations in this decision and readers are advised to read the decision. As with Appendix C to this decision, in the event of any difference between the determinations in this summary and those in the body of this decision, the wording in this decision prevails.

**Table 21: Summary of Panel Determinations on FortisBC's Proposals**

| Component | FortisBC Proposal | Panel Determination | Decision Section |
|---|---|---|---|
| **Earnings sharing mechanism** | A symmetrical 50 percent sharing between customers and FEI's and FBC's shareholders, if FortisBC's achieved return on equity is above or below the allowed return on equity | | 2.3 |
| **Off-ramp** | A plan off-ramp to be triggered if earnings in any one year vary from the allowed return on equity by more than +/- 150 basis points (post sharing) for FEI and FBC | | 2.3 |
| **Exogenous factor criteria** | Exogenous factor treatment subject to BCUC approval for events that are non-controllable and unforeseeable in nature and that meet five criteria | | 2.3 |

[579] Exhibit D-1, MoveUP Letter of Comment.
[580] Exhibit D-2, Mr. Messer Letter of Comment.
[581] FortisBC Final Argument, p. 179.
[582] FortisBC Final Argument, pp. 179–181.
[583] BCSEA Final Argument, p. 28.
[584] Orders G-165-24, G-255-24.

| | | | |
|---|---|---|---|
| **Exogenous factor materiality threshold** | A materiality threshold of $500,000 for FEI and $150,000 for FBC | | 2.3 |
| **CPCN threshold** | A CPCN threshold of $15 million for FEI and $20 million for FBC | | 2.3 |
| **Flow-through treatment for various items** | Continuation of flow-through treatment for items treated as flow-through under the Current MRP, with select changes. See Sections 2.3 and 3.1.1 for the changes. | | 2.3, 3.1.1 |
| **Flow-through deferral account** | Use of the non-rate base flow-through deferral account, attracting a weighted average cost of capital return | | 2.3 |
| **Forecast O&M expenses** | Continuation of forecast treatment for items treated as forecast under the Current MRP, with select changes. See Sections 2.3 and 3.1.1 for the changes. | | 2.3, 3.1.1 |
| **Efficiency carryover mechanism** | Removal of the efficiency carryover mechanism | | 2.3 |
| **Index-based components** | The formula for FEI's and FBC's Formula O&M is as follows:<br>$OM_t = UCOM_{t-1} \times [(1 + (I\ Factor - X\ Factor)] \times AC_t + True\text{-}up_{t-2}$<br><br>The formula for FEI's Growth capital is as follows:<br>$GC_t = UCGC_{t-1} \times [1 + (I\ Factor - X\ Factor)] \times GCA_t + True\text{-}up_{t-2}$ | | 3.1 |
| **2024 Base O&M** | FEI: a 2024 Base O&M of $302.127 million<br><br>FBC: a 2024 Base O&M of $76.269 million | FEI: a 2024 Base O&M of $299.127 million<br><br>FBC: a 2024 Base O&M of $75.269 million | 3.1.1 |
| **FEI's Base unit cost growth capital** | A 2024 Base unit cost growth capital of $9,300 | | 3.1.2 |
| **I-Factor** | A weighted average of AWE:BC for labour costs and CPI:BC for other costs, with a fixed labour/non-labour weighting of 50/50 for FEI and 60/40 for FBC | | 3.1.3 |
| **Growth factor** | Formula for O&M:<br>Uses the forecast average number of customers for FEI and FBC with no discount to the growth factor<br><br>Formula for FEI Growth Capital:<br>Uses the gross customer additions for FEI with no discount to the growth factor | | 3.1.4 |

