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December 4, 2018

BY ELECTRONIC FILING

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Patrick Wruck, Commission Secretary and Manager, Regulatory Support

Dear Sirs/Mesdames:

Re: FortisBC Inc. 2019-2022 Demand Side Management Expenditures Plan – BCUC Project No. 1598973

Please find enclosed for filing the Reply Argument of FortisBC Inc., dated December 4, 2018, with respect to the above-noted matter.

Yours truly,

FARRIS, VAUGHAN, WILLS & MURPHY LLP

Per:

Nicholas T. Hooge

NTH/cn
Enclosure
c.c.: client
All Registered Interveners

BRITISH COLUMBIA UTILITIES COMMISSION

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

and

FortisBC Inc. 2019-2022 Demand-Side Management Expenditures

REPLY ARGUMENT OF FORTISBC INC.
December 4, 2018

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A. INTRODUCTION

1. FBC sets out below its reply to the Final Argument filed by Interveners to this proceeding pursuant to the Regulatory Timetable established in BCUC Order G-179-18. Capitalized terms used in this Reply Argument have the same meanings as defined in FBC's Final Argument, dated November 13, 2018.

2. FBC continues to rely on the contents of the Application, as well as its IR responses and Final Argument. To the extent any points made by Interveners in their submissions are not specifically addressed in this Reply Argument, they should not be taken as agreed to by FBC.

3. Overall, the Interveners that participated in this proceeding are generally supportive of the acceptance of FBC's 2019-2022 DSM Plan and expenditure schedules, as filed.

B. SUMMARY OF INTERVENER SUBMISSIONS

4. Both Canadian Office and Professional Employees Union, Local 378 (known as Movement of United Professionals or **MoveUP**) and BC Sustainable Energy Association and Sierra Club BC (**BCSEA-SCBC**) support BCUC acceptance of the expenditure schedules and the approvals sought in the Application without expressing any reservation or disagreement with FBC on any specific matters raised in this proceeding.

5. The Commercial Energy Consumers Association of British Columbia (**CEC**) likewise submits that the BCUC should accept FBC's 2019-2022 DSM expenditure schedules.[1] The CEC does raise some issues regarding particular aspects of the Application and FBC's 2019-2022 DSM Plan, which FBC will address in this Reply Argument. Specifically:

   (a) CEC questions FBC's DSM Guiding Principle #2, which is a "goal of incentive costs exceeding 50 percent of the expenditures in a given year".[2]

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[1] CEC Final Submissions, para. 1
[2] CEC Final Submissions, paras. 4-11

(b) While CEC supports acceptance of the filed DSM expenditure schedules for 2019-2022, it does submit that FBC "could go significantly further than it has provided in this plan".[3] In this regard, the CEC argues that FBC "should aim to undertake to acquire all cost-effective savings, and could have increased its expenditures to achieve a TRC and mTRC of unity".[4]

(c) With respect to sector level DSM spending, CEC submits that FBC should focus more on those areas that are the most cost effective, which it says are the Commercial and Industrial sectors.[5] CEC also argues that planned spending in the Commercial sector could be increased, although it recommends approval of FBC's DSM plan for the Commercial sector.[6]

(d) The CEC questions the level of planned spending on EM&V and recommends that FBC be requested to evaluate a reduction in spending in this area from 4 percent of the total DSM budget to 2 percent.[7]

(e) The CEC supports FBC's proposed rollover mechanism for unspent DSM expenditures, but suggests that "it could be reasonable" for the BCUC to apply a maximum 15 percent cap on rolled over expenditures without FBC providing an appropriate justification.[8]

6. The Industrial Customers Group (**ICG**) also raises specific issues with the Application and DSM Plan. In particular:

(a) ICG does not agree with FBC's approach of pro-rating DSM incentives for self-generating customers, described in this proceeding as the "sliding scale" mechanism.

