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October 19, 2012

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: FortisBC Inc. and FortisBC Energy Inc. (collectively referred to as "FortisBC") Application for Approval to Implement an On-Bill Financing Pilot Program in the South Okanagan Area effective November 1, 2012

Response to the British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1

On October 5, 2012, FortisBC filed the Application as referenced above. On October 15, 2012, the Commission responded with a letter enclosing BCUC IR No. 1.

FEI respectfully submits the attached response to BCUC IR No. 1.

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

Yours very truly,

on behalf of

FORTISBC INC. AND FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachment

cc (e-mail only): Registered Parties to the FEU 2012-2013 RRA and FBC 2012-2013 RRA
Eddie Young, BC Hydro, eddie.young@bchydro.com
Erik Kaye, Ministry of Energy, Mines and Natural Gas, Erik.Kaye@gov.bc.ca

1.0 Reference: Regulatory Treatment of Program Costs

Exhibit B-1, Section 3.5, p. 25, Section 3.1, p.14, Section 3.3, p.24

Deferral Accounts

FortisBC states on page 25 of the Application:

> "The OBF Pilot Program is similar to existing Energy Efficiency and DSM expenditure in that the intent is to encourage energy efficiency and conservation and should be treated in the same manner, whereby the expenditures are recovered from all customers."

FortisBC request on page 14 of the Application:

1. FBC and FEI will each establish an account to capture the OBF Pilot Program design, administration and implementation costs, including any regulatory Application costs, during the term of the Pilot Program in a new non-rate base deferral account, the "OBF Pilot Program Costs" deferral account, on a net-of-tax basis and attracting AFUDC (as described in section 3.2.1).[10]

2. FBC and FEI will each establish an account to capture the principal loan balances provided to participating customers of the OBF Pilot Program and the applicable interest charges and recoveries (as described in section 3.2.2) in a new non-rate base deferral account, the "OBF Financing" deferral accounts, on a net-of-tax basis and attracting AFUDC.

3. To capture the interest rate buy-down adjustment to be recovered from all customers (as described in section 3.2.2) for FBC, in a new non-rate base DSM (also known as PowerSense) deferral account, and for FEI, in the existing EEC deferral non-rate base account, both on a net-of-tax basis and attracting AFUDC.

FortisBC states on page 24 of the Application:

> "Any bad debt expenses that are not fully recovered by FortisBC from LLRF [Treasury Board Loan Loss Reserve Fund] are proposed to be recovered from all customers ..."

1.1 Please confirm FortisBC is requesting recovery of the following costs in deferral accounts attracting AFUDC:

- OBF Pilot Program design, administration and implementation costs, including any regulatory Application costs;
- any difference between the interest paid by customers on the OBF Pilot Program loan and the cost to FortisBC of financing the loan; and

- OBF Pilot Program bad debt costs (excluding late fees or other administrative fees) not covered under Loan Loss Reserve Fund.

Response:

The first and second bullets are confirmed; however, a clarification is required on the third bullet. Should FortisBC incur any bad debt costs not covered by the Loan Loss Reserve Fund, including late fees and other administrative fees, those costs would be recovered in the deferral account intended for recovery of the interest rate buy-down amounts as described in section 3.2.3 of the Application.

Further, as described on page 1 as well as section 3.2.2 of the Application, FortisBC is requesting a non-rate base deferral account to capture the principal loan balances and interest charges and recoveries for each of FBC and FEI, attracting AFUDC.

For additional clarity, item 3 on page 14 of the Application refers to section 3.2.2 in the context of describing the nature of the interest rate buy-down. The non-rate base FBC DSM deferral account and the non-rate base FEI EEC deferral account to capture and recover the interest buy-down adjustment and bad debt costs are described in section 3.2.3 of the Application.

1.1.1 If FortisBC is requesting recovery of any additional program related costs, please explain why.

Response:

FortisBC is not requesting recovery of any additional program costs, subject to the response to BCUC IR 1.1.1 above.

1.1.2 Would FortisBC be amenable to recovery of only the costs described in 1.1 above in a deferral account attracting AFUCD? If no, please explain why not. If yes, please provide an updated Draft Order.

