

August 19, 2011

Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.comCorix Multi Utility Services Inc.
Suite 1160, 1188 West Georgia Street
Vancouver, B.C.
V6E 4A2Attention: Mr. Ian Wiginton, Director Regulatory

Dear Mr. Wiginton:

**Re: FortisBC Energy Utilities¹ (“FEU”) 2012 and 2013 Revenue Requirements and
Natural Gas Rates Application
Response to the Corix Multi Utility Services Inc. (“Corix”) Information Request
 (“IR”) No. 2**

On May 4, 2011, the FEU filed the Application as referenced above. In accordance with Commission Order No. G-129-11 issuing the amended Regulatory Timetable, the FEU respectfully submit the attached response to Corix IR No. 2.

If there are any questions regarding the attached, please contact the undersigned.

Yours very truly,

on behalf of the FORTISBC ENERGY UTILITIES***Original signed:***

Diane Roy

Attachment

cc (e-mail only): Alanna Gillis, Acting Commission Secretary
Registered Parties

¹ Comprised of FortisBC Energy Inc. (“FEI”), FortisBC Energy Inc. Fort Nelson Service Area (“Fort Nelson”), FortisBC Energy (Whistler) Inc. (“FEW”), and FortisBC Energy (Vancouver Island) Inc. (“FEVI”)



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**1. Reference: FEU Response to BCUC IR No. 3.1
Exhibit B-1, Application, Part 1.2.2, p. 11
Under-spending in EEC programs**

Request:

- 1.1 What concerns, if any, would FEU have if the Commission adjusted FEU's annual forecast of EEC funding by an average of the percentage of variance from forecast experienced in 2010 and 2011, and annual forecasts thereafter based on the average of the variance in the 3 years preceding the forecast?

Response:

The approach described in the question above would artificially limit customer opportunities to participate in the Companies' EEC programs, especially since 2010 and 2011 were "ramp-up" years for EEC.

The Companies have developed the budgets put forward in Exhibit B-1 based on establishing a funding "ceiling" for EEC activity, intended to make available to customers the maximum amount of cost-effective EEC activity, consistent with the 2007 Energy Plan goal of having utilities pursue "all cost-effective DSM". Having such a funding ceiling in place gives the maximum number of customers the opportunity to participate in the maximum number of programs considered to be cost-effective. The FEU's proposal to modify the deferral account mechanism so that any spending over \$20 million is captured on an as spent basis provides appropriate protection for ratepayers from under-spending. Accountability and transparency around programs are achieved through the Companies' EEC Stakeholder Group, the proceedings of which are made publicly available through inclusion in the EEC Annual Reports, which are also public documents.



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2. Reference: FEU Response to BCUC IR No. 157.1 and 164.0
Exhibit B-1, Application, Appendix G
Thermal Energy Projects

Request:

2.1 How many projects were listed in the information filed with the Commission?

Response:

The list was filed confidentially with the Commission due to the competitive nature of the business. As Corix is a direct competitor with the FEU, it is not appropriate for the FEU to provide additional detail on the public record in this proceeding. Further, the FEU question the relevance of this to the setting of natural gas rates. The executed contracts associated with these projects will be filed with the Commission for approval. Under the terms and conditions of the Negotiated Settlement Agreement that was approved by the Commission for FEI for 2010-2011, FEI is to bring forward contracts for acceptance by the BCUC. The approved rate schedules will be public documents.

2.2 How many were less than \$5 million?

Response:

Please see the response to Corix IR 2.2.1.

2.3 When does FEU expect to apply to include these projects into utility rate base?

Response:

Under the existing regulatory framework thermal energy services projects are not included in the natural gas class of service rate base, and instead are recorded in the Thermal Energy Services Deferral Account and become the effective rate base for thermal energy services class of service. As this proceeding is concerned with setting natural gas rates, this question is not



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relevant to the present proceeding. The information is also commercially sensitive in any event (see the response to Corix IR 2.2.1).

- 2.4 Explain the form of application that FEU contemplates to file to approve the projects and recover the costs of the projects from TES customers – CPCN, rate application or other? Will the application be separate, or part of a more general FEU application?