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[3] CEC Final Submissions, para. 2
[4] CEC Final Submissions, paras. 28, 63
[5] CEC Final Submissions, para. 72
[6] CEC Final Submissions, paras. 119-123
[7] CEC Final Submissions, para. 190
[8] CEC Final Submissions, para. 204

(b) ICG submits that FBC is in any event not taking advantage of market potential in the kraft pulp and paper sector, at least in respect of "turn around, maintenance, and upset periods" when Celgar does take utility service from FBC.[9]

(c) ICG submits that FBC should be making increased Industrial sector DSM expenditures that are not related to cannabis production facilities.[10]

7. ICG does support FBC's proposed change to the amortization period of its DSM expenditures and the proposed rollover mechanism for unspent DSM expenditures.[11] Other than the points summarized above, ICG does not object to BCUC acceptance of FBC's 2019-2022 DSM expenditure schedules.

8. FBC addresses the concerns the CEC and ICG have identified with the Application in its reply submissions, below. FBC submits that none of these concerns can or should lead to the BCUC rejecting the proposed DSM expenditure schedules. Indeed, three of the four Interveners in this proceeding, including the CEC, expressly support BCUC acceptance of FBC's proposals. The fourth Intervener, ICG, is primarily concerned with the treatment of DSM for self-generating customers and does not suggest that FBC's Application should otherwise be dismissed.

C. ISSUES RAISED BY THE CEC

(i) DSM Guiding Principle #2

9. The CEC expresses some concern with FBC's Guiding Principle #2, as listed at Section 5.1 of the Application (Ex. B-1). The CEC submits that incentives are a valuable DSM tool, but "should not be an end-goal in and of themselves".[12] The CEC submits that the goal identified in this Guiding Principle could be better expressed as follows (with additional wording proposed by CEC underlined):

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[9] Final Submission of ICG, paras. 14-17
[10] Final Submission of ICG, para. 23
[11] Final Submission of ICG, paras. 21-22
[12] CEC Final Submissions, para. 8

> C&EM expenditures will have a goal of incentive costs exceeding 50% of the expenditures in a given year, subject to contributing to cost-effective demand side savings.

10. In reply, FBC notes that the DSM Guiding Principles described in the Application are inter-related and should be read as a whole, not in isolation. Cost effectiveness of DSM measures and incentives is embedded within a number of other Guiding Principles (see e.g. Guiding Principles #4, 6). Accordingly, FBC submits that it is unnecessary for Guiding Principle #2 to be "re-cast" as CEC proposes; cost-effectiveness is an inherent characteristic of its DSM planning principles and Guiding Principle #2 does not reflect an intent to promote incentive maximization in and of itself and without regard for cost effectiveness considerations.

(ii) Undertaking All Cost Effective DSM and Increasing Expenditures to Unity

11. In reply to the CEC's submission that FBC should aim to undertake to acquire all cost-effective DSM savings, FBC reiterates the BCUC's determination in the 2016 LTERP Decision that, "the UCA does not compel FBC to pursue any and all DSM resources that are cost effective".[13]

12. Regarding the CEC's suggestion that FBC "could have increased its expenditures to achieve a TRC and mTRC of unity", FBC submits that doing so would be contrary to the accepted LT DSM Plan and contrary to the long term resource planning process mandated under the *UCA* generally.

13. The CEC's position reflects an incorrect assumption that a TRC above 1.0 means that increased DSM expenditures can or should be made. FBC's long-term DSM targets are based on its overall resource needs as reflected in the most current long term resource plan filed under section 44.1 of the *UCA*. FBC's short-term DSM resource needs are then determined and costed, including increased expenditures planned to address emergent cannabis production opportunities, in the current Application. The fact that planned DSM spending could be less cost-effective and still pass the legislated TRC test does not change

[13] BCUC Decision and Order G-117-18, p. 12

FBC's resource acquisition needs, nor does it mean that FBC's DSM targets should change or that more DSM resources should be pursued irrespective of long term planning considerations.

14. FBC also notes that the CEC has not provided any explanation of how increased DSM expenditures would be implemented, how FBC's other planned resources would be displaced to account for increased DSM acquisition, or whether the marginal cost of additional DSM activity is more cost effective than the marginal energy saved.