| | | | |
|---|---|---|---|
| **X-Factor** | FEI: An X-Factor of 0.38 percent, consisting of 0.28 percent O&M partial factor productivity and 0.10 percent stretch factor<br><br>FBC: An X-Factor of 0.20 percent, consisting of 0.20 percent O&M partial factor productivity and zero percent stretch factor | FEI: An X-Factor of 0.55 percent, consisting of 0.28 percent industry O&M partial factor productivity and 0.27 percent stretch factor<br><br>FBC: An X-Factor of 0.45 percent, consisting of 0.20 percent industry O&M partial factor productivity and 0.25 percent stretch factor | 3.1.5 |
| **Forecast capital** | FEI: A three-year forecast of FEI's Sustainment and Other capital<br><br>FBC: A three-year forecast of FBC's Growth, Sustainment, and Other capital | | 3.2 |
| **Service quality indicators** | FEI: 17 SQIs (8 SQIs with a target benchmark and 9 informational indicators)<br><br>FBC: 12 SQIs (7 SQIs with a target benchmark and 5 informational measures) | FEI: 17 SQIs as proposed, plus 1 additional informational indicator relating to the energy transition<br><br>FBC: 12 SQIs as proposed | 3.4 |
| **Annual Review process** | Retain the Annual Review process but with a more defined scope | Retain the Annual Review process and approve FEI's and FBC's demand/load forecasting methodologies, but with no other change in scope | 3.5 |
| **Term** | A three-year term from 2025 to 2027, with the potential to extend beyond 2027 | A three-year term from 2025 to 2027 | 3.6 |
| **FEI's CGIF** | Continue the CGIF rate rider, with increased scope of investments | Continue the CGIF rate rider, with no change in scope of investments | 4.1 |
| **FEI's CMAE** | Updated CMAE allocation, budget application process, and new budget template | Approve the updated CMAE allocation and budget application process, but retain the old budget template | 4.2 |
| **Depreciation studies** | FEI: depreciation rates in the amounts set out in Table D2-3 in Section D2 of the Application and net salvage rates in the amounts set out in Table D2-4 in Section D2 of the Application<br><br>FBC: depreciation rates in the amounts set out in Table D2-7 in Section D2 of the Application and net salvage rates in the amounts set out in Table D2-8 of the Application | | 4.4.1 |

| | | |
|---|---|---|
| **Lead-Lag studies** | FEI: Lead-Lag days as set out in Table D3-1, Section D3.2 of the Application<br><br>FBC: Lead-Lag days as set out in Table D3-2, Section D3.3 of the Application | 4.4.2 |
| **Corporate services study** | Allocation methodologies for common corporate service costs from Fortis Inc. and FortisBC Holdings Inc. to FEI and FBC | 4.4.3 |
| **Capitalized overhead studies** | A capitalized overhead rate of 14.5 percent for FEI and 15.5 percent for FBC | 4.4.4 |

**DATED** at the City of Vancouver, in the Province of British Columbia, this 18th day of March 2025.

*Electronically signed by Tom Loski*

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T. A. Loski
Panel Chair/Commissioner