Response:

This question is not relevant to the current proceeding, which is concerned with setting natural gas rates.

- 2.5 How will the division between the TES business and gas utility business be established and maintained?

Response:

FEI's thermal energy services and natural gas services are classes of service within a single regulated public utility. The UCA provides a legal framework for segregating the classes of service through allocation. With regard to the allocation of costs for these classes of service, please see the responses to BCUC IRs 2.79.1 through to 2.80.9, and ESAC IRs 2.2.1(c) and 2.2.6. Although costs will be allocated appropriately, FEI will continue to act as an integrated energy provider using its available resources for the benefit of the customers of both classes of service.

- 2.6 Will the FEU TES rate base be financed separately from the FEU gas utility rate base?

Response:

The FEU note that the term "gas utility rate base" is more accurately characterized as the rate base for the natural gas class of service within the utility. As the assets comprising the thermal energy services rate base are directly held by FEI, they will be financed with long-term debt,



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short-term funding and equity raised by FEI. The thermal energy services expenditures at this time are not expected to be separately financed by FEI. Given the very small size of the thermal energy services investments relative to gas investments, the FEU do not anticipate any impact on the natural gas revenue requirements associated with providing financing for thermal energy services projects.

2.7 Will any of the projects within the FEU TES rate base be financed separately? If so, explain:

2.7.1 Will rates and credit facilities be independent of those of the gas utility?

Response:

The FEU note that the thermal energy services rate base and the natural gas rate base are part of the same utility; there is not a "gas utility" and "thermal energy services utility".

With respect to how the thermal energy services rate base will be financed, please see the response to Corix IR 2.2.6.

The FEI credit facility will be utilized to finance thermal energy services activity. At this early stage of development of thermal energy services, the utilization of the credit facility for thermal energy services activity is inconsequential and does not warrant the establishment of larger or separate credit facilities.

2.7.2 Will the lender's recourse in the event of default be the same as for the gas utility?

Response:

The FEU note that the thermal energy services rate base and the natural gas rate base are part of the same utility; there is not a "gas utility" and "thermal energy services utility".

Please refer to the responses to Corix IRs 2.2.6 and 2.2.7.1.

2.7.3 Will any default recourse options affect the gas utility customers?



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Response:

The FEU note that the thermal energy services rate base and the natural gas rate base are part of the same utility; there is not a "gas utility" and "thermal energy services utility".

Please refer to the response to Corix IR 2.2.6. As the thermal energy services expenditures are not financed separately, there is no specific recourse to thermal energy services expenditures.

- 2.8 What risks would regulated gas rate payers be exposed to if the regulated gas assets are used as security to finance TES projects?

Response:

FEI lower mainland gas distribution assets are currently pledged as security in support of FEI's purchase money mortgages issued in relation to the acquisition of the assets from BC Hydro. The FEI unsecured debentures contain a negative pledge restricting the ability to pledge as security FEI assets. Therefore, regulated gas assets will not be pledged as security to finance Thermal Energy Services projects.

- 2.9 What interest rate premium would FEI expect to pay on TES projects if the debt portion of thermal energy projects was financed on a stand alone basis?

Response:

As noted in the response to Corix IR 2.2.06, FEI does not anticipate financing thermal energy services expenditures on a stand-alone basis, as separate project financing would generally be an inefficient financing vehicle. In the hypothetical scenario of separate project financing, a risk premium over and above FEI may be required, but it is difficult to quantify as it would depend on the specific elements of the project and the financing structure. For instance, if the thermal energy services project had a long-term contract with a highly rated counterparty the premium to FEI credit spreads could be negligible.

Since there is no ascertainable negative impact on natural gas customers, thermal energy services customers should also benefit from FEI's financing rates.



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2.10 Has this premium being factored into the cost of debt contained in the 2012-13 RRA?

Response:

Please refer to the responses to Corix IRs 2.2.6 and 2.2.9. No premium is factored into the 2012-2013 RRA.