(iii) Sector Level DSM Spending Issues

15. The CEC suggests that FBC should increase DSM activity in the areas that are most cost effective, which it identifies as the Commercial and Industrial sectors, rather than increasing spending in less cost effective areas. FBC submits that such an approach could raise issues of inter-class equity among its ratepayers. FBC's DSM Guiding Principles include the goal of being universal and offering programs for all customer classes.[14]

16. FBC considers that DSM spending should reflect an appropriate balance among customer classes and, more importantly, should be based on market activity and consistent with long term planning.[15] An approach that focused on the most cost effective areas for DSM spending to the detriment of other less cost effective areas would not be supported by these considerations. FBC also notes that the Commercial sector TRC of 1.7 shows that it is not materially more cost effective than the Residential or Low Income sectors, which have TRC values of 1.8 and 1.7, respectively.[16]

17. The CEC supports BCUC acceptance of FBC's DSM Plan in respect of the Commercial sector, but submits, nonetheless, that FBC has "fallen short" in this area and should increase its efforts to expand DSM activity in the Commercial sector.[17] In particular, CEC submits that it would be reasonable for FBC to offset the decrease in spend on lighting measures

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[14] Ex. B-1(Application), p. 11
[15] Ex. B-2 (Response to BCUC IR 1.4.3.1), p. 18
[16] Application, Table 5-1 (see Ex. B-1-1, Errata)
[17] CEC Final Submissions, paras. 122-123

with increased spending in other Commercial areas.[18] In reply, FBC notes that lighting measures represented approximately 90 percent of the Commercial Prescriptive program spending in 2018 to date.[19] FBC began offering new non-lighting prescriptive measures in 2018 and expects this market to grow.[20] More specifically, the DSM Plan includes spending and savings targets for the Commercial Custom program that increase from $980 thousand and 4.4 GWh in 2019 to $1.095 million and 6.8 GWh in 2022.[21]

18. Additionally, FBC is undertaking numerous activities to develop additional DSM opportunities in the Commercial sector, as outlined in response to BCUC IR 1.12.4.[22] However, customer response to new initiatives takes time to develop and is based on a number of factors including program awareness, capacity (both internally and with trade allies), and customers' propensity to invest.[23] Generating energy savings is a function of more than simply increasing spending levels in the Commercial (or any) sector.[24] For these reasons, FBC submits that its proposed level of expenditures and its plan to generate further DSM activity in the Commercial sector are appropriate and reasonable.

(iv) Planned EM&V Expenditures

19. The CEC, in its Final Submissions, recommends that the BCUC request FBC to evaluate a reduction in its planned EM&V expenditures from 4 percent of the overall budget, as proposed in the DSM Plan, to 2 percent.[25] CEC's position is premised on its assertion that "industry practice for budget spent on EM&V activities appears to range from just below 2% to 3% of spending on overall energy efficiency and conservation program budgets <u>for companies with budgets of similar size to FBC's</u>" (underlining added).[26] With respect, this does not accurately reflect the evidence in this proceeding.

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[18] CEC Final Submissions, para. 119
[19] Ex. B-2 (Response to BCUC IR 1.12.3), p. 62
[20] Ibid.
[21] Ex. B-1, Appendix A((DSM Plan), p. 8, Table 4-1
[22] Ex. B-2, p. 63
[23] Ex. B-4 (Response to CEC IR 1.7.3), p. 19
[24] Ibid.
[25] CEC Final Submissions, para. 190
[26] CEC Final Submissions, para. 184

20. In response to BCUC IR 1.17.1, FBC stated that the EM&V expenditure range of 2-3 percent discussed in Appendix D to Exhibit B-1 "was based on a DSM expenditure portfolio of US$20-50 million per annum, and reflects economies of scale (i.e. utilities with the largest portfolios spend a smaller percentage on evaluation) not available to FBC" (underlining added).[27] Given that FBC's DSM Plan contemplates annual expenditures increasing from $10.9 million in 2019 to $11.4 million in 2022, FBC has a significantly smaller budget than those utilities for whom a 2-3 percent amount of spending on EM&V is considered industry standard. Given the evidence, derived from E Source's survey results, that expenditures on evaluation decrease as the size of the portfolio increases,[28] FBC's planned spending in this area at 4 percent of the overall budget is in line with general industry practices.