*Electronically signed by Anna Fung*

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A. K. Fung, KC
Commissioner

*Electronically signed by Wendy Royle*

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W. E. Royle
Commissioner

FortisBC Energy Inc. and FortisBC Inc.
2025 to 2027 Rate Setting Framework

## LIST OF TERMS AND ACRONYMS

| Term/Acronym | Description |
|---|---|
| 2017 Depreciation Studies | Collective of FEI's and FBC's deprecation rates conducted in 2017 as approved by the BCUC in the Current MRP Decision |
| 2020 CGIF | FortisBC's first Clean Growth Innovation Fund as approved by the BCUC in the Current MRP Decision |
| 2022 Depreciation Studies | Collective of the 2022 FEI Depreciation Study and FBC Depreciation Study |
| 2022 FBC Depreciation Study | 2022 review of FBC's depreciation rates filed in Appendix D2-2 of the Application |
| 2022 FEI Depreciation Study | 2022 review of FEI's depreciation rates filed in Appendix D2-1 of the Application |
| 2022 FEI Long-Term Gas Resource Plan Decision | Decision and Order G-78-24 dated March 20, 2024 for FortisBC Energy Inc. 2022 Long-Term Gas Resource Plan |
| 2025 CGIF | FortisBC's Clean Growth Innovation Fund for the Rate Framework |
| AC | Average number of customers |
| AMI | Advanced Metering Infrastructure |
| Annual Reviews | Annual review process for FEI's Delivery Rates and FBC's Rates |
| Application | Collective of the Original Application (Exhibit B-1), Errata (Exhibit B-1-2), and Supplemental Information (Exhibit B-2) |
| AWE:BC | Statistics Canada's Average Weekly Earnings for BC |
| BC | British Columbia |
| BCMEU | British Columbia Municipal Electric Utilities |
| BCOAPO | British Columbia Old Age Pensioners' Organization et al. |
| BCSEA | British Columbia Sustainable Energy Association |
| BCUC | British Columbia Utilities Commission |
| CCRA | Commodity Cost Reconciliation Account |
| CGIF | Clean Growth Innovation Fund |
| CMAE | Core market administration expense |
| CO2e | Carbon dioxide-equivalent |
| Concentric | Concentric Advisors ULC |
| CPCN | Certificate of Public Convenience and Necessity |
| CPI:BC | Statistics Canada's Consumer Price Index for BC |
| Current MRP | FEI and FBC multi-year rate plan for the years 2020 through 2024 approved by the Current MRP Decision |

| Term/Acronym | Description |
|---|---|
| Current MRP Decision | Decision and Orders G-165-20 and G-166-20 dated June 22, 2020 for FortisBC Energy Inc. and FortisBC Inc. Application for Approval of a Multi-Year Rate Plan for the Years 2020 through 2024 |
| Errata | Exhibit B-1-2 filed September 13, 2024, updated application (excluding appendices) to include corrections made to FortisBC's Original Application |
| FBC | FortisBC Inc. |
| FBC 2024 Annual Review Decision | Decision and G-340-23 dated December 12, 2023 for FortisBC Inc. 2024 Annual Review of Rates |
| FEI | FortisBC Energy Inc. |
| FEI 2024 Annual Review Decision | Decision and Order G-334-23 dated December 7, 2023 for FEI 2024 Annual Review of Delivery Rates |
| FHI | FortisBC Holdings Inc. |
| FI | Fortis Inc. |
| Forecast O&M | The portion of FEI's and FBC's operations and maintenance expenses which are subject to forecast |
| Formula O&M | The portion of FEI's and FBC's operations and maintenance expenses which are subject to a formulaic approach |
| FortisBC | Collectively, FortisBC Energy (FEI) and FortisBC Inc. (FBC) |
| GCA | Gross customer additions |
| GHG | Greenhouse gas |
| GHGRS | *Greenhouse Gas Reduction Standard* |
| ICG | Industrial Customers Group |
| I-Factor | Inflation factor |
| IR | Information request |
| MCRA | Midstream Cost Reconciliation Account |
| MoveUP | Movement of United Professionals |
| MRP | Multi-year rate-making plan |
| MRS | Mandatory Reliability Standards |
| MW | Megawatt |
| O&M | Operations and maintenance |
| O&M PFP | Industry operations and maintenance partial factor productivity |
| Original Application | Exhibit B-1 filed April 8, 2024, FEI and FBC rate-setting framework application for 2025 to 2027 |
| PBR | Performance-based rate |
| PFP | Partial factor productivity |
| PIM | Performance incentive mechanism |
| Rate Framework | FEI and FBC performance-based rate-setting framework for 2025 to 2027 |
| RCIA | Residential Consumer Intervener Association |
| RNG | Renewable natural gas |

| Term/Acronym | Description |
|---|---|
| SAIDI | System average interruption duration index |
| SAIFI | System average interruption frequency index |
| SQI | Service quality indicator |
| Supplemental Information | Exhibit B-2 filed May 31, 2024, information relating to the impacts of the energy transition and climate change on FortisBC's performance-based rate-setting framework for 2025 to 2027, as requested by the BCUC |
| TFP | Total Factor Productivity |
| The CEC | Commercial Energy Consumer Association of British Columbia |
| UCA | *Utilities Commission Act* |
| UCGC | Unit cost growth capital |
| UCOM | Unit cost operations and maintenance expense |
| US | United States |
| VIEU | Vertically integrated electric utility |
| X-Factor | Productivity factor |

