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October 20, 2014

Via Email
Original via Mail

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. (FBC)

Application for Approval of Demand Side Management (DSM) Expenditures for 2015 and 2016

FBC Final Submission

On August 11, 2014, FBC filed the Application as referenced above. In accordance with Commission Letter L-52-14 setting out the Amended Regulatory Timetable for the review of the Application, attached is the Reply Submission of FBC.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC INC.

Original signed:

Dennis Swanson

Attachment

cc (e-mail only): Registered Parties

BRITISH COLUMBIA UTILITIES COMMISSION

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

and

An Application by FortisBC Inc.

For Approval of Demand Side Management (DSM) Expenditures for 2015 and 2016

REPLY SUBMISSIONS OF

FORTISBC INC.

October 20, 2014

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A. INTRODUCTION

1. FortisBC Inc. (FBC or the Company) sets out below its reply to the Intervener submissions delivered in this matter.

2. FBC continues to rely in this regard on its original submission dated September 29, 2014 (the Main Submission),on its Application for Approval of Demand Side Management Expenditures for 2015 and 2016 dated August 11, 2014 (the Application) and on the evidence as a whole. Intervener(?) points that are not specifically addressed herein should not be taken to be agreed to.

3. Intervener submissions were received on October 10, 2014 from interveners to the Application with the following summary of their positions:

   a. British Columbia Sustainable Energy Association and the Sierra Club of BC (BCSEA) supports Commission acceptance of FBC's requested DSM expenditures for 2015 and 2016.[1] FBC's reply submissions do not address BCSEA's submissions further.

   b. British Columbia Old Age Pensioners' Organization et al. (BCOAPO) supports Commission acceptance of FBC's requested DSM expenditures for 2015 and 2016.[2] FBC's reply submissions do not address BCOAPO's submissions further.

   c. Commercial Energy Consumers of British Columbia (CEC) recommends the Commission reject FBC's requested DSM expenditures for 2015 and 2016 as insufficient. However, CEC supports Commission acceptance of FBC's 2015-16 DSM Plan, as filed, should the Commission find that the proposed total spending allotment is sufficient.[3] FBC addresses the specific issues raised by CEC in Part One of its submissions below.

   d. Industrial Customers Group (ICG) submits that the Commission should undertake program design changes in the industrial sector through consultation with industrial customers, and order FBC to match BC Hydro's level of funding to industrial customers

[1] BCSEA Final Submission, p. 1
[2] BCOAPO Final Submission, p. 2
[3] CEC Final Submission, pp. 1-2

for energy efficiency studies.4 FBC addresses the specific issues raised by ICG in Part One of its submissions below.

e. Zellstoff Celgar Limited Partnership (Celgar) requests that the Commission Panel make determinations in this Application with respect to a separately-filed complaint by Celgar with respect to its eligibility for DSM incentives. Celgar makes no submissions on FBC's requested DSM expenditures for 2015 and 2016.5 FBC addresses the final submission of Celgar in Part Two of its submissions below.

PART One: **ISSUES RAISED WITHIN THE SCOPE OF THE APPLICATION**

B. 2015 AND 2016 DSM EXPENDITURES AND PROGRAMS

I. Sufficiency of Proposed Expenditure Levels

4. CEC submits that while FBC's proposed expenditures for 2015 and 2016 are an approximate return to 2013 Actual levels, they still remain significantly lower than 2013 planned spending.[6] CEC also points to planned expenditures levels for 2012 through 2016 as evidence that there is no trend towards increasing DSM spending over the short and mid-term, suggesting this is contrary to the intent of the provincial government and the interests of persons receiving, or who will receive energy.[7] CEC claims that declining DSM expenditures since 2012 result in significantly decreased planned savings by 2016 and that proposed 2015 and 2016 spending should be compared to 2013 planned expenditures.[8]

5. FBC disagrees with these suggestions and responds as follows:

a. FBC submits that the trend of decreased spending and savings noted by CEC is a mischaracterization and oversimplification of the relationship between the prior actual and the 2015 and 2016 planned expenditures and savings. Planned expenditures and savings in the Commercial and Industrial sectors for 2015 have not changed dramatically