21. FBC also notes that the 4 percent amount for EM&V expenditures in the 2019-2022 DSM Plan is consistent with its own past practice in its recent DSM Plans the BCUC has accepted:

    (a) In FBC's 2015-2016 DSM Plan, EM&V expenditures were $422 thousand in 2015 and $428 thousand in 2016, representing 5.8 percent and 5.7 percent of the overall DSM budget in each year, respectively.[29] The BCUC's decision in respect of FBC's 2015-2016 DSM Plan noted that, "The 2004 California Evaluation Framework, a seminal document for DSM evaluation among utilities in North America, references a spending range of 2-10 percent of overall DSM budget spending on DSM evaluation among utilities in North America, with the average spending being 4 percent" (underlining added).[30]

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[27] Ex. B-2, p. 85
[28] Ex. B-1, Appendix D (FortisBC EM&V Framework), p. 15
[29] BCUC Decision and Order G-186-14, p. 30
[30] Ibid.

(b) In FBC's 2017 DSM Plan, EM&V expenditures were $375 thousand, representing approximately 5 percent of the overall DSM budget.[31]

(c) In FBC's 2018 DSM Plan, EM&V expenditures were approximately $350 thousand, representing 4.4 percent of the overall DSM budget.[32]

22. For these reasons, and due to the general importance of EM&V to the efficacy of FBC's DSM programs, FBC submits that the EM&V budget in the 2019-2022 is appropriate and should be accepted as filed.

(v) The Proposed Rollover Mechanism

23. The CEC, like BCSEA-SCBC and ICG, is supportive of FBC's proposed rollover mechanism for DSM underspend; however, CEC raises the possibility of a 15% cap on the amount of spending that could be rolled over from one year to the next "without FBC supporting the underspending with an appropriate justification".[33]

24. In reply, FBC submits that CEC's suggested rollover cap "without appropriate justification" would potentially introduce more regulatory process into the 2019-2022 DSM Plan and could make it more difficult for FBC to execute the plan as intended. One of the reasons for proposing the rollover mechanism was to allow flexibility to respond to unplanned factors. Adding a regulatory requirement for FBC to provide justification to the BCUC for rolling over amounts above 15 percent and, presumably, obtaining BCUC approval to do so, would add time and regulatory burden that could negate the purpose of the rollover mechanism itself. The CEC does not explain how the suggested requirement would benefit ratepayers. FBC submits that it would not make it more likely that FBC will be able to spend its planned DSM expenditures during the plan period.

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31 FortisBC Inc. Application for Acceptance of Demand Side Management Expenditures for 2017, Ex. B-1, p. 16 (available at: https://www.bcuc.com/Documents/Proceedings/2016/DOC_47076_B-1_FBC_2017-DSM-Application.pdf)

32 FortisBC Inc. Application for Acceptance of Demand Side Management Expenditures for 2018, Ex. B-2, Attachment 1.1, p. 17 (available at: https://www.bcuc.com/Documents/Proceedings/2017/DOC_50491_B-2_FBC-Responses-to-BCUC-IR1.pdf)

33 CEC Final Submissions, para. 204

25. FBC does intend to add information regarding unspent "rollover" amounts to its DSM annual reports, so that rolled-over expenditures are accounted for transparently.[34] FBC's DSM annual reports are filed with the BCUC and are publically available on FBC's website. FBC submits that this provides sufficient oversight for the rollover mechanism, as it will allow the BCUC or interested parties to raise any issues of concern in the application of the rollover mechanism.

26. FBC also notes the comment made by BCSEA-SCBC in its Final Argument that, "the exact timing of the expenditure within the four-year period [of the DSM Plan] should not change the public interest in making the expenditures".[35] For these reasons, and those stated in the Application, IR responses, and FBC's Final Argument, we submit that the rollover mechanism should be approved as proposed and without the 15 percent cap suggested by CEC.