Response:

FortisBC assumes the acronym AFUCD in the question was intended to be AFUDC (Allowance for Funds Used During Construction).

As confirmed in the response to BCUC IR 1.1.1 and BCUC IR 1.1.1.1, FortisBC has only sought recovery of the OBF Pilot Program costs identified in the Application and approval to capture those costs in non-rate base deferral accounts attracting AFUDC. As such, FortisBC does not see the need to provide an updated Draft Order in this regard.

However, FortisBC has noted that the Draft Order may not be specific with respect to the inclusion of bad debt costs within the FBC and FEI deferral accounts. Please refer to Attachment 1.1.2 where FortisBC has provided an updated Draft Order clarifying the inclusion of bad debt costs in the FBC non-rate base DSM deferral account and the FEI non-rate base EEC deferral account as described in section 3.2.3 of the Application.

2.0 Reference: Regulatory Treatment of Program Costs

Exhibit B-1, Section 3.2.2, p.21

FortisBC Financing Costs

FortisBC state on Page 21 of the Application:

> Since FBC and FEI will be providing Program participants with the loan funds, these balances will form part of the Utilities' investment which is financed with a combination of debt and equity, pursuant to the approved capital structures of FBC and FEI. This means that the loan balances will attract the Utilities' cost of financing, which is the after-tax WACC, or AFUDC, forecast to be approximately 6.6% and 6.8% for FBC and FEI, respectively, for the term of the Pilot Program. It should be noted that the WACC for the Utilities could be subject to change as a result of the Generic Cost of Capital proceeding and future revenue requirements applications.

2.1 Have FortisBC considered as an option 'ring fencing' the financing of these loans from its other debt obligations, and so identifying the utility's incremental financing costs associated with this pilot rather than using the after-tax WACC? If no, please explain why not. If yes, please provide the utility's estimated incremental cost of capital for the loans provided under this pilot.

Response:

No, FortisBC did not consider the alternative approach posed in BCUC IR 1.2.1, as it is not the appropriate regulatory treatment for the type of investment that the OBF Pilot Program represents. The OBF Program, though pilot at this stage, results in a longer term investment by the utilities to provide customer benefits and is akin to investment in fixed assets or EEC or DSM programs. Therefore, it is appropriate for these prudently incurred expenditures to be financed with the allowed return on rate base, as proposed by FortisBC. The proposed treatment of the amounts in the non-rate base deferral account is consistent with the financial treatment of other similar type of expenditures, which also have a similar purpose.

The proposed treatment for the OBF loans to attract the weighted average cost of capital rate in accordance with each utility's approved capital structure is also consistent with the financing for FortisBC's current investments in energy efficiency initiatives, including FBC's Demand Side Management Programs (PowerSense), FBC's historical energy management loans and FEI's Energy Efficiency and Conservation programs.

2.2 Would FortisBC be amenable to using its incremental financing costs associated with this pilot (rather than WACC) to determine the cost difference between (i) the interest paid by customers on the loan and (ii) the cost to FortisBC of financing the loan? If no, please explain why not. If yes, please provide an updated Draft Order.

Response:

No, FortisBC would not be amenable to using its incremental financing costs to determine the cost difference as described above. Please refer to the response to BCUC IR 1.2.1 which explains why FortisBC did not consider incremental financing.

On Page 22 of the Application, FortisBC states that:

> "FBC is seeking approval for a new DSM non-rate base deferral account to record the interest rate buy-down from this Pilot Program" and
>
> "FEI is seeking to expand the existing EEC non-rate base deferral account, which was previously approved through Commission Order No. G-44-12 … to include the allocation of the interest rate buy-down from this Pilot Program."

2.3 Please explain why FEI would not establish a separate non-rate base deferral account to capture the interest rate buy-down from this Pilot Program (same treatment as FBC), so that all costs related to the Pilot could be separately accounted for.

Response:

FEI did not request the establishment of a separate non-rate base deferral account to capture the interest rate buy-down because of the relatively small amount of the expected balance (approximately $22 thousand) while taking into consideration that an account with a similar purpose and intent was already in place (the non-rate base EEC deferral account). Further, based on the balance and the activity in the OBF Financing account, FEI will be able to track the cumulative balance of the interest rate buy-down at any given time and therefore does not require a separate account for that purpose.