2.10.1 If so, what is the impact of this premium to the Revenue Requirement for each of 2012 and 2013?

Response:

Please refer to the responses to Corix IRs 2.2.6, 2.2.9 and 2.2.10. No premium has been factored in.

2.10.2 If not, explain how this premium is accounted for and whether it is included in the TES deferral account.

Response:

No premium has been factored in to the revenue requirement. Please refer to the responses to Corix IRs 2.2.6, 2.2.9.



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3. Reference: FEU Response to BCUC IR No. 159.0
Exhibit B-1, Application, Appendix G
Thermal Energy Projects – Overhead Allocation

Request:

3.1 Does the proposed allocation of \$0.5 million to TES customers for the benefits provided by FEI include any allowance for the following benefits:

- (a) communications and public relations,
- (b) government relations,
- (c) investor relations,
- (d) treasury services,
- (e) accounting advice,
- (f) corporate governance, records and legal service,
- (g) access to insurance at favourable rates,
- (h) access to a stronger credit rating and debt at favourable rates,
- (i) access to utility infrastructure, equipment and expertise, or
- (j) goodwill based on the company name and profile?

Response:

This response addresses the responses to Corix IRs 2.3.1, 2.3.2 and 2.3.3. The FEU, when allocating shared services or corporate costs typically use an allocation methodology such as the Massachusetts model which relies on operating revenues, gross payroll and average tangible assets. As the thermal energy class of service is still in its early stages of development, however, such an allocation method would yield little if any allocation of costs to the thermal energy class of service. The FEU recognize that certain resources are used by thermal energy class of service, and therefore have adopted a different allocation involving allocating to the thermal energy class of service those resources that are likely to be utilized by thermal energy



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class of service. This ensures that a reasonable proportion of shared costs are allocated to the thermal energy class of service.

In terms of what specifically is included in the shared services subject to allocation:

- (a) Yes, there is an allocation for communications, and public and government relations. The allocated cost is \$35,000 each year.
- (b) See the response to (a) above. The allocated amount is included within the \$35,000.
- (c) There is no allocation for investor relations. Given its infancy, there is no investor relations activity related to the thermal energy class of service.
- (d) Yes, there is an allocation of treasury services. The allocation is \$8,500 each year and includes treasury services and oversight for financial reporting.
- (e) Yes, there is an allocation for accounting services, including accounting advice, which is \$34,200 each year.
- (f) There is no allocation of corporate governance (including Board of Directors), records and legal services: for corporate governance and records, as indicated in the preamble to this response, the charge would have yielded zero based on the Massachusetts allocation model. The time and effort spent on the thermal energy business by the Board is negligible given the current investment in thermal energy assets, therefore an allocation of zero is also supported under our proposed methodology. Legal services will be directly charged to the deferral account.
- (g) No, FEI is the legal entity undertaking this business and therefore, any insurance procured would reflect the cost available to FEI.
- (h) No, FEI is the legal entity undertaking this business and therefore, the credit ratings and borrowing costs of FEI would be those that are applicable.
- (i) Yes, there is an allocation for facilities space and IT resources. As all direct wages are charged to the deferral account, thermal energy services is already charged for utility expertise. Included in the overhead charge is \$222,000 each year for facilities space in the Surrey Operations Centre and Garbally. Additionally, information technology resources have an allocation of \$51,500 for IT resources, hardware and software.
- (j) No. There is no recovery for goodwill. Typically, goodwill is not recovered in cost of service based utility rates.



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As noted, the \$0.5 million allocation annually is intended to result in an appropriate proportion of indirect costs being deducted from the natural gas revenue requirements and allocated to the thermal energy class of service. They yield similar results in both 2012 and 2013.

3.2 If the answer is yes to any of the items in 3.1, quantify the amount.

Response:

Please refer to the response to Corix IR 2.3.1.

3.3 If the answer is no, explain why not.

Response:

Please refer to the response to Corix IR 2.3.1.