D. ISSUES RAISED BY THE ICG

(i) ICG's "Jurisdictional" Submissions

27. ICG's Final Submissions suggest that issues regarding FBC's approach to prorating DSM incentives for self-generating customers, which ICG has described in this process as the "sliding scale mechanism", involve a matter of BCUC "jurisdiction". For example, ICG submits that this mechanism or "any other approach to prorating incentives is within the jurisdiction of the Commission" and that "the Commission should assume jurisdiction over the 'sliding scale mechanism'".[36]

28. To be clear, in describing the prorating of DSM incentives for self-generating customers as a business practice in its IR responses, FBC was not intending to suggest that the BCUC did not have jurisdiction under the *UCA* to address or make determinations regarding this issue. However, that is not the same thing as requiring FBC to seek pre-approval from the

[34] Ex. B-2 (Response to BCUC IR 1.9.1.2), p. 44
[35] BCSEA Final Argument, para. 71
[36] Final Submissions of ICG, paras. 10-11

BCUC before implementing this practice when calculating the DSM incentives to which particular customers are entitled under the DSM Plan.

29. Such incentives are of course connected to a DSM expenditure schedule filed under s. 44.2 of the *UCA*, and FBC has two self-generating customers in its service territory affected by this matter. However, the calculation of the incentives provided to a customer pursuant to an approved DSM program would not be a matter that would require a utility to apply for BCUC approval in the ordinary course. As FBC has noted, in these circumstances the appropriate regulatory process is for a customer to apply to the BCUC under the complaint procedure pursuant to s. 72 of the *UCA* if the customer considers that prorated incentives are contrary to the *UCA* or associated legislation or regulatory principle.[37]

30. Such a procedure was in fact followed by Celgar in the complaint process that led to BCUC Letter L-14-18. As ICG itself acknowledges, that BCUC decision recognized principles that are applicable and relevant to the self-generator incentives issue generally.[38]

(ii) Alternatively, the BCUC's Orders and Decisions Demonstrate that Prorating Has Been Accepted

31. In the alternative, to the extent FBC does require pre-approval of the BCUC to prorate DSM incentives for self-generating customers, the orders and decisions in prior proceedings demonstrate that the intended practice has effectively been accepted.

32. The Celgar complaint proceeding that resulted in BCUC Letter L-14-18 involved a specific application of FBC's prorating approach to DSM incentives for self-generating customers. Celgar's complaint requested that the BCUC direct FBC to provide full rebates for particular Lighting Projects it proposed to undertake. Celgar's filings in the complaint process alleged that FBC's "sliding scale" mechanism, as applied to the Lighting Projects, was discriminatory and lacked BCUC approval. Contrary to ICG's assertion at paragraph 14 of its Final Submissions, FBC did not take the position that "Celgar should not have

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[37] Ex. B-5 (Response to ICG IR 1.3.2), p. 4
[38] Final Submissions of ICG, paras. 5-6

access to industrial DSM programs" in this or any other complaint proceeding. FBC's position was that Celgar's Lighting Projects were not eligible for fixed/prescriptive incentives, but that they were eligible for rebates under FBC's custom program using the prorating of incentives described in the LT DSM Plan.

33. The BCUC in its decision regarding Celgar's complaint agreed with FBC that Celgar was not eligible for the rebates sought. The BCUC's decision included the following determinations at p. 2 of 2 of Letter L-14-18:

> In British Columbia (BC), DSM Services form part of the government's energy efficiency policies and regulations to support BC's energy, economic and greenhouse gas reduction priorities and are seen as being in the public interest. <u>For utilities, such mechanisms create opportunities for them to financially benefit from actions they take to reduce the amount of energy used by customers</u>.
>
> The Panel finds that while the Lighting Project may promote the efficient use of electricity within Celgar, <u>there appears to be no discernable impact on FBC's load</u>.
>
> [Underlining added.]

34. At the time the Letter L-14-18 decision was made, on June 25, 2018, the issue of DSM incentives for self-generating customers had received detailed consideration in the proceeding regarding FBC's 2016 LTERP and LT DSM Plan, for which a final BCUC decision was still pending. As such, it is not surprising that the Panel deciding the Celgar complaint chose to avoid making any broader determination regarding the "sliding scale" mechanism than was necessary to address the specific complaint before it.