2.3.1 Would FEI be opposed to creating a separate non-rate base deferral account for this purpose? Why?

Response:

For the reasons stated in the response to BCUC IR 1.2.3, FEI does not believe that a separate non-rate base deferral account is practical; however, FEI would not be opposed to the creation of a separate non-rate base deferral account attracting AFUDC.

If segregated from the existing non-rate base EEC deferral account, FEI would capture the allocation of the interest rate buy-down from the Pilot Program as well as loan participants' defaults and bad debt costs, in the event that the Loan Loss Reserve Fund is not available, in a non-rate base deferral account attracting AFUDC. FEI would transfer this account to rate base effective January 1, 2015, with an amortization period of ten years through the delivery rates of all customers, resulting in the same treatment as would be achieved under FEI's proposal using the existing account.

3.0 Reference: Program Terms and Conditions

CEA, Section 17.1 (10); Exhibit B-1, Section 2.3.4, p. 11

Credit Collection Policy

Section 17.1 (10) of the Clean Energy Act (CEA) states:

> "A prescribed public utility has the same remedies in the event of a borrower's failure to pay an amount under a financing agreement that has been incorporated into its rates as it has for a borrower's failure to pay any other rates the borrower is obligated to pay as a customer of the public utility."

FortisBC state on page 11 of the Application:

> "If a customer only makes a partial payment and falls into arrears or defaults on the Program loan, FortisBC will initiate a collection process that follows FortisBC's existing Dunning Collection Process (see Appendix B)."

3.1 Please confirm that a customer who receives a loan funded by FEI is at risk of having their gas service disconnected in the event of a default, but would not be at risk of having their electricity service disconnected.

Response:

Confirmed.

3.2 Please confirm that a customer who receives a loan funded by FEI is at risk of having their gas security deposit applied to any unpaid balance, but would not be at risk of having their electricity security deposit applied to any unpaid balance.

Response:

Confirmed.

3.3 If FortisBC is unable to confirm either of the questions above, please explain if this could be inconsistent with Section 17.1 (10) of the CEA.

Response:

Please refer to the responses to BCUC IRs 1.3.1 and 1.3.2.

4.0 Reference: Program Terms and Conditions

Exhibit B-1, Appendix G, Sheet 43B, Page 15A-2, Appendix C, Appendix A, Section 5

Eligible Improvements

FortisBC state in Appendix G (Sheet 43B of FortisBC Inc. Tariffs and Page 15A-2 of FortisBC Energy Inc. Tariffs) that an eligible energy efficiency improvement must "be a qualified retrofit measure under the Ministry of Energy, Mines and Natural Gas LiveSmart BC program."

FortisBC state in Appendix C (FortisBC Pilot Program Details) that eligible measures include home heating and cooling systems and, potentially, the costs of energy assessments.

FortisBC include in Appendix A of the Application the Improvement Financing Regulation. Section 5 of these regulations states the following Prescribed Improvements:

a. air sealing;
b. mechanical ventilation;
c. attic insulation;
d. exterior wall insulation;
e. basement, crawlspace and header insulation;
f. primary method of heating occupied space;
g. domestic hot water heating;
h. window and door replacement.

4.1 Please provide a definition of the term 'qualified retrofit measure under the Ministry of Energy, Mines and Natural Gas LiveSmart BC program' which could be included in the tariff.

<u>Response:</u>

The intent of this phrase is to align the minimum energy efficiency performance standards with those being promulgated by government through its residential home retrofit program, LiveSmart BC. These standards can change over time; thus, FortisBC has used the phrase "qualified retrofit measure" rather than specifying specific performance levels for each measure.

Although the wording used is appropriate in light of the above response, to make it even more transparent, alternative wording to that proposed could be, "meet the minimum energy efficiency performance standards required to be eligible for an incentive under the Ministry of Energy, Mines and Natural Gas LiveSmart BC program".

