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April 10, 2018

BY ELECTRONIC FILING

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

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

Dear Sirs/Mesdames:

Re: FortisBC Inc. Application for Acceptance of 2018 Demand-Side Management Expenditures – Project No. 1598934

Please find enclosed for filing the Reply Argument of FortisBC Inc., dated April 10, 2018, with respect to the above-noted matter.

Yours truly,

FARRIS, VAUGHAN, WILLS & MURPHY LLP

Per:

Nicholas T. Hooge

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

BRITISH COLUMBIA UTILITIES COMMISSION

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

and

FortisBC Inc. 2018 Demand-Side Management Expenditures

REPLY ARGUMENT OF FORTISBC INC.
April 10, 2018

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Nicholas T. Hooge

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A. Introduction

1. FBC sets out below its reply to the Final Argument filed by Interveners to this proceeding pursuant to the Regulatory Timetable established in Commission Order G-53-18. Capitalized terms used in this Reply Argument have the same meanings as defined in FBC's Final Argument, dated March 20, 2018.

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

3. Overall, each of the four Interveners that participated in this proceeding are supportive of the Commission's acceptance of FBC's 2018 DSM Plan and expenditure schedule, as filed, albeit with various comments and reservations being made on specific topics. The following is a summary of what FBC understands to be the Interveners' respective positions and the main points made in their submissions.

4. *BCSEA*. BCSEA supports Commission acceptance of FBC's 2018 DSM expenditure schedule.[1] Specific issues raised in BCSEA's Final Argument are that:

   - FBC should move quickly to accelerate participation in the Residential Air Source Heat Pump (**ASHP**) program.[2]

   - In BCSEA's view, FBC's planned spending level for the Low Income program represents an "unjustified scaling back" of that program.[3]

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[1] BCSEA Final Argument, p. 1
[2] BCSEA Final Argument, p. 3-4
[3] BCSEA Final Argument, p. 4

- BCSEA disagrees with FBC's legal analysis in respect of the applicability of the "fuel switching" energy objective set out at section 2(h) of the *CEA* in light of the amended *GGRR*.[4]

5. *ICG*. ICG also supports and recommends Commