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November 7, 2011

BC Sustainable Energy Association
5-4217 Glanford Avenue
Victoria, BC
V8Z 4B9

Attention: Thomas Hackney, Director

Dear Mr. Hackney:

Re: FortisBC Energy Utilities[1] ("FEU") 2012 and 2013 Revenue Requirements and Natural Gas Rates Application

Response to the BC Sustainable Energy Association ("BCSEA") Information Request ("IR") No. 3

On May 4, 2011, the FEU filed the Application as referenced above. In accordance with the Regulatory Timetable, the FEU respectfully submit the attached response to BCSEA IR No. 3.

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

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[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")

25. Topic: 2012-2013 Plan for Existing Programs

Reference: Exhibit B-25, Rebuttal Evidence

"It is the Companies' intent to present the 2012-2013 EEC Plan to its EEC Stakeholder group in the EEC Stakeholder meeting currently scheduled for November 22, 2011 for their input and feedback."

25.1 Please confirm that the 2012-2013 EEC Plan to be presented at the EEC Stakeholder meeting scheduled for November 22, 2011 is the Plan for existing programs filed as Appendix A to Exhibit B-25; i.e., it does not include new Program Areas.

Response:

The material that the Companies plan to present at the November 22, 2011 EEC Stakeholder meeting will be the plan to carry the Companies through the period of Interim Rate Approval and will likely consist primarily of programs outlined in the 2011 EEC Annual Report. The Companies do not yet have approval of the EEC Expenditure Schedule for 2012-2013, which Appendix A to Exhibit B-25 funds, and upon considering the matter, it is the view of the Companies that it would be premature to present an EEC Plan for 2012-2013 prior to having funding approved to execute the Plan. In the same vein, programs in New Initiatives will not be developed until funding is approved.

Once funding that would support the 2012-2013 EEC Plan is approved, the Companies will call another EEC Stakeholder meeting and will present the full 2012-2013 EEC Plan. Similarly, once funding for the New Initiatives is approved, and the programs are developed, the FEU will present the New Initiatives programs to the EEC Stakeholder group.

25.2 Will the 2012-2013 EEC Plan for existing program areas be modified following input and feedback from the EEC Stakeholder group? If so, how does the Company view modification of the Plan in relation to Commission acceptance of a DSM expenditure schedule based in part on the filed Plan?

Response:

Should the EEC Stakeholder group wish to have significant input to the 2012-2013 EEC Plan for currently-approved program areas, the Companies would likely hold a series of workshops, focused on residential, commercial and industrial customers respectively to garner that feedback. The Companies would then evaluate whether to modify the 2012-2013 EEC Plan based on the feedback received and a decision would be made. The Companies would then communicate that decision to the EEC Stakeholder group.

As it has done in the past, the FEU are seeking acceptance from the Commission of EEC expenditures within defined Program Areas as explained in the Application. The FEU are not seeking, and do not believe it would be appropriate to seek, acceptance of expenditure schedules defined at the program by program level. The EEC 2012-2013 plan is a detailed program plan and the FEU are not seeking acceptance of the estimated expenditures for each program in the plan.

The FEU are committed to managing the EEC portfolio as a whole to meet the Commission's cost-effectiveness test and in accordance with the guidlines in the DSM Regulation. However, the FEU have been clear in the past and in the current Application that flexibility within Program Areas is required to manage the portfolio. As stated in Appendix K-1 of the Application:

> *"Consistent with the Commission's Decision in the EEC proceeding, the Companies propose that*
>
> - *the overall funding level of $74.5 [now $64.5 with the withdrawal of the funding request for NGV incentives] million be considered a level that would not be exceeded;*
> - *the Companies will spend those funds only on approved Program Areas; and*
> - *the Companies will retain their ability to re-allocate funds initially budgeted for one approved Program Area to another approved Program Area(s) and the FEU will report on funding transfers in their Annual Report.*
>
> *The Companies believe that retaining the flexibility to allocate more of the approved funding to successful previously approved Program Areas and scale back other programs that are not performing as well as expected (subject to the requirements and constraints of the DSM Regulation) will continue to provide a strong results-based framework for the Companies' EEC initiatives. It will support the overall success and cost effectiveness of the EEC program portfolio as a whole."*

This approach was accepted by the Commission in its EEC Decision (BCUC Order No. G-36-09) on pages 41-42 and the FEU are seeking similar acceptance in for the 2012 and 2013 test period. As explained above, the flexibility to manage within Program Areas is essential to the FEU's ability to manage the overall portfolio within the cost-effectiveness guidelines of the Commission and the DSM Regulation.