4.2 Will supplementary home heating systems, home cooling systems and energy assessment costs be considered eligible energy efficiency improvements for the purposes of the OBF pilot? If yes, please explain if this is consistent with the Prescribed Improvements in the Improvement Financing Regulations.

Response:

No, as FortisBC understands it, the items mentioned in the question will not be considered eligible improvements for the purposes of the OBF pilot.

5.0 Reference: Program Terms and Conditions

Exhibit B-1, p. 12, Appendix G, Sheet 43A, Page 15A-1

Renters

FortisBC state in Appendix G (Sheet 43A of FortisBC Inc. Tariffs and Page 15A-1 of FortisBC Energy Inc. Tariffs) that eligible customers include those that receive or will receive service from the Company and who are the lawful owner of an eligible Premise.

FortisBC state on page 12 of the Application:

> "FortisBC residential customers who own a specified building and who pay the utility bill will be eligible for the OBF Pilot Program, whether or not they are renting their home to a tenant."

5.1 In the event that the property owner has more than one account with the utility providing the loan financing (for example, a home residence as well as a rental property), which account would the OBF loan be billed to for the loan related to the rental property?

Response:

The loan will be billed to the electricity account associated with the premise for which the loan is intended. Therefore, in the example provided above, the loan would be billed to the account for the rental premise or property.

5.2 Please describe the collection policy that will be used in the event of default where the owner pays the utility bills, but the tenant receives the service.

Response:

Under the OBF Pilot Program, the collections process does not change where an owner pays the utility bills while a tenant receives the service. In the Pilot Program, a billing notification and a Notice of Disconnection will be sent to the premise address associated with the loan by FEI or FBC or both, as appropriate. Prior to disconnection, a door tag is generally left at the premise provided there are no access issues. If a door tag is not left at the premise, a phone call will be made to the account holder. If there are no acceptable payments or payment arrangements made in response to these notices, the service can be disconnected.

FortisBC notes that it is not generally aware of whether a premise is occupied by the account holder or another person.

6.0 Reference: Measurement and Verification Plan

BC Energy Plan, p. 5; Exhibit B-1, Section 1.1, p. 1, Section 3.2, p. 16

Page 5 of the BC Energy Plan states:

> "...the plan supports utilities in British Columbia and the BC Utilities Commission pursuing all cost effective and competitive demand side management programs."

FortisBC state on page 1 of the Application:

> "Learning outcomes from this Pilot Program will be provided to the British Columbia Ministry of Energy, Mines and Natural Gas (the "Ministry") to assist it with developing content for future legislation."

FortisBC state on page 16 of the Application:

> "The Program costs for the OBF Pilot Program are forecast to be approximately $132,000 for the balance of 2012, $66,000 in 2013 and $84,000 in 2014 for total forecast OBF Pilot Program costs of $282,000."

6.1 Do the Program costs of $282,000 include a Measurement and Verification (M&V) budget that would allow FortisBC to estimate the Modified Total Resource Cost Test and Utility Cost Test should the pilot be expanded? If no, please explain why not.

Response:

An allowance of $45,000 for Monitoring & Evaluation (M&E), including M&V aspects, is built in to the OBF pilot program cost as per Table 3.1. The outcomes of the Evaluation undertaken using this allowance will allow FortisBC to estimate the California Standard Practice Demand Side Management Benefit-Cost tests (including the Utility Cost Test) as well as the Modified Total Resource Cost Test for the Pilot Program.

6.1.1 If Program costs do not include an M&V budget, would FortisBC be willing to develop and implement an M&V plan for this pilot? If yes, please estimate the additional costs.

Response:

Please refer to the response to BCUC IR 1.6.1.