FortisBC Energy Inc. and FortisBC Inc.
2025 to 2027 Rate Setting Framework

## EXHIBIT LIST

| Exhibit No. | Description |
|---|---|
| ***COMMISSION DOCUMENTS*** | |
| A-1 | April 18, 2024 – Panel Appointment for the review of the FEI and FBC 2025 to 2027 Rate Setting Framework Application |
| A-2 | May 2, 2024 – BCUC request for Supplemental Information |
| A-3 | June 18, 2024 – BCUC Order G-165-24 establishing a regulatory timetable |
| A-4 | July 24, 2024 – BCUC Information Request No. 1 to FortisBC |
| A-5 | July 26, 2024 – BCUC reply to Air Products intervener registration |
| A-6 | September 27, 2024 – BCUC Order G-255-24 amending the regulatory timetable |
| A-7 | October 7, 2024 – BCUC Information Request No. 2 to FortisBC |
| A-8 | November 21, 2024 – Panel Information Request No. 1 to FortisBC |
| A-9 | November 21, 2024 – BCUC request FortisBC address letters of comment in its Final Argument |
| A-10 | November 27, 2024 – BCUC Order G-313-24 FEI Interim Rates |
| A-11 | November 27, 2024 – BCUC Order G-314-24 FBC Interim Rates |
| A-12 | December 9, 2024 – BCUC response to BCOAPO extension request |
| ***APPLICANT DOCUMENTS*** | |
| B-1 | April 8, 2024 – **FORTISBC ENERGY INC. (FEI) AND FORTISBC INC. (FBC) (COLLECTIVELY FORTISBC) –** Application for Approval of a Rate Setting Framework for 2025 through 2027 |
| B-1-1 | September 6, 2024 – FortisBC submitting errata to the application |

| Exhibit No. | Description |
|---|---|
| B-1-2 | September 13, 2024 – FortisBC submitting updated Application to include errata to the application |
| B-2 | May 31, 2024 – FortisBC submitting Supplemental Information |
| B-3 | July 18, 2024 – FortisBC submitting Public Notice confirmation in compliance with Order G-164-24 |
| B-4 | September 6, 2024 – FortisBC submitting response to BCUC Information Request No. 1 |
| B-5 | September 6, 2024 – FortisBC submitting response to Air Products Information Request No. 1 |
| B-6 | September 6, 2024 – FortisBC submitting response to BCMEU Information Request No. 1 |
| B-7 | September 6, 2024 – FortisBC submitting response to BCOAPO Information Request No. 1 |
| B-8 | September 6, 2024 – FortisBC submitting response to BCSEA Information Request No. 1 |
| B-9 | September 6, 2024 – FortisBC submitting response to CEC Information Request No. 1 |
| B-10 | September 6, 2024 – FortisBC submitting response to ICG Information Request No. 1 |
| B-11 | September 6, 2024 – FortisBC submitting response to MoveUP Information Request No. 1 |
| B-12 | September 6, 2024 – FortisBC submitting response to RCIA Information Request No. 1 |
| B-13 | November 5, 2024 – FortisBC submitting response to BCUC Information Request No. 2 |
| B-14 | November 5, 2024 – FortisBC submitting response to BCOAPO Information Request No. 2 |
| B-15 | November 5, 2024 – FortisBC submitting response to BCSEA Information Request No. 2 |
| B-16 | November 5, 2024 – FortisBC submitting response to CEC Information Request No. 2 |
| B-17 | November 5, 2024 – FortisBC submitting response to ICG Information Request No. 2 |
| B-18 | November 5, 2024 – FortisBC submitting response to MoveUP Information Request No. 2 |
| B-19 | **PUBLIC** - November 5, 2024 – FortisBC submitting response to RCIA Information Request No. 2 |
| B-19-1 | **CONFIDENTIAL** - November 5, 2024 – FortisBC submitting confidential response to RCIA Information Request No. 2 |
| B-20 | November 5, 2024 – FBC submitting request for approval of 2025 rates on an interim basis |