35. As FBC noted in its Final Argument, the BCUC subsequently accepted the LT DSM Plan as being in the public interest in Order G-117-18. The ICG seeks to minimize the importance of this order on the basis that the LT DSM Plan did not involve FBC seeking approval of DSM "expenditures".[39] However, the BCUC itself encouraged FBC "to address demand side management (DSM) programs for self-generation customers <u>as part of</u>

[39] Final Submissions of ICG, para. 11

its next resource plan or its next DSM Expenditure filing" in Decision and Order G-27-16 regarding FBC Self-Generation Policy Application Stage I (underlining added).[40] FBC responded by including a section in its 2016 LT DSM Plan describing the approach it intended to take to DSM incentives for self-generating customers, including a description of its prorating approach. Following detailed IRs and submissions on this issue, the BCUC's Order accepted the LT DSM Plan, in full and without reservation, as being in the public interest.

36. FBC recognizes that the BCUC's decision in respect of the 2016 LTERP and LT DSM Plan did not specifically address or expressly approve FBC's prorating approach. However, given the extensive treatment this issue received in that proceeding, FBC considers that the BCUC Panel that adjudicated the 2016 LTERP and LT DSM Plan would have raised any concerns or issues it had with the prorating approach in its decision and would not have determined that the LT DSM Plan was in the public interest if such concerns or issues did exist.

37. In these circumstances, and in light of the BCUC Panel endorsing the underlying principles in the L-14-18 decision, FBC submits that it is reasonable and appropriate for it to use the prorating approach when calculating DSM incentives for self-generating customers.

(iii) Applicable Legislation and the TRC Test

38. ICG's other submissions regarding the "sliding scale" mechanism respond to FBC's position that its approach is consistent with applicable legislation.[41] In particular, ICG attempts to establish that the "inputs" included in the governing TRC test are not restricted to the utility's avoided costs and savings, but should include "all energy savings" (presumably including savings that accrue to the self-generating customer).[42]

39. With respect, ICG's interpretation of the *DSM Regulation* and related legislation is not correct. FBC notes the following in this regard:

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[40] BCUC Decision and Order G-27-16, p. (iii), 50
[41] Ex. B-5 (Response to ICG IR 1.6.1), p. 11
[42] Final Submissions of ICG, paras. 18-20

- Under s. 4(1) of the *DSM Regulation*, the cost effectiveness being tested is the "cost-effectiveness of a demand-side measure proposed in an expenditure portfolio". An "expenditure portfolio" is defined in s. 1 as "the class of demand-side measures that is composed of all demand-side measures <u>proposed by a public utility</u> in an expenditure schedule submitted under section 44.2" (underlining added); and

- Section 4(1.1)(b)(i) specifies that the benefits to be used in the TRC are the "avoided electricity cost, if any, respecting a demand-side measure, in addition to the avoided capacity cost", which "<u>in the case of a demand-side measure of FortisBC Inc.</u>" is calculated using the LRMC of clean or renewable BC resources (underlining added).

40. These provisions make clear that it is the avoided electricity costs <u>of the utility</u> that represent the benefits side of the TRC calculation. Indeed, only a public utility has a "demand-side" to which DSM measures are directed. Measures taken by a self-generating customer that do not actually reduce FBC's load (i.e. its demand-side) do not therefore constitute demand-side measures and do not result in avoided electricity costs that would yield the benefits for the TRC test mandated by the *DSM Regulation*.

41. Further, the only reason cost effectiveness is tested under the *DSM Regulation* in the first place is because public utilities are required to seek BCUC acceptance of DSM expenditure schedules before the expenditures can be recovered in a utility's rates under s. 44.2(2). FBC's other ratepayers could rightfully complain if FBC was able to recover in its rates expenditures on incentives for self-generating customers, under the guise of "DSM", when they do not actually reduce load or avoid electricity costs for FBC. BCSEA-SCBC specifically raise such an objection in their Final Argument in this proceeding, stating that they agree with FBC's prorating approach and "do not support allocating FBC's ratepayer funded DSM expenditures to reducing the self-generation expenses of a large industrial customer".[43]

[43] BCSEA-SCBC Final Argument, para. 73

42. The foregoing demonstrates that both a plain textual reading and a purposive interpretation of the applicable legislation supports FBC's "sliding scale mechanism".