Thus, while the 2012-2013 EEC Plan may be helpful for the Commission in understanding the FEU's EEC programs, the fact that the Commission may accept expenditure schedules in part on the filed plan should not mean that the plan is not subject to change. As indicated on page 1 of the 2012-2013 EEC Plan:

> *"It should be noted that as with all plans, this EEC Plan is subject to change in response to changes in market conditions, customer responses to programs, input from stakeholders including program partners, and changes in the political environment in which the Companies operate."*

Some of the FEU's individual EEC programs (i.e. not Program Areas) are still under development and are subject to change. Further, as programs progress throughout the year, the FEU may need to react to new facts and developments and change programs accordingly. Thus, the FEU do not believe it would be reasonable or possible to set in stone all program details at this time. Rather, the 2012-2013 EEC Plan should be viewed as the FEU's best estimation of its EEC Plan for 2012 and 2013 at the current time.

The information provided to the Commission on the FEU's EEC portfolio together with the FEU's accountability proposals provide the Commission with sufficient information and comfort to accept the FEU's proposed EEC expenditure schedules. Part of the FEU's accountability proposals is to consult with the EEC stakeholder group – the purpose of which is to provide stakeholders with a meaningful opportunity to comment on programs, implying that the programs are still open to change. FEU will also report to the Commission in its Annual Reports on the details of its EEC programs as it has done in prior years, providing the Commission with the actual data from the programs.

26. Topic: 2012-2013 Plan for New Program Areas, Regulatory process

Reference: Exhibit B-25, Rebuttal Evidence

"If the proposed new Program Areas are accepted by the Commission, then the Companies intent is to prepare a similar EEC plan for those Program Areas which would also be presented to the EEC Stakeholder group for their input and feedback."

26.1 When would the EEC plan for the new Program Areas be presented to the EEC Stakeholder group?

Response:

Please see the response to BCSEA IR 3.25.1.

26.2 Does the Company intend to provide the EEC plan for the new Program Areas to the Commission? If so, how would that be done, i.e., as a separate compliance filing, or as part of an annual report?

Response:

Yes, if the Commission were to accept the new Program Areas, the FEU would provide the EEC plan for the new Program Areas to the Commission. The EEC plan would be provided in a compliance report if the Commission so ordered, would be provided to the EEC Stakeholder group (which includes Commission staff) and would also be part of the Annual Reports for 2012 and 2013.

26.3 Is it the Company's proposal that the Commission would accept the proposed DSM expenditure schedule regarding the new Program Areas

Response:

Yes. As stated on page 12 of Appendix K-1 of the Application (Exhibit B-1):

"The Companies' proposed EEC funding envelope for 2012 and 2013 includes funding for several New Initiatives that have not yet been considered by the

Commission and do not meet the cost effectiveness test requirements currently applicable to the Companies' EEC programs. Changes to the cost effectiveness tests such as employing the Societal Cost Test ("SCT") rather than the TRC or amendments to the DSM Regulation will be required in order for these new initiatives to meet cost effectiveness thresholds or other stipulations of the DSM regulation."

Unlike the existing Program Areas, the FEU's proposed New Initiatives will not pass the TRC test. The FEU have described their proposed SCT in Appendix K-1 of the Application. The SCT provides a fairer view of the true costs and benefits of EEC Programs and the FEU believe it should be used in the absence of a further direction from the Province in the form of an amendment to the DSM Regulation. Based on the SCT, the FEU's New Initiatives are part of an overall cost effective EEC portfolio and should be approved.

As set out in the response to BCUC IR 1.201.1, the SCT cost/benefit ratios for the New Initiatives are as follows:

- Thermal Energy for Schools: SCT = 1.26
- Solar Thermal: SCT = 0.38 to 0.53
- Furnace Scrap-It Program = 1.18

As can be seen in Exhibit 1 of Appendix 1 to Exhibit B-25, the portfolio of program activity in existing Program Areas has an SCT result of 3.07, so the SCT benefit/cost ratio for the entire portfolio, including the New Initiatives should they be approved would be above 1.0. Thus, if the Commission accepts the use of the SCT as proposed by the FEU, the portfolio including the New Initiatives is cost-effective and should be accepted by the Commission.

Whether the Commission approves the SCT as proposed by the FEU or a new DSM Regulation is forthcoming from the Province, the Companies will manage the EEC portfolio to the applicable cost effectiveness test. The Companies will report on the actual cost-effectiveness ratios of the portfolio in its Annual Reports as it has done in the past.

26.4 Has BC Hydro or FortisBC Inc. (electric) obtained Commission acceptance of DSM expenditure schedules that include programs that are not defined in detail?

<u>Response:</u>

It is not clear what would constitute “defined in detail”. However, the Companies have provided a level of detail on the new Program Areas in the Application and in responses to information requests that it believes is sufficient for the Commission to accept the proposed expenditure schedule.

27. Topic: 2012-2013 Plan for New Program Areas, content

Reference: Exhibit B-25, Rebuttal Evidence; Exhibit C4-5, BCUC IR 2.4

"…In reply, the FEU note that collaborative efforts on energy efficiency and conservation between the FEU, the FortisBC electric utility (FortisBC), BC Hydro and government are happening at unprecedented levels in British Columbia. Programs conducted jointly between the FEU and other entities include: ..."