| Exhibit No. | Description |
|---|---|
| B-21 | November 5, 2024 – FEI C submitting request for approval of 2025 delivery rates on an interim basis |
| B-22 | November 26, 2024 – FortisBC submitting response to Panel Information Request No. 1 |
| *INTERVENER DOCUMENTS* | |
| C1-1 | June 19, 2024 – **BC SUSTAINABLE ENERGY ASSOCIATION (BCSEA) –** Request to intervene by Thomas Hackney |
| C1-2 | July 31, 2024 – BCSEA submitting Information Request No. 1 to FortisBC |
| C1-3 | September 12, 2024 – BCSEA submitting suggestion regarding application errata's |
| C1-4 | September 23, 2024 – BCSEA submission regarding intent to file evidence |
| C1-5 | October 15, 2024 – BCSEA submitting Information Request No. 2 to FortisBC |
| C2-1 | June 24, 2024 – **MOVEMENT OF UNITED PROFESSIONALS (MOVEUP) –** Request to intervene by Jim Quail |
| C2-2 | July 25, 2024 – MoveUP Information Request No. 1 to FortisBC |
| C2-3 | September 26, 2024 – MoveUP Information Request No. 2 to FortisBC |
| C3-1 | June 28, 2024 – **RESIDENTIAL CONSUMER INTERVENER ASSOCIATION (RCIA)** – Request to intervene by Rory MacGregor |
| C3-2 | July 31, 2024 – RCIA submitting Information Request No. 1 to FortisBC |
| C3-3 | September 20, 2024 – RCIA submission regarding intent to file evidence |
| C3-4 | October 15, 2024 – RCIA submitting Information Request No. 2 to FortisBC |
| C4-1 | July 17, 2024 – **AIR PRODUCTS (AIR PRODUCTS) –** Request to intervene by Miles Heller |
| C4-2 | July 31, 2024 – Air Products submitting Information Request No. 1 to FortisBC |
| C4-3 | September 20, 2024 – Air Products submission regarding intent to file evidence |
| C5-1 | July 17, 2024 – **Commercial Energy Consumers Association of British Columbia (CEC)** – Request to intervene by David Craig |

| Exhibit No. | Description |
|---|---|
| C5-2 | July 31, 2024 – CEC submitting Information Request No. 1 to FortisBC |
| C5-3 | September 20, 2024 – CEC submission regarding intent to file evidence |
| C5-4 | October 15, 2024 – CEC submitting Information Request No. 2 to FortisBC |
| C6-1 | July 17, 2024 – **Industrial Customer Group (ICG)** – Request to intervene by Robert Hobbs |
| C6-2 | July 31, 2024 – ICG submitting Information Request No. 1 to FortisBC |
| C6-3 | October 15, 2024 – ICG submitting Information Request No. 2 to FortisBC |
| C7-1 | July 17, 2024 – **British Columbia Old Age Pensioners' Organization et al. (BCOAPO)** – Request to intervene by Irina Mis |
| C7-2 | July 31, 2024 – BCOAPO submitting Information Request No. 1 to FortisBC |
| C7-3 | October 15, 2024 - BCOAPO submitting Information Request No. 2 to FortisBC |
| C7-4 | December 6, 2024 – BCOAPO submitting extension request to file Final Argument |
| C8-1 | July 17, 2024 – **British Columbia Municipal Electric Utilities (BCMEU)** – Request to intervene by Scott Spencer |
| C8-2 | July 31, 2024 – BCMEU submitting Information Request No. 1 to FortisBC |