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4 ICG Final Submission, p. 6
5 Celgar Final Submission, p. 6
6 CEC Final Submission, p. 3
7 CEC Final Submission, p. 4
8 CEC Final Submissions, pp. 4-5

from 2013 levels, and the decreased savings in 2015 and 2016, as compared to 2013, is mostly attributable to the residential sector. Provincial and/or federal Energy Efficiency (EE) regulations have phased out incandescent light bulbs, mandated ENERGY STAR performance levels for major household appliances and electronics and raised the prescriptive requirements for new home construction. These regulations have impacted savings targets for FBC's residential programs: savings that would otherwise be captured by FBC in the residential sector are now the market standard. This means that FBC is no longer able to incent customers to purchase more efficient measures since inefficient measures are no longer available for purchase in the marketplace.[9]

b. FBC has used the same methodology outlined in its 2012 Long Term DSM Plan to determine 2015 and 2016 expenditure levels. FBC has also adjusted the proposed 2015 and 2016 DSM expenditure levels by the 2013 Actual program results, where required. The 2013 Actual program results are representative of actual market capacity.[10]

c. FBC's response to BCUC IR 1.8.1.1 provides explanations for the differences between actual 2013 expenditures and planned 2013 expenditures. Many of the factors that impacted 2013 actual expenditures, such as the cessation of provincial incentives through LiveSmartBC, are still present, and it would be remiss of FBC not to adjust 2015 and 2016 expenditures and programs based on its experiences implementing the Company's 2013 Plan.

d. Finally, CEC claims that the "intent of the provincial government" is increased DSM spending levels year over year. The Amendment to the DSM Regulation broadens low-income eligibility and changes the Long Run Marginal Cost (LRMC) to be used by the Company in the calculation of the economic benefits of DSM expenditures to an LRMC based on "BC Clean" and renewable resources.[11] The Amendment does not prescribe the level of DSM expenditures in a year nor the rate at which economic potential must be undertaken. It cannot be inferred from the Amendment that the provincial government intends that DSM expenditures must increase every year.

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[9] Exhibit B-1 – s 4.1, p. 9
[10] Exhibit B-5 – FBC Response to BCUC IR 1.7.1
[11] Exhibit B-1 – s.1, p. 1

6. FBC also disagrees with CEC's assertion that "the objective should reasonably be to increase spending on a year to year basis".[12] This oversimplification of DSM does not take into account that demand-side measures must be cost-effective within the meaning prescribed by regulation and must be in the interests of persons in British Columbia who receive or may receive service from the public utility. Simply increasing DSM spending year over year may not be in the interest, as defined by the UCA, of persons who receive service from the public utility if the measures fail to consider BC's energy objectives or are not cost-effective within the meaning of the DSM Regulation[13]

7. Finally, the proposed 2015 and 2016 DSM Plan includes 91 and 94 percent, respectively, of the higher (Scenario 3) achievable potential identified by the 2013 Conservation Potential Review (CPR) update.[14]

II. Industrial Program Expenditure Levels

8. ICG's Final Submissions deal primarily with the issue of the industrial sector incentive levels. ICG is arguing for higher incentive levels in the industrial sector, based on a number of reasons. This is an argument that ICG has raised in the past, including in the Company's 2012 and 2013 Revenue Requirements Application (2012-13 RRA). The Commission determined in that process, in Order G-110-12, the following with respect to raising industrial incentive levels:

> *The Commission Panel does not accept ICG's request to direct FortisBC to match BC Hydro's industrial incentives or to implement an energy manager program. The Commission Panel acknowledges that BC Hydro does offer larger incentives to its industrial customers. However, we are not persuaded that BC Hydro's level of incentive is necessarily optimal and that FortisBC should move to that level.*[15]

9. ICG claims that the "Commission cannot conclude that the unique characteristics of the BC Hydro and FortisBC service areas can explain the three fold differences in the incentive levels" based on "the evidence filed in this proceeding".[16] However, the evidence does not show that the DSM environment has changed fundamentally since the process in the 2012-13 RRA. The

[12] CEC Final Submission, p. 6
[13] Exhibit B-8 - FBC Response to CEC IR 1.4.2
[14] Exhibit B-5 - FBC Response to BCUC IR 1.7.9
[15] Order G-110-12, p. 139
[16] ICG Final Submissions, p. 6, para. 16

recent Amendment to the DSM Regulation does not have an impact in this regard and the Commission's determination not to direct FBC to raise the industrial incentive levels or change DSM programs to match BC Hydro should stand.

10. Additionally, ICG has mischaracterized FBC's evidence on the record in this process. ICG states on p. 3, para. 7 of its Final Submissions, "Even FortisBC acknowledges that increasing program incentives will increase program savings" and again in para. 15, ICG states that FBC "acknowledges that increases in program incentives will increase cost-effective DSM savings in the industrial sector". ICG does not provide a reference to the record that indicates where FBC has stated this position. In response to ICG IR 1.7.9, FBC has stated that there is no known formula that correlates increasing incentive levels to increased results. If there is such an equation it is subject to diminishing returns: for example, doubling the incentive may only increase results by half.