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4. Reference: FEU Response to BCUC IR No. 164.2 and 164.3
Exhibit B-1, Application, Appendix G
Thermal Energy Projects – Tracking Costs

FEU states: *"When a Thermal Energy Services project is identified, the FEU create a new Internal Order ("IO") with a separate IO number."*

Request:

4.1 At what stage of development is a TES project typically "identified"?

Response:

A thermal energy services project is typically identified and assigned an internal order ("IO") number once an internal preliminary assessment has indicated that the project could be viable and customers wish to have project specific development proceed in order to confirm and/or refine preliminary findings and advance the project further.

4.2 How are TES development costs tracked before the IO is created?

Response:

As per Order G-141-09 approving the FEI 2010-2011 RRA, thermal energy services development costs are tracked as general business development and recorded in the Thermal Energy Services Deferral Account prior to creation of a project specific internal order.

4.3 How are the following TES costs tracked:

(a) sales and marketing that does not relate to a specific project,

Response:

Please refer to the response to Corix IR 2.4.2



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- (b) costs for TES projects that are a mix of TES and other FEU services,

Response:

A thermal energy project would not be a mix of FEU services. A thermal energy project delivers thermal energy services and costs for development of the project are charged to the Thermal Energy Services Deferral Account. A customer, however, may receive a mix of FEU service classes for which costs would be tracked separately. Where natural gas is supplied as a fuel to the thermal energy project, the costs for natural gas service are tracked separately.

If an FEU employee works on both classes of service, as with any timesheet allocation, employees are expected to attribute their time on their timesheets to the best of their ability exercising considered judgement in cases where there is overlap in specific tasks.

Please also refer to the response to Corix IR 2.4.2 for additional detail regarding thermal energy services costs.

- (c) development of the TES business concept generally within FEU, and

Response:

Please refer to the response to Corix IR 2.4.2.

- (d) FEU work on provincial and federal government policy and legislative initiatives?

Response:

The FEU do not work directly on federal government policy and initiatives with respect to thermal energy projects. This may occur indirectly through membership and participation in national associations by the FEU staff; these costs are fully allocated to the Thermal Energy Services Deferral Account.

With respect to provincial government policy and initiatives, the vast majority of FEU work is associated with advancing the position of FEU as an energy solutions provider for the province with emphasis on natural gas. The extent to which this may support the thermal energy class of



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service is captured through the allocation of some of the time of the FEU executive to the deferral account (please refer to FEU's response to BCUC IR 2.80.2).

If work specific to thermal energy initiatives with the province is required, then the FEU staff fully allocated to the Thermal Energy Services Deferral Account will handle the work even though natural gas is often a key component of the thermal energy initiative.

- 4.4 What direction does FEU give to its employees on the tracking of TES time and effort? Provide copies of any written directions or policies that relate to the tracking of TES time and effort.

Response:

The development of thermal energy services projects as a regulated class of service within FEI may draw on the expertise of various employees. FEI staff code their time on timesheets in relation to their effort for the Companies' various offerings or classes of service. While there are existing time sheet policies and standards within the FEU that govern this, there is no written direction or policy specific to the thermal energy class of service, nor does the FEU believe that one is required. Please see FEU's responses to BCUC IRs 2.79.1 and 2.79.4 which describe the direction and policies for employees related to tracking time and effort on the thermal energy class of service.

- 4.5 Would the Director of Thermal Energy Services identified in the response to 164.3 call upon the service, advice or information of others in the FEU organization (director or higher) in relation to the development of the TES business generally, or on specific projects? Explain how that might occur and be managed.

Response:

FEIs thermal energy services and natural gas services are classes of service within a single regulated public utility. As such, the Director has the ability to draw on resources of other senior management which is reflected in the \$0.5 million administration cost allocation to thermal energy services. These are costs that would be otherwise recovered from natural gas



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ratepayers. Please see the responses to BCUC IRs 2.79.1 through 2.80.9 for further discussion on the allocation of overhead costs for FEI's thermal energy services.

- 4.6 Are there any restrictions within FEU on the gas utility information or resources that may be employed in the development of the TES business? If so, explain what restrictions are in place and how those restrictions are communicated and monitored. Provide any written directions that relate to any segregation of TES business from the gas utility business.