"Thus, it can be seen that the Companies' 2012-2013 EEC Plan satisfies Mr. Plunkett's recommendation regarding integration of gas and electric efficiency efforts."

27.1 Please comment on the extent to which the 2012-2013 Plan for new Programs Areas will incorporate the best practices discussed by Mr. Plunkett in BCSEA-SCBC's response to BCUC IR 2.4, Exhibit C4-5.

Response:

Mr. Plunkett's best practices as outlined in the reference above are as follows:

"(1) New construction, renovation, new and end-of-life equipment purchases

As it designs the next generation of its conventional programs, FEU should raise financial incentives for new and replacement equipment purchase to cover 75-100% of the incremental cost of premium efficiency equipment."

It is the view of the Companies that doing so may be appropriate for some of the New Initiatives. In the case of Residential Solar, the City of Vancouver conducted a solar residential water heating pilot which provided approximately 60% of the incremental cost of solar thermal systems. At this level of incentive, uptake was significantly lower than had originally been anticipated, with only 26 participants in this pilot. By contrast, the PSECA Solar initiative, described in the response to BCUC IR 1.203.2.2, provided 100% of the cost of installing solar thermal systems, and there was very strong uptake to the extent that this funding envelope was fully subscribed. In the case of Thermal Energy Services for Schools, the FEU has a pilot currently underway with Central Okanagan School District and will assess the needs in the market. In the case of the Furnace Scrap-It program, the Companies have initially proposed a $1,000 incentive to encourage customers to replace old standard and mid-efficient heating equipment. This incentive level would need to be tested with customers in order to determine if it would be effective in incenting furnace change-outs. In conclusion, the Companies anticipate that the level of incentive provided for New Initiatives would vary by program.

"(2) Customized (non-prescriptive) retrofit investment

a. Customized incentives for commercial and industrial retrofits

As I explained at pages 13-14 in my direct testimony, FEU should structure customized financial incentives to maximize cost-effective savings from retrofit projects, seeking to provide immediate positive cash flow for all retrofits, including the Furnace Scrap-It program. This will enable FEU to provide an incentive strong enough to motivate participant investment while maximizing ratepayer benefits under the utility cost test"

Again, the use of customized incentives will vary by program. The FEU anticipates that any incentives offered under the Thermal Energy for Schools would be customized to the extent that the incentive would likely not be a pre-set amount, but would be based upon a dollar/GJ saved amount, with the total incentive available to the customer varying based upon the volume of energy saved by each project. The same approach is expected to be taken for Solar Air and Solar Commercial.

"b. Diagnostic protocols for guiding project comprehensiveness and cost-effectiveness

To discourage cream-skimming, FEU should develop and issue guidelines to contractors installing residential retrofit measures, including shell measures and early retirement of existing inefficient heating equipment done in tandem."

This is an excellent recommendation for the Furnace Scrap-It program and should the Commission approve the New Initiatives funding, this aspect of program delivery would be considered in program design. One challenge with combining building envelope or shell measures with a furnace retirement program is that typically a furnace is replaced by a licensed gas contractor, while building envelope measures are installed by an insulation contractor, or a general contractor. This challenge could be overcome, however, through consultation with the industry associations working in these areas.

"c. Target highest users first in retrofit market segments

Customers with the highest usage tend to have the greatest potential for cost-effective savings. FEU should target its Furnace Scrap-It program to the highest quartile of its heating customers, in conjunction with whole-house shell treatment."

Incorporating this particular best practice will be challenging given Canada's privacy laws, which prevent sharing customer-specific data with third parties such as gas contractors. The Companies would have to find a way to have customers self-identify as high users; one way to do so may be to use the "Customer Engagement Tool for Conservation Behaviours" program outlined in Section 3.3.7 of Appendix 1 to Exhibit B-25 to provide customers with energy reports comparing their consumption to the aggregated average consumption of their neighbours along with information about incentive programs such as a Furnace Scrap-it program, should funding be approved and such a program developed.

27.2 To what extent will the forthcoming 2012-2013 EEC Plan for new Program Areas involve integration of gas and electric efficiency efforts?

Response:

The Companies would anticipate that any program related to Thermal Energy for Schools could integrate heating and electric efficiency efforts, since a "whole school" approach could be taken wherein a school's heating and hot water systems are upgraded along with lighting and occupancy sensor upgrades. Integration of solar programs with electrical efficiency programs is also quite feasible, as any incentives for Solar Residential could be offered as part of a whole-home retrofit program such as LiveSmart BC, and Solar Air and Solar Commercial incentives could be accessed by the Energy Manager/Energy Specialist teams working in the Companies' commercial and institutional customers.