(iv) Kraft Pulp and Paper Energy Savings

43. ICG argues that FBC is missing "significant opportunities" to achieve energy savings in the kraft pulp and paper customer segment because, in ICG's submission, "FortisBC has in effect excluded Celgar from DSM Programs".[44] ICG incorrectly describes Celgar as FBC's "only" customer in this sector.[45] ICG relies for its argument on the market potential results for the kraft pulp and paper segment provided in Navigant's report filed with the Application, as well FBC's response to BCUC IR 1.2.3. While ICG says that this IR response should be "carefully examined", it selectively quotes from the response in paragraph 15 of its Final Submissions. The full IR response is as follows:

> The kraft pulp and paper customer segment typically self-generates nearly all of the electricity it uses except during turn around, maintenance and upset periods. Therefore, any electricity savings achieved as a result of investing in energy efficiency projects accrue nearly 100 percent to the customer and not to FBC's DSM program. FBC offers the kraft pulp and paper segment access to the Industrial Custom Program; however, the energy savings and capital incentives are pro-rated by the estimated amount of electricity savings FBC expects to realize from the project.[46]

44. Regarding the kraft pulp and paper market potential that ICG relies upon, FBC noted in response to an ICG IR that the scope of the BC CPR potential study included self-generated loads (such as in the kraft pulp and paper segment) to ensure the provincial report, provided as a deliverable by the participating BC utilities, was comprehensive; however, this did not obligate FBC to incent any and all energy savings for which market potential was identified.[47] The Navigant report itself highlights that market potential is not the same as

[44] Final Submissions of ICG, para. 16
[45] Final Submissions of ICG, para. 13; FBC's has a second industrial pulp and paper mill customer in its service territory (Tolko Industries Ltd.)
[46] Ex. B-2, p. 9-10
[47] Ex. B-5 (Response to ICG IR 1.5.3), p. 9-10

program potential. Market potential does not specifically take into account delivery mechanisms that must be addressed at a program level based on the specific measure and market conditions involved.[48]

45. Accordingly, the fact of market potential in the kraft pulp and paper segment does not mean that this can translate into actual energy savings given the circumstances in FBC's service area.

46. ICG also argues that conservation savings can be achieved in respect of utility service Celgar takes during "turn around, maintenance and upset periods".[49] However, this service is, by its nature, limited and variable. Self-generating customers in this segment, such as Celgar, are not generally on FBC's system taking power. The times in which consumption occurs during turn around, maintenance and upset periods are typically limited and in the case of upset periods, unpredictable. As a result, they provide a very limited basis for DSM incentives. As a result, FBC has taken the prorating approach for DSM incentives for self-generating customers.

(v) Level of Non-Cannabis Industrial Expenditures

47. ICG also takes issue with the amount of planned spending in the Industrial sector, exclusive of cannabis-related expenditures.[50]

48. In reply, FBC notes that the DSM Plan contemplates an increase in the incentive spend to existing offers in the Industrial sector by approximately $0.3 million per year over planned spending in 2018.[51] Savings and incentive expenditures in the Industrial sector are highly variable due to the relatively low number of Industrial class customers in FBC's service territory.[52] The increase in planned expenditures in the 2019-2022 DSM Plan reflects an increase in the number of Industrial Custom program commitments that are forecast over

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[48] Ex. B-1, Appendix B (Navigant Report), p. 4
[49] Final Submissions of ICG, paras. 16-17
[50] Final Submissions of the ICG, para. 23
[51] Ex. B-2 (Response to BCUC IR 1.14.1), p. 74
[52] Ex. B-5 (Response to ICG IR 1.9.1), p. 20

the plan period. FBC submits that this anticipated market activity is the appropriate basis on which to plan DSM spending in the Industrial sector and that the additional increase in spending ICG calls for is not warranted based on current circumstances.

E. CONCLUSION

49. For the reasons stated in this Reply Argument, together with FBC's Final Argument and the Application and evidence filed in this proceeding, FBC submits that the expenditure schedules filed in respect of the 2019-2022 DSM Plan should be accepted.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

December 4, 2018.

Nicholas T. Hooge,
Counsel for FortisBC Inc.