Response:

FEI's thermal energy services and natural gas services are classes of service within a single regulated public utility. The FEU believe that it is appropriate for experienced utility staff with access to information and resources of the utility to be made available for the benefit of thermal energy services customers. As such, there are no specific restrictions within the FEU on the information or resources that may be employed in the development of the thermal energy services business.

The FEU has dedicated resources working on thermal energy services which are captured in the Thermal Energy Service Deferral Account, plus an allocation of overheads which is reflected in the \$0.5 million administration cost allocation. Any other direct use of resources would be directly allocated as used, with all costs captured in the Thermal Energy Service Deferral Account.



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5. Reference: Thermal Energy Projects – EEC Funding

(A) FEU Response to BCUC IR No. 191.4

In the response, FEU states: *As such, all of the programs in the FEU EEC existing and proposed portfolios are demand side management, since they conform with one or more of (a) to (c) above [in the Clean Energy Act.]*

5.1 Does FEU consider all TES projects that it undertakes to fall within the DSM category?

Response:

Demand-side measures and thermal energy services projects are two distinct concepts. A demand-side measure is "a rate, measure, action or program" designed to meet one of the criteria set out in the *Clean Energy Act*. (See Exhibit B-9, Response to BCUC IR 1.191.3.) DSM/EEC funding includes monetary incentives to customers who meet the specific DSM/EEC program criteria, and non-incentive costs such as the funding for the development of a DSM/EEC program. By contrast, thermal energy services projects are FEU-owned assets that deliver thermal energy to customers.

5.2 If the EEC program funding was applied to a TES project undertaken by a third party that met the same criteria except for FEU ownership, would that funding fall within the DSM category?

Response:

Yes. In the FEU's view, ownership of a thermal energy services project should not determine whether incentive funding is DSM. With regard to dispensing EEC incentive funding, it is similarly irrelevant whether the FEU owns or operates a project or not, and as explained in the response to Corix IR 2.5.1, if a customer's initiative qualifies, the customer will receive EEC funding irrespective of asset ownership or their preferred project partner.

5.3 Does FEU agree that the TES projects described in 5.2 would serve the same Clean Energy Act policy objectives if the only difference is third party ownership versus FEU ownership?



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Response:

The ability of a thermal energy project to meet *Clean Energy Act* objectives is determined by the nature of the project in question, and not the ownership of the project. Many thermal energy projects can meet one or more of the *Clean Energy Act* policy objectives regardless of which entity retains ownership.

- 5.4 Do any of the TES programs proposed by FEI have a positive result from the Ratepayer Impact Measure ("RIM") test? If so, which ones.

Response:

"TES" is an acronym currently used for the thermal energy class of service and not an acronym being used for any of the FEU's EEC programs. It is assumed that the question is in relation to the proposed EEC Thermal Energy for Schools Program, outlined in the Application (Exhibit B-1) on pages 14 and 15. The Companies have not yet completed program design for the proposed Thermal Energy for Schools Program and so are unable to respond to this Information Request. The RIM test requires the incentive amount as an input – absent program design, this input is not available.

- 5.5 Why is it appropriate for FEI shareholders to earn the utility's allowed rate of return on TES programs that have do not pass the RIM test (i.e. have negative impacts on the most rate payers) and do not pass the TRC test?

Response:

For our response we assume that "TES" in the question is referring to the Thermal Energy for Schools Program. "TES" is more commonly used by the FEU as an acronym for thermal energy services, which is not an EEC program.

Under the current DSM regulation, the Commission cannot determine that a proposed demand-side measure is not cost effective on the basis of the result obtained by using a ratepayer impact measure test to assess the demand-side measure.



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In Order G-36-09, the Commission approved the Companies' proposal to capitalize EEC expenditures, and earn the FEU's allowed rate of return on the net amount of EEC expenditures in rate base over an amortization period of 10 years. The regulatory treatment of EEC expenditures is derived from section 60(1) (b) (ii) of the UCA which says that in setting a rate for a public utility the Commission must have due regard that the rate "provides to the public utility for which the rate is set a fair and reasonable return on any expenditure made by it to reduce energy demands." The capitalization and amortization in rates treatment is also consistent with other utilities in BC such as FortisBC Inc. (Electric) and BC Hydro.