***LETTERS OF COMMENT***

| | |
|---|---|
| D-1 | May 22, 2024 – **MOVEMENT OF UNITED PROFESSIONALS (MOVEUP) –** Letter of Comment |
| D-2 | November 13, 2024 – **MESSER, B. (MESSER)** – Letter of Comment |

FortisBC Energy Inc. and FortisBC Inc.
2025 to 2027 Rate Setting Framework

## SUMMARY OF DETERMINATIONS AND DIRECTIVES

This summary is provided for the convenience of readers. In the event of any difference between the determinations and directives in this summary and those in the body of the decision, the wording in the decision shall prevail.

| Determination/Directive | Page |
|---|---|
| The Panel finds that the Current MRP has been a successful mechanism for setting FEI's delivery rates and FBC's rates from 2020 to 2024. | 6 |
| The Panel finds that a multi-year PBR framework continues to be an appropriate model for setting FEI's delivery rates and FBC's rates in the near-term. | 14 |
| The Panel approves the Rate Framework as a whole for the term as set out in Section 3.6 of this decision, subject to the determinations on individual components of the Rate Framework in Sections 2.3 and 3.0 of this decision. | 14 |
| The Panel approves the continuation of the approach used in the Current MRP to the Rate Framework for the components in Table 2 above. This includes the approval of flow-through treatment for the items listed in Table C4-7 in Section C4.13.2 of the Application, reflecting the Panel's determinations in this section and in Section 3.1.1 of this decision. | 18 |
| The Panel approves the removal of the efficiency carryover mechanism in the Rate Framework. | 18 |
| The Panel approves the treatment of FBC's triennial MRS audit costs as Forecast (flow-through) O&M, with variances between forecast and actual MRS audit costs recorded in the flow-through deferral account in the Rate Framework. | 18 |
| The Panel approves the continuation of an index-based approach to FEI's and FBC's O&M and FEI's Growth capital using the above-noted formulas in the Rate Framework which are consistent with the Current MRP formulas. | 20 |
| The Panel approves for FEI and FBC, a 2024 Base O&M per customer which corresponds to a 2024 Base O&M of $299.127 million for FEI and $75.269 million for FBC, reflecting a denial of $3.000 million in funding for FEI's and $1.000 million in funding for FBC's 2024 Base O&M, respectively. FortisBC is directed to file the revised 2024 Base O&M per customer for each of FEI and FBC in a compliance filing by April 17, 2025. [*Footnote omitted*] | 29 |

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|---|---|
| As such, FEI is approved to do the following:<br>• Add $0.576 million to its 2024 Base O&M to adjust for the one-time credit received in FEI's 2023 Actual O&M related to the 2021 flooding and remediation exogenous factor event;<br>• Remove $19.783 million of O&M costs from its 2024 Base O&M that will be impacted by its AMI project and reclassify the related costs to Forecast (flow-through) O&M; and<br>• Add $0.300 million and $0.900 million of O&M costs to its 2024 Base O&M for the Inland Gas Upgrade and Coastal Transmission System Transmission Integrity Management Capabilities projects, respectively, and correspondingly remove these costs from flow-through treatment. | 29 |
| FBC is approved to add $0.585 million to its 2024 Base O&M to incorporate the ongoing O&M costs associated with MRS Assessment Report 13, as requested. | 29 |
| The Panel finds that $3.00 million for FEI and $1.00 million for FBC are not reasonably justified to be recovered from ratepayers over the term of the Rate Framework and the 2024 Base O&M for the utilities should be reduced by their respective amounts. | 30 |
| The Panel approves FEI's proposed Base 2024 unit cost growth capital of $9,300 per gross customer addition. | 32 |
| The Panel approves an I-Factor including a fixed labour weighting of 50 percent and fixed non-labour weighting of 50 percent for FEI. The Panel also approves an I-Factor including a fixed labour weighting of 60 percent and fixed non-labour weighting of 40 percent for FBC. | 35 |
| The Panel approves the use of the forecast average number of customers, with a true-up to actual when available, as the basis of the growth factor for FEI's and FBC's O&M indexing formulas. | 38 |
| The Panel approves the use of the growth factor without any discount for FEI's and FBC's O&M indexing formulas. | 38 |
| The Panel approves the use of forecast gross customer additions, with a true-up to actual when available, as the basis of the growth factor for FEI's Growth capital formula. | 40 |
| The Panel finds it appropriate to apply a productivity factor (X-Factor) in the Rate Framework, composed of an industry O&M partial factor productivity value and a stretch factor. | 45 |

