

**RÉPONSE DE CONCENTRIC
À L'ENGAGEMENT NUMÉRO 20**

Engagement n° 20 (demandé par la Régie)

Indiquer si les impacts des révisions des durées de vie utile devraient être traités comme un facteur Z ou un facteur Y, tout en considérant que le Distributeur procède annuellement à un exercice de révision des durées de vie utile et en référant à l'expérience dans d'autres juridictions nord-américaines.

Réponse de Concentric à l'engagement n° 20 :

1 Concentric has researched precedent in other jurisdictions related to updates to
2 depreciation/amortization rates under PBR plans through a Y or Z factor.
3 Concentric has focused its research in Canada, specifically in the provinces of
4 Alberta, British Columbia, and Ontario. Our research reveals that adjustments for
5 changes in depreciation rates are uncommon in PBR plans, but are specifically
6 allowed in Alberta and British Columbia. Although it is not clear whether these
7 changes would be Y or Z factored.

8 **ALBERTA**

9 In its second generation generic PBR decision, 20414-D01-2016 (Errata), the
10 Alberta Utilities Commission (AUC) determined that depreciation studies would
11 be excluded from rebasing applications. If a distribution utility wished to file an
12 updated depreciation study, those studies would be considered by the
13 Commission subsequent to the approval of the “going-in rates.” The AUC stated
14 the following in 20414-D-01-2016 at paragraph 70:

15 The Commission will provide the distribution utilities with an opportunity
16 to update depreciation studies if they choose. However, the Commission
17 considers, for purposes of regulatory efficiency, updated depreciation
18 studies may not be included in distribution utility rebasing applications.
19 Distribution utilities may file separate depreciation related applications
20 during the first year of the next generation PBR term, i.e., in 2018, and
21 the Commission will make its determinations based on the merits of
22 such applications at that time. [emphasis added]

23 In the first annual compliance filing decision for the second generation PBR
24 plans, the AUC discussed this issue with specific regard to FortisAlberta. The
25 AUC notes in Decision 22394-D01-2018 (February 5, 2018) that:

26 [398] In its rebasing application, Fortis incorporated the results of its last
27 depreciation technical update, rather than continuing to use the
28 depreciation rates last approved by the Commission in Decision 2012-
29 108...

30 [406] The Commission considers paragraph 70 of Decision 20414-D01-
31 016 (Errata) to apply equally to a full depreciation study and a

1 depreciation technical update, and for that reason the Commission does
2 not approve the incorporation of the depreciation technical update into
3 the calculation of the notional 2017 revenue requirement on which the
4 interim going-in rates for 2018-2022 PBR plan will be based.

5 [407] The purpose of paragraph 70 was to minimize the adjustments
6 required in calculating the notional 2017 revenue requirement and in
7 setting the interim going-in rates, while providing the distribution utilities
8 with an opportunity to update depreciation calculations once interim
9 going in rates are established. Any subsequently approved depreciation
10 adjustments would be effective January 1, 2018, on a prospective basis.
11 The Commission considers that this rationale applies equally to the
12 proposed conventional meters adjustment. Accordingly, the
13 conventional meters adjustment is denied. The Commission directs
14 Fortis to use the previously approved depreciation rates from Decision
15 2012-108 in calculating the notional 2017 revenue requirement on which
16 the interim going-in rates for 2018-2022 PBR plan will be
17 based. [references omitted, emphasis added]¹

18 In Alberta, the framework established by the AUC allows changes to be made to
19 PBR plans that result from updated depreciation studies. However, these
20 updates cannot be reflected during rebasing for “going-in” rates, as seen with
21 FortisAlberta’s 2018 disallowance. We deem these changes to be equivalent to
22 Y or Z factors in that they make adjustments following the initiation of the PBR
23 term, but the Commission is not specific in labeling a depreciation adjustment
24 as a Y or Z factor beforehand.

25 BRITISH COLUMBIA

26 In its reasons for Decision in support of Order G-193-15, related to the review of
27 FortisBC Energy’s (FEI) 2016 delivery rates,² the British Columbia Utilities
28 Commission (BCUC) denied FEI’s requested changes to depreciation and net
29 salvage rates. The Commission directed FEI to maintain existing depreciation
30 and net salvage rates and to submit additional information and analysis on its
31 proposed changes by February 29, 2016.