In this Revenue Requirements Application, the Companies are proposing the use of a Societal Cost Test as the appropriate screen. If the Societal Cost Test is not adopted as the appropriate screen, and the TRC remains as the appropriate screen, any programs that do not pass the TRC screen would be rejected, regardless of ownership. This can be seen in the response to BCUC IR 1.201.1, where TRC results for certain technologies in the proposed "Thermal Energy Services for Schools" program range from -0.18 to 0.31, so this Information Request becomes moot.

It should further be noted that the Commission decision dated April 16, 2009 on the original EEC Application stated on page 32 that:

"The Commission Panel accepts the portfolio level approach based on achieving a portfolio TRC level, discussed below, of 1.0 or greater provided that program areas, initiatives or measures with an individual TRC of less than 1.0 are proactively designed and sufficiently support social or environmental objectives."

And the same decision stated on page 34 that:

...the Commission Panel does consider the TRC test to be appropriate and adequate for the purposes of this Application and accepts it as such."

- 5.6 Would FEI agree that many renewable or green energy projects, both regulated and non-regulated, are awarded through competitive tender?

Response:

In British Columbia, FEI is aware that in some cases thermal energy utility service providers are selected on a competitive, qualitative basis in advance of project definition. In other cases thermal energy projects may be initiated on a different basis such as being developed from scratch in collaboration with the customer. The nature of the competitive process leading to the



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building of a green energy project is determined by the customer or developer. An explanation of how EEC funds are provided in the context of circumstances where there may be more than one party (e.g. FEU and Corix) competing for the customer is described in the response to Corix IR 2.5.7.

- 5.7 Why is it appropriate for FEI to allocate EEC funds to support its TES activities in competing on projects that are awarded through competitive tender?

Response:

This question misrepresents the Companies' approach to making EEC funds available to customers. EEC funds are available to all customers that qualify for an EEC program under that program's terms and conditions, regardless of that customer's choice of ownership model for a project, and regardless of whether a project is awarded through competitive tender and whether the successful candidate to own or operate the facility was the FEU, Corix, or any other third party. The Companies are not, "allocating EEC funds to support TES activities in competing on projects that are awarded through competitive tender", as the Information Request states, and that assertion implies that EEC funds are being allocated directly to the FEU to improve its competitive position vis-a-vis another provider of thermal energy services who would not have access to similar funds. In fact, customers receive the EEC funds, and can use them independent of any third party or to partner with whom they see fit.

(B) Application, Appendix G, page 2.

In the Application, FEU states: *The market interest for Thermal Energy solutions is considerable. FEI currently has over 20 projects in development with a total estimated value exceeding \$250 million. Several of these projects are anticipated to be submitted to the BCUC for approval in the near term. Table G-1 provides examples of some of the current Thermal Energy Services projects under development.*

- 5.8 How many of the "over 20" TES projects in development does FEU expect will receive EEC funding?



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Response:

EEC funding is awarded to customers who apply to the program and is dependent on the applicant meeting the requirements of the program. It is unknown how many customers will apply or qualify for the EEC funding at this time.

5.9 How many of these projects are forecast to exceed \$5 million in capital cost?

Response:

Please refer to the response to Corix IR 2.2.1.

(C) Application, Appendices K-1, K-3 and K-4 – EEC initiatives

In the Application, FEU describes various EEC initiatives. Corix wishes to understand the relationship between the EEC initiatives and the development of TES projects.

5.10 How many of the TES projects filed with the Commission started out as EEC initiatives?

Response:

None of the thermal energy services projects filed with the Commission started out as EEC initiatives.

5.11 How many of the "over 20" TES projects in development started out as EEC initiatives?

Response:

None of the thermal energy services projects in development started out as EEC initiatives.



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- 5.12 For those projects that started out as FEU EEC initiatives, how did FEU ensure that all the development time and effort was recorded as part of the TES project cost?