11. Throughout ICG's submissions, ICG advances that FBC should be increasing industrial participation in its DSM programs by increasing incentive levels, increasing programs and increasing funding for energy efficiency studies.[17] FBC has proposed incentive levels that will generate good program participation, but leave room for increases in the future if energy and capacity surpluses are reduced or eliminated.[18] Participation levels are governed by a variety of aspects including, but not limited to, customer awareness, product availability, market capacity, incentive rate, and customer risk tolerance.[19]

III. UNDERSPENDING OF PLAN LEVELS

12. CEC raises concern with FBC's "significant underspending in recent years" and submits that "there is no reason to presume that FBC will make all the Approved spending without direction from the Commission to do so". CEC also states that "the Company has a financial incentive to underspend DSM" and recommends to that the Commission undertake to require assurances from FBC that the budget will not be underspent.[20]

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[17] ICG Final Submission, paragraphs 5, 6, 9, 15
[18] Exhibit B-5 = FBC Response to BCUC IR 1.4.2
[19] Exhibit B-10 - FBC Response to ICG IR 1.7.6
[20] CEC Final Argument, pp. 8-10

13. FBC takes exception to CEC's characterization that the Company has a history of underspending its DSM Plan. On average, FBC has expended 100 percent of plan costs over the past ten years (2004-2013), and has achieved an average of 115 percent of plan savings over the same time period.[21] CEC's concern regarding "significant underspending in recent years" does not recognize the considerable increase in DSM planned expenditures in 2011 from 2010 (by nearly double) and the challenges associated with ramping up for, and executing, a much larger plan than in previous years.

14. In addition, CEC's characterization of "significant" underspend in 2012 and 2013 is exaggerated. FBC achieved 92 percent of 2012 plan expenditures and achieved 99 percent of plan savings. In 2013, 84 percent of plan expenditures and 94 percent of plan savings were achieved.[22] As previously stated, underspend in 2013 was primarily related to reduced contributions from the provincial government for the LiveSmart program and provincial and/or federal Energy Efficiency (EE) regulations phasing out incandescent light bulbs, mandating ENERGY STAR performance levels for major household appliances and electronics and raising the prescriptive requirements for new home construction. These factors have all been taken into consideration in setting the DSM expenditure levels for 2015 and 2016.[23]

15. On one hand, CEC is arguing that 2015 and 2016 expenditure levels should match 2013 plan expenditure levels, rather than the lower 2013 actual expenditure levels. On the other hand, CEC raises concerns over underspending plan expenditure levels. FBC's actual experience delivering programs in 2013 has been used to inform the 2015 and 2016 expenditure levels to ensure that FBC's DSM program levels are realistic and achievable and to minimize any risk of underspending.[24]

16. Finally, the benefit to FBC shareholders due to underspend of the 2013 DSM Plan, as shown in response to CEC IR 1.12.2, is a negligible amount of approximately $0.02 million. In addition, net

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[21] Exhibit B-8 - FBC Response to CEC IR 1.12.3
[22] Exhibit B-5 - FBC Response to BCUC IR 1.5.1
[23] Exhibit B-1 – s 4.1, p. 9
[24] Exhibit B-5 - FBC Response to BCUC IR 1.8.1.1

(rate-base) underspend is accounted for through rate base adjustments in future revenue requirements applications.[25]

IV. DSM PROGRAMS

17. In general, no concerns were raised by interveners with respect to FBC's proposed DSM programs for the 2015 to 2016 period.

18. The issues raised by ICG regarding the industrial sector DSM programs are primarily related to overall funding and incentive levels, and FBC has addressed these issues in section A (II) above. In regards to changing the program design, the Commission in Order G-110-12 further states:

> *As noted earlier, in the Panel's view, BC Hydro and FortisBC are different utilities, operating in different contexts. The Commission Panel is not prepared to direct FortisBC to implement the same DSM programs as BC Hydro, particularly in the industrial sector where the customer base is very different.*

C. LONG RUN MARGINAL COST

19. FBC notes that no interveners have raised concerns regarding the use of the LRMC level of $112 per MWh.

D. TOTAL RESOURCE COST TEST AND PARTICIPANT COST TEST

20. CEC submits that the DSM portfolio for 2015 and 2016 "may be overly conservative" and that it would be "reasonable for the overall portfolio to have a TRC Benefit/Cost ratio approaching 1, rather than 2".[26] In addition, CEC believes it is appropriate for the TRC Benefit/Cost ratios for each of the sectors to approach commonality and therefore additional programs and services could be added to the Commercial and Industrial sectors.[27]

21. The proposed Commercial/Industrial programs already include all of the DSM measures identified in the 2013 CPR Update that are economic; thus inclusion of additional programs and measures before the next Conservation Potential Review would not be appropriate.[28] In

