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**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER G-23-13**

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

and

An Application by FortisBC Inc.  
for Approval to Establish Deferral Accounts

**BEFORE:** D.A. Cote, Panel Chair/Commissioner  
N.E. MacMurchy, Commissioner February 8, 2013

**O R D E R**

**WHEREAS:**

- A. On December 12, 2012, FortisBC Inc. (FortisBC) applied to the British Columbia Utilities Commission (Commission) for approval to establish six new deferral accounts in which FortisBC proposes to record incremental operating and regulatory costs incurred in F2012 and F2013 (Application);
- B. FortisBC states that consistent with the treatment accorded to deferral accounts under Commission Order G-110-12 concerning FortisBC's 2012-2013 Revenue Requirements Application (2012-2013 RRA), FortisBC proposes to record the costs, including financing costs, in non-rate base deferral accounts, and will apply for recovery of the costs in a future Revenue Requirements application;
- C. FortisBC proposes to assign carrying costs to the requested deferral accounts, pursuant to the Commission Panel's Decision accompanying Order G-110-12. Further, where it is expected that a one-year amortization period will apply, FortisBC proposes to apply a short-term interest rate, otherwise FortisBC proposes to apply its Weighted Average Cost of Debt (WACD) for accounts where the amortization period is proposed to be greater than one year;
- D. The Commission issued two rounds of Information Requests to FortisBC;
- E. The Commission has reviewed the Application and FortisBC responses to the Commission Information Requests, and considers that a determination is required.

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**NOW THEREFORE** as set out in the Reasons for Decision attached as Appendix A, pursuant to sections 59-61 of the *Utilities Commission Act*, the Commission Panel orders as follows:

1. FortisBC is to establish one non-rate base holding deferral account with separate tracking and recording of all F2012 and F2013 incremental operating and regulatory costs requested for deferral as part of the Application. The level of carrying costs appropriate for an expense if approved will be handled in the next revenue requirements application.
2. The Commission makes no determination on the cost recovery or amortization period of the deferred costs at this time.
3. FortisBC is to apply for recovery of the incremental F2012 and F2013 costs as part of its 2014 Revenue Requirements Application (2014 RRA). Any amounts to be approved in addition to the above -noted costs will flow from the 2014 RRA Decision.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 8<sup>th</sup> day of February 2013.

BY ORDER

*Original signed by:*

D.A. Cote  
Panel Chair/Commissioner

Attachment

**An Application by FortisBC Inc.  
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**REASONS FOR DECISION**

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**1.0 Background**

On December 12, 2012, FortisBC Inc. (FortisBC) wrote to the British Columbia Utilities Commission (Commission) requesting approval to record the costs of a variety of activities in deferral accounts over the 2012-2013 test period. None of these deferral accounts had been requested in the FortisBC Inc. 2012-2013 Revenue Requirements and Review of the 2012 Integrated System Plan (2012-2013 RRA) or approved in the Commission's Decision and accompanying Order G-110-12. In keeping with the 2012-2013 RRA Decision, FortisBC proposes that costs including financing costs be collected in non-rate base deferral accounts and the Company will apply for disposition of these costs in a future revenue requirements application (RRA). Proposed financing costs for most of these deferral accounts are at the Weighted Average Cost of Debt (WACD) or the Company's short term interest rate.

Specifically, FortisBC has requested approval of the following deferral accounts:

i) BCUC Generic Cost of capital Proceeding

Costs of \$400,000 (before tax) covering participation in stage 1 and 2 of the GCOC proceeding are forecast. This proceeding was formally established on February 28, 2012 by Order G-20-12 which followed earlier preliminary notification of the proceeding issued to all utilities on November 28, 2011. FortisBC proposes this be financed at the WACD.

ii) BCUC Inquiry into the Mandatory Reliability Standards (MRS) Program

FortisBC estimates costs of \$100,000 to be financed at the short term interest rate for participation in the Inquiry into the BC MRS program which was established on October 9, 2012 through Order R-72-12.

iii) Kettle Valley Expenditure Review

By Order G-36-12 on March 15, 2012, the Commission established a process to review the prudence of expenditures related to the Kettle Valley Distribution Source Project. FortisBC expects to incur costs of \$75,000 for this regulatory process and proposes this be financed at the Company's short term interest rate.

iv) Transmission and Self-Generating Rate Design

Order G-188-11 issued by the Commission on November 14, 2011, included certain directives requiring public consultation, cost of service and rate design activities on the part of FortisBC. Total costs of \$175,000 are expected for these activities as well as the regulatory review of the issues. FortisBC proposes to apply a WACD rate of financing.

v) Mandatory Reliability Standards Audit

FortisBC states that it participated in an audit in 2012 which had been conducted by the Western Electricity Coordinating Council on behalf of the Commission and the notification for this audit was received on April 23, 2012. It further states that this audit, which covered close to one-third of its BC MRS requirements, involved approximately 50 employees and required over 8,700 labour hours. The total cost for the audit process was \$806,759. Of this \$231,452 of internal labour costs were charged to Operating and Maintenance (O&M)

Expense for 2012 and FortisBC has requested the balance of \$575,306 to be recorded in a deferral account with a WACD rate of financing applied.

vi) Mandatory Reliability Standards – Operating and Maintenance Expense 2012-2013

FortisBC has an approved Operations and Maintenance Expense of \$1.2 million for 2012 and 2013 to allow it to maintain full and auditable compliance with the BC MRS. FortisBC states that the MRS environment has continued to evolve with new and amended standards, external processes and reporting requirements of increasing complexity necessitating constant evaluation and oversight. In addition, it points out that there have been increased costs associated with the completion of mitigation plans required to achieve initial compliance with standards. FortisBC estimates that \$0.3 million in 2012 and a further \$0.9 million in 2013 will be required to maintain MRS compliance. It has requested that the \$1.2 million be held in a non-rate base deferral account attracting WACD.

FortisBC has responded to two rounds of Commission Information Requests.

### Commission Panel Determination

#### 1. Further Process

**The Commission Panel has reviewed the FortisBC Application and the responses to the two rounds of Information Requests and has determined that there are potential issues related to cost recoverability.** The Panel has considered two options for further process:

1. To refer a decision on this matter to the next revenue requirements proceeding as proposed by FortisBC.
2. To open this proceeding to interveners at this time and reach a determination on how to best handle the FortisBC proposals.

The Commission Panel is of the view that this matter is best addressed at the next revenue requirements proceeding. The Panel understands that FortisBC is currently in the process of finalizing its 2012 year-end. Accordingly, the Panel is of the view that due to the time required for either of these options, it is unlikely a decision could be made that would have an impact on the FortisBC 2012 financial statements. Therefore, there is no urgency to deal with resolving the matter immediately. Further, the Panel notes that it is expected that there will be a revenue requirements application filed later this spring. In our view, it will result in lower cost and greater regulatory efficiency if this process is handled as part of the RRA filing.

#### 2. Deferral Accounts and Carrying Charges

FortisBC has requested that the Commission approve the use of deferral accounts for each of the expenses as well as carrying charges reflecting either the WACD or the Company's short term interest rate. **The Commission Panel has determined that moving these expenses into a single non-rate base holding deferral account with separate tracking and reporting and no approval for future recovery or amortization is appropriate in this instance.** In the view of the Panel, separating these unexpected expenses into a single account will facilitate their review in the upcoming RRA and ensure each is given appropriate scrutiny.

**The Commission Panel has also determined that the level of carrying costs appropriate for an expense if approved is also a matter best handled within the next revenue requirements application. Therefore, no carrying costs for this holding deferral account are approved at this time.**