Response:

Please refer to the responses to Corix IRs 2.5.10 and 2.5.11.

- 5.13 How does FEU distinguish between time and effort spent on an EEC project and a TES project?

Response:

Thermal energy services is a class of service within the regulated public utility. By contrast, the EEC activity is within the natural gas class of service, even where the funds are being applied to a thermal energy project, because the EEC funding is promoting conservation and/or the efficient use of energy.

Within FEI there are dedicated employees for each of these activities and hence they charge the majority, if not all, of their time to their respective departments. EEC staff are responsible for developing, designing and operating the FEU's Energy Efficiency and Conservation programs within the FEU's overall EEC initiative. Thermal energy services staff conduct business development and project development activities for the thermal energy class of service. Employees who may work on projects outside their primary line of service allocate their time according to the effort spent on each area of the Companies business on their weekly timesheets.

- 5.14 Do the employees working on the TES project also charge time to the EEC accounts?

Response:

Please refer to the response to Corix IR 2.5.13.



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**6. Reference: FEU Response to BCUC IR No. 204.3 and 202.3.1
EEC Funding**

In response to 204.3 FEU states:

EEC incentives are provided to natural gas customers to undertake measures to reduce their natural gas consumption. This will be the case regardless of whether the customer retains ownership of the energy system or third party ownership arrangements are in effect. In the case of the Thermal Energy for Schools program, incentives will be provided to the schools boards or schools that are having the qualifying new energy systems installed. The level of the incentives will be the same (assuming that the same energy solution has been undertaken) regardless of whether the schools continue to own and operate their own thermal energy systems or another party such as FEI or another utility owns the system and sells thermal energy to the school(s). In other words, incentives will be available for the projects undertaken by third parties, but the incentives will be paid to the school or school board rather than the private company providing thermal energy services.

FEU is willing to meet with customers and their energy service providers to discuss how EEC funds can be accessed and how customers qualify for these programs. [underlining added]

In response to 204.3 FEU states:

Yes, there are other potential providers of thermal energy services for schools in BC. Whether a competitive market exists for providing these services is not relevant to whether an EEC program should or should not be established in the Schools sector.... The purpose of providing EEC incentives is to stimulate incremental energy efficiency and conservation activities by the FEU's natural gas customers and is not dependent on the level of competition that exists among the service providers that will actually install the equipment or carry out the EEC activities.

The basis for the FEU providing incentives to schools and recovering the costs in rates would be the same as for the FEU providing incentives for other EEC programs – they are cost effective EEC programs that fit within the overall EEC portfolio and assist the Companies in meeting requirements of the DSM Regulation. [citations omitted]



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In the Application, Appendix K-1, p. 14, 4.3 Thermal Energy Services for Schools, FEU states:

To foster a competitive market, incentives would be available for projects using a third party ownership model and those owned and operated by school boards. Incentive levels are structured to ensure positive economics for participating school districts, while maximizing ratepayer value....

Request:

- 6.1 Would the customers of third party utilities such as Corix be eligible for EEC funding if they seek to replace the use of natural gas with eligible alternative energy options, in the same manner as if the eligible alternative energy options were offered by FEU. If not, please explain.

Response:

Yes they would, as noted in the response to BCUC IR 1.204.3, quoted in the preamble above.

- 6.2 Explain the incentives that would be available to a school board using a third party TES project ownership structure and those that would not.

Response:

To reiterate, EEC incentives are available to all customers that qualify for any program under that program's terms and conditions, regardless of project ownership. FEU EEC Principle 1, laid out in the Companies' original EEC Application on page 47 states:

"Programs will have a goal of being universal, offering access to energy efficiency and conservation for all ...customers..."

The Companies' EEC activity is governed by the EEC Program Principles; the principle of universality put forward by the Companies in 2008 means that all eligible customers that comply with the terms and conditions of any given program can participate in that program.

As the funding envelope for the proposed Thermal Energy for Schools Program has not yet been approved, and program planning and design have not yet commenced, detailed information about incentives available and how customers qualify cannot be provided at this time.