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|---|---|
| The Panel approves an X-Factor of 0.55 percent for FEI and 0.45 percent for FBC, to be used in the respective indexing formulas. The approved X-Factor for FEI incorporates an industry O&M partial factor productivity value of 0.28 percent and a stretch factor of 0.27 percent, while the X-Factor for FBC incorporates an industry O&M partial factor productivity value of 0.20 percent and a stretch factor of 0.25 percent. | 46 |
| The Panel accepts the use of the industry O&M partial factor productivity values of 0.28 percent for FEI and 0.20 percent for FBC as supported by the evidence of Dr. Kaufmann. | 46 |
| The Panel finds it just and reasonable to use a stretch factor of 0.27 percent for FEI and 0.25 percent for FBC. | 47 |
| The Panel approves FEI's three-year capital forecasts for gross Sustainment and Other capital expenditures for 2025 to 2027, as set out in Tables 9 and 10 above, to be incorporated in FEI's delivery rates. | 49 |
| The Panel directs FEI to address hydrogen integration in its next rates application after the conclusion of the Rate Framework. | 49 |
| The Panel approves FBC's three-year capital forecasts for gross Growth, Sustainment, and Other capital expenditures for 2025 to 2027, as set out in Tables 12, 13, and 15 to be incorporated in FBC's rates. | 54 |
| The Panel approves the proposed forecast methodology for Late Payment Charges for both FEI and FBC, consistent with the methodology used in 2023 and 2024. | 56 |
| The Panel approves FEI's proposed service quality indicators in Table 16 above. | 60 |
| The Panel approves the introduction of the four energy transition indicators to the suite of service quality indicators for FEI, on an informational basis, as shown in Table 17 above. | 65 |
| For the Renewable and Low Carbon Energy Supply Volume indicator, the Panel directs FEI to also include specific reporting on the mix of renewable and low-carbon gas sources, as well as the percentage of these sources in its total gas supply, in each Annual Review. | 65 |
| Finally, the Panel directs FEI to include an informational indicator for Scope 3 emissions as part of its energy transition informational indicators. | 66 |
| The Panel approves FBC's proposed service quality indicators in Table 18 above. | 68 |

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| The Panel approves the continuation of the Annual Reviews, as well as the methods set out in Section C4.2 of the Application used to forecast demand and load each year for FEI and FBC. However, except for the demand/load forecast methods for the Rate Framework, the Panel denies the requested changes to the scope of the Annual Reviews. | 73 |
| The Panel approves a three-year term from 2025 to 2027 for the Rate Framework for both FEI and FBC. | 77 |
| In its next rates application for the period beginning January 1, 2028, the Panel provides the following directions to FortisBC:<br>• For FEI and FBC, evaluate the merits of a price cap model that takes a top-down approach to rate-setting, such that the customer's rate is the starting point as opposed to the end product;<br>• For FEI, evaluate alternate rate frameworks based on a jurisdictional review or other research that begin with an optimal gas delivery price as the starting point;<br>• Evaluate whether such a new common rates plan could reasonably be implemented for both FEI and FBC given potentially different impacts of the energy transition on their operations, or whether the next rates plan would merit separate rate frameworks for each of the two utilities; and<br>• For FEI and FBC, evaluate targeted incentives that may be appropriate to introduce to further incent FEI's and FBC's energy transition work. | 78 |
| The Panel finds that the 2020 CGIF has performed well over the Current MRP term and approves the continuation of the 2025 CGIF subject to the determinations below. | 82 |
| The Panel directs FEI in its next rates application to (i) provide a comprehensive report of the utility of the CGIF in regard to its stated objectives; (ii) evaluate the need for continuation of the CGIF; and (iii) evaluate alternate mechanisms that might address these objectives including a review of any relevant mechanics in other Canadian jurisdictions. | 82 |