32 Upon review of additional information, the BCUC approved FEI’s proposed
33 depreciation and net salvage rate changes, which resulted in a reduction to the
34 composite depreciation rate from 3.19 percent to 3.06 percent and an increase
35 to the composite net salvage rate from 0.44 percent to 0.64 percent as of
36 January 1, 2017.³ The Commission also directed FEI to include as part of its

¹ Decision 22394-D01-2018 (February 5, 2018), paragraphs 398, 406, 407.

² On September 15, 2014, the British Columbia Utilities Commission (Commission) issued its Decision and Order G-138-14 approving for FortisBC Energy Inc. (FEI) a Multi-Year Performance Based Ratemaking (PBR) Plan for 2014 through 2019 (the PBR Decision). In accordance with the PBR Decision, FEI is to conduct an Annual Review process to set rates for each year

³ BCUC Order Number G-119-16, July 28, 2016.

1 next Depreciation Study an analysis of the costs and benefits of converting
2 from the Average Service Life group depreciation method to the Equal Life
3 Group depreciation method, including calculations of the rate impact.⁴

4 The BCUC also concluded that “there is a need to adjust depreciation rates at
5 regular intervals as the incidence of retirements is updated... »⁵. While this
6 adjustment was made during the PBR term, it is not clear from Decision G-119-
7 16 if this update was treated as a Y or Z factor.

8 ONTARIO

9 Concentric understands that changes to depreciation rates via a Y or Z factor
10 are uncommon in Ontario. Concentric notes that in the Ontario Energy Board’s
11 (OEB) 2017 Filing Requirements for Electric Distribution Rate Applications, the
12 Board outlines the requirements needed to support the proposed
13 depreciation/amortization expense in a utility’s cost-of-service rebasing filing.
14 Among these requirements is to provide a summary of changes to
15 depreciation/amortization policies made since the company’s last cost of
16 service filing.⁶

17 Concentric further notes that in the OEB’s 2017 Filing Requirements for Natural
18 Gas Utilities, the OEB states in section 2.4.4 that “irrespective of the accounting
19 standard used in the application, the applicant must provide a summary of
20 changes to its depreciation/amortization policy made since the applicant’s last
21 revenue requirement filing, or since the OEB last approved a methodology,
22 whichever is most recent. If the applicant has developed a new depreciation
23 study, it must file that study.”⁷ [emphasis added]

24 Therefore, Concentric concludes that unlike in Alberta, changes to depreciation
25 rates may be considered during cost of service filings but may be less likely to
26 be considered a Y or Z factor. Concentric understands from a discussion with
27 Toronto Hydro that this distributor, for example, has not applied for a
28 depreciation-related adjustment through a Y or Z factor.

29 CONCLUSION

30 Alberta, BC, and Ontario have adopted varying treatment for changes to
31 depreciation rates while under a PBR plan. While changes resulting from
32 updated depreciation studies are explicitly *not* allowed during rebasing in
33 Alberta, the AUC does allow consideration of these updates during subsequent
34 plan years. The opposite treatment appears to be common in Ontario. The
35 OEB’s policy allows for updates to depreciation methods during cost-of-service

⁴ BCUC Order Number G-119-16, July 28, 2016.

⁵ BCUC Order Number G-119-16, July 28, 2016, Appendix A, p. 7 of 7.

⁶ Ontario Energy Board, 2017 Filing Requirements for Electric Distribution Rate Applications, July 20, 2017, p. 36.

⁷ Ontario Energy Board, Filing Requirements for Natural Gas Rate Applications, February 16, 2017, p. 31.

1 applications, but treatment of any changes through a Y or Z factor application
2 is less evident. The BCUC has allowed changes to FEI's depreciation and net
3 salvage rates during the term of the PBR, though the request was initially
4 denied.

5 Z factors typically allow for unknown events beyond the control of the
6 regulated utility. Accurately reflecting major updates to the useful life of an
7 asset or class of assets in the appropriate rate year ensures a fair allocation
8 and recovery of the depreciation expense between current and future
9 ratepayers.