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If the funding for this program area is approved, the next steps would be to do detailed design of the program and to communicate the program to customers through a variety of channels.

- 6.3 Would the incentive described in 6.2 be available if Corix was the third party TES project owner? If not, please explain.

Response:

Yes. Regardless of the project, all EEC incentives are available to all customers that qualify for a program under that program's terms and conditions.

- 6.4 Does FEU believe a competitive market currently exists for TES services, other than natural gas?

Response:

This question is not relevant to the present proceeding, as it relates to the nature of the market for thermal energy services, and should be pursued within the Commission's Inquiry into FortisBC Energy Inc.'s Offering of Products and Services in Alternative Energy Solutions and Other New Initiatives. Nonetheless, the FEU offer the following for information purposes. The FEU will object to any further pursuit of this issue in this proceeding.

At this time, there are a number of companies participating in various segments of the schools market, sometimes in competition with each other and sometimes complementing each other.

If the commercial arrangements for a particular thermal energy services project are of a nature that is defined as public utility activity by the UCA, then the "public utility" party in those commercial arrangements is subject to regulation by the Commission. The FEU's thermal energy services activities within the schools sector all fall under the UCA definition of public utility activity. The FEU retain companies to provide related services in support of this public utility activity. The FEU believe that this support service market is competitive.



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- 6.5 Does unequal access to the EEC funding – i.e. preference or exclusive access to FEU TES projects – give FEU a competitive advantage in the TES market? Explain.

Response:

The hypothetical scenario as posed in this Information Request does not reflect the FEU's practice. The FEU make all EEC funding available to customers that meet EEC program criteria, without preference, and the same policy will be applied in respect of any future program designed to support thermal energy services regardless of whether the provider of the thermal project is the FEU, Corix, or another third party.



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7. **Reference: Ontario Energy Board Decision EB-2009-0172, pp. 5-6 "Application by Enbridge Gas Distribution Inc. for an Order or Orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas commencing January 1, 2010."**

The OEB decision expressed the following view:

To the extent that the Green Energy Initiatives involve activities for the production of renewable energy, they occur within a competitive market. Other participants would be materially disadvantaged were that to occur. The same line of reasoning applies to the Green Energy Initiatives that do not directly involve the generation of electricity, but which take place within a broad competitive market involving the provision of a variety of new and refined products designed to facilitate the creation of an innovative conservation culture in Ontario. Permitting a well financed public utility to include its costs of participation in this market into its rate base, thereby transferring risk to the ratepayer, is unfair to other market participants.

Request:

- 7.1 Does FEU agree with the view expressed by the OEB? If not, explain why not in the context of the British Columbia TES market?

Response:

This question is not relevant to the present proceeding as it is directed at the thermal energy class of service, and should be pursued within the Commission's Inquiry into FortisBC Energy Inc.'s Offering of Products and Services in Alternative Energy Solutions and Other New Initiatives. Nonetheless, the FEU offer the following for information purposes. The FEU will object to any further pursuit of this issue in this proceeding.

No, the FEU do not agree with those comments in the context of the British Columbia thermal energy services market.

In the context of British Columbia, the thermal energy service projects proposed by the FEU and their ensuing commercial arrangements meet the definition of "public utility" under the UCA. As such, these projects are regulated regardless of whether they are developed by utilities like the FEU, Corix, an energy services company, or another party. The openness, transparency, and BCUC oversight of regulated thermal energy services are also attributes that are appreciated by and in some cases critical for the FEU's customers. To the extent there is a developing competitive market to provide thermal energy service in BC, it is competition among regulated



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utilities (not between regulated utilities and non-regulated entities). Since the regulatory construct is entirely different in Ontario, the OEB Decision and comments are inapplicable in the context of British Columbia and the UCA. Please refer to the responses to BCUC IRs 2.131.1 through 2.131.4.

Regarding the OEB comment on fairness to other market participants, the FEU note that the FEU thermal energy service rate base is segregated from the larger gas rate base and therefore risk is not transferred to the natural gas ratepayers. Similar segregation does not appear to be in place on the part of competitors.