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| The Panel approves FEI to do the following for the 2020 CGIF and the 2025 CGIF for the Rate Framework:<br>• To return the ending balance in the 2020 CGIF deferral account to customers through amortization of the balance over one year, beginning January 1, 2025;<br>• To continue to collect a 2025 CGIF rate rider amount of $0.40 per month from all customers during the term of the Rate Framework; and<br>• To establish a non-rate base 2025 CGIF deferral account, attracting a weighted average cost of capital return, to record the funding collected through the 2025 CGIF rate rider less innovation expenditures; and<br>• To return any residual balance in the 2025 CGIF deferral account to customers at the end of the term of the Rate Framework through a disposal mechanism subject to approval by the BCUC. | 82–83 |
| However, the Panel denies FEI's proposed enhancements to the 2025 CGIF funding scope and directs FEI to continue using the funding scope from the 2020 CGIF for its 2025 CGIF. | 83 |
| The Panel approves FEI's proposal to continue to treat CMAE as part of the commodity cost of gas for the Rate Framework. | 85 |
| The Panel approves for the Rate Framework, FEI's proposed new CMAE allocation of 25 percent to the CCRA and 75 percent to the MCRA and to record variances between forecast and actual using the same allocation. | 85 |
| The Panel approves FEI's proposal to submit the CMAE budget for approval, as well as review of prior year's forecast to actuals, as a separate application at or near the same time as the Q3 Gas Cost Report and to remove this from the Annual Reviews for the Rate Framework. | 85 |
| However, the Panel denies FEI's proposed new template for the CMAE budget and directs FEI to keep the current cost categories in the BCUC Template for CMAE Budget Application, which is the format prescribed in Order G-23-15, Appendix B. | 85 |
| The Panel approves exogenous factor treatment for the $1.068 million in 2021 flooding costs for FEI. | 86 |
| The Panel approves the changes to FEI's depreciation rates in the amounts set out in Table D2-3 in Section D2 of the Application and the changes to FEI's net salvage rates in the amounts set out in Table D2-4 in Section D2 of the Application, to be used in the determination of delivery rates for the Rate Framework. | 90 |

| Determination/Directive | Page |
|---|---|
| The Panel also approves the changes to FBC's depreciation rates in the amounts set out in Table D2-7 in Section D2 of the Application and the changes to FBC's net salvage rates in the amounts set out in Table D2-8 of the Application, to be used in the determination of rates for the Rate Framework. | 90 |
| Therefore, the Panel directs that FEI's next depreciation study include a comprehensive review of the impact of the energy transition on FEI's assets – including, but not limited to, a detailed review of potential risks associated with the applicable climate change legislation on FEI's delivery system and adjustments, if any, to depreciation rates in response to the energy transition. | 90 |
| The Panel directs that FEI's next depreciation study be filed no later than December 31, 2029. | 90 |
| The Panel approves the proposed Lead-Lag days for FEI as set out in Table D3-1, Section D3.2 of the Application and the Lead-Lag days for FBC as set out in Table D3-2, Section D3.3 of the Application for the Rate Framework. | 92 |
| The Panel approves FortisBC's proposed allocation methodologies for common corporate service costs from FI and FHI to FEI and FBC for the Rate Framework. | 93 |
| The Panel approves FEI's proposed capitalized overhead rate of 14.5 percent to be used in the determination of delivery rates for the Rate Framework. The Panel approves FBC's proposed capitalized overhead rate of 15.5 percent to be used in the determination of rates for the Rate Framework. | 94 |