[25] Exhibit B-8 - FBC Response to CEC IR 1.12.2
[26] CEC Final Submission, pp. 12-13
[27] CEC Final Submission, p. 14
[28] Exhibit B-8 - FBC Response to CEC IR 1.12.9

addition, equal TRC ratios across the sectors are not indicative of equality in DSM programming across sectors, but rather indicate equality in economic potential only.[29] The higher TRC Benefit/Cost ratios of the Commercial and Industrial sectors show the relative economic strength or value of the program measure, meaning that the commercial and industrial customers enjoy stronger project economics than other customer classes.[30]

22. ICG takes issue with the use of the Participant Cost Test (PCT) to evaluate program design, stating that the TRC is identified by DSM Regulation as the test to evaluate DSM programs, and that the PCT cannot be used to support the conclusion that customers in the industrial sector enjoy strong project economics.[31] FBC has used the TRC test as the legislated determinant of measure, program, sector and portfolio cost-effectiveness.[32] The TRC test, however, does not dictate the benchmark incentive rate, and so FBC uses the PCT as a secondary indicator to help inform the benchmark incentive rate. PCT results are not used to set the overall DSM funding envelope.[33] The PCT serves as a relative indicator of the payback period for program participants. Raising the industrial incentive levels, as requested by ICG, would result in the industrial sector enjoying a much higher PCT, relative to other participants, which could raise concerns of equity between customer classes.[34]

23. Despite CEC's concerns with respect to the TRC Benefit/Cost ratios of the Commercial and Industrial sectors, it states that the cost-effectiveness tests are acceptable.[35]

E. SUPPORTING INITIATIVES AND MONITORING AND EVALUATION

24. No concerns were raised by interveners regarding the Company's proposed supporting initiatives and monitoring and evaluation plan for the 2015-2016 period.

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[29] Exhibit B-8 - FBC Response to CEC IR 1.12.14
[30] Exhibit B-10 - FBC Response to ICG IR 1.7.2
[31] ICG Final Submission, pp. 3-4, para. 8
[32] Exhibit B-5 - FBC Responses to BCUC IR 1.2.1 and 1.2.2
[33] Exhibit B-10 - FBC Responses to ICG IR 1.7.2 and Exhibit B-5 - BCUC IR 1.2.2.2
[34] Exhibit B-5 - FBC Response to BCUC IR 1.2.2.1
[35] CEC Final Submission, p. 15

PART Two: **ISSUES RAISED OUTSIDE THE SCOPE OF THE APPLICATION**

F. THE CELGAR DSM COMPLAINT

25. The entirety of the Celgar Final Submission is related to a complaint Celgar filed with the Commission on August 28, 2014. FBC responded to Celgar's complaint on October 6, 2014 as part of the Commission's standard complaint process.[36] The Commission advised Celgar that it has until October 28, 2014 to provide a reply to the Company's response. Instead, it appears that Celgar has chosen the Final Argument phase of the 2015-16 DSM Expenditure Application to provide its reply to FBC, as the "issues for consideration relevant to the complaint are arguably beyond those usually considered in a complaint and include statutory interpretation".[37] Celgar has now decided that the BCUC's complaint process is not the appropriate process for its concerns despite having filed its complaint with the BCUC after the filing of the Application and after the regulatory process for the Application had been set out, and before the complaint process has been closed and a determination made. In its intervention letter for the Application, dated August 28, 2014, Celgar refers to a separate complaint filed with the Commission pursuant to section 25 of the UCA. Celgar's request in its Final Submissions that the Commission now deal with its complaint as part of this Application is duplicative to the separate complaint process that is ongoing. Accordingly, Celgar's request that the Commission deal with its complaint as part of this process should be dismissed. The BCUC's complaint process is laid out in detail on its website and in guidelines; Celgar should have known what the BCUC complaint process entailed prior to filing its complaint. As such, FBC has not responded to the points improperly raised by Celgar in this proceeding.

G. CONCLUSION

26. Given all the above, FBC reaffirms its request that the Commission accept the DSM expenditures as filed in the Application, further described in the Company's information request responses and in the Main Submission, namely:

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[36] Complaints filed with the Commission following the process as laid out in the BCUC Customer Complaints Guide – April 2013 found at: http://www.bcuc.com/Complaint.aspx

[37] Celgar Final Argument, para. 7

a. Acceptance of the detailed DSM expenditure schedules contained in Appendix A of the Application (Exhibit B-1). Specifically, FBC is requesting acceptance in respect of its Application as follows:

b. DSM expenditures of up to $7.3 million for 2015; and

c. DSM expenditures of up to $7.5 million for 2016.

27. ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: October 20, 2014

[original signed]
Dennis Swanson