Attachment 1.1.2

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BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER

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DRAFT ORDER

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

and

An Application by FortisBC Inc. and FortisBC Energy Inc.
For Approval to Implement an On-Bill Financing Two-Year Pilot Program in the South Okanagan Area Effective November 1, 2012

BEFORE:

(Date)

WHEREAS:

A. The *Clean Energy Act*, section 17.1, requires prescribed public utilities to offer financing to eligible persons for improving the energy efficiency of a building, or part of a building;

B. On July 24, 2012, the Improvement Financing Regulation was issued and subsequently amended on September 13, 2012, providing further requirements and prescriptions for the financing program to be established by a prescribed public utility;

C. Both FortisBC Inc. and FortisBC Energy Inc. are prescribed public utilities for the purposes of section 17.1 of the *Clean Energy Act*;

D. On October 5, 2012, FortisBC Inc. (FBC) and FortisBC Energy Inc. (FEI) (collectively the Utilities) applied for approval, pursuant to the *Clean Energy Act,* section 17.1(9) and sections 58 to 61 of the *Utilities Commission Act*, for the necessary tariff provisions, cost allocation methodology and accounting treatment that will allow the Utilities to introduce the On-Bill Financing (OBF) Program on a two-year pilot basis, in the South Okanagan area, effective November 1, 2012 (Application);

E. The Commission has reviewed the Application and concludes that the requests as outlined in the Application should be approved.

NOW THEREFORE pursuant to Sections 59 to 61 of the Utilities Commission Act, the Commission orders as follows:

1. The OBF Financing Pilot Program, as applied for by the Utilities, is approved effective November 1, 2012, for a two-year period, ending November 1, 2014.

2. Approval of accounting treatment, as described in the Application, related to deferral accounts, is granted as specified below:

   a. For FBC, approval to establish three new non-rate base deferral accounts attracting AFUDC as follows:

      i. OBF Pilot Program Costs Deferral Account: A new non-rate base deferral account attracting AFUDC, to capture, on a net-of-tax basis, the OBF Pilot Program costs, including any regulatory application costs (as described in section 3.2.1 of the Application). Effective January 1, 2015, this account will be transferred into rate base with an amortization period of two years beginning on January 1, 2015, for recovery from all customers.

      ii. OBF Financing Deferral Account: A new non-rate base deferral account attracting AFUDC, to capture, on a net-of-tax basis, the principal loan balances provided to participating customers of the OBF Pilot Program and the applicable interest charges (as described in section 3.2.2 of the Application) and recoveries.

      iii. DSM Deferral Account: A new non-rate base DSM deferral account attracting AFUDC, to capture, on a net-of-tax basis, the interest rate-buy down adjustment to be recovered from all customers as well as loan defaults and bad debt costs not captured by the Loan Loss Reserve Fund (as described in section 3.2.3 of the Application). Effective January 1, 2015, this account will be transferred into rate base with an amortization period of ten years beginning on January 1, 2015, for recovery from all customers.

   b. For FEI, approval to establish two new non-rate base deferral accounts, on a net-of-tax basis, attracting AFUDC, and amendment to one existing EEC deferral account, as follows:

      i. OBF Pilot Program Costs Deferral Account: A new non-rate base deferral account attracting AFUDC, to capture, on a net-of-tax basis, the OBF Pilot Program costs, including any regulatory application costs (as described in section 3.2.1 of the Application). Effective January 1, 2015, this account will be transferred into rate base with an amortization period of two years beginning on January 1, 2015, for recovery from all customers.

      ii. OBF Financing Deferral Account: A new non-rate base deferral account attracting AFUDC, to capture, on a net-of-tax basis, the principal loan balances provided to participating customers of the OBF Pilot Program and the interest rate buy-down adjustment (as described in section 3.2.2 of the Application) during the term of the Pilot Program.

iii. EEC Deferral Account: Amending the existing EEC non-rate base deferral account which attracts AFUDC, to capture, on a net-of-tax basis, the interest rate-buy down adjustment to be recovered from all customers as well as loan defaults and bad debt costs not captured by the Loan Loss Reserve Fund (as described in section 3.2.3 of the Application).

3. Approval of Tariff amendments to the General Terms and Conditions and Rate Schedules for FBC and approval of proposed amendments to the FEI General Terms and Conditions, as outlined in section 4 of the Application and Appendix G, are both granted effective November 1, 2012.

4. The Commission will accept, subject to timely filing, the amended Tariff General Terms and Conditions and Rate Schedule.

DATED at the City of Vancouver, In the Province of British Columbia, this day of <MONTH>, 20XX.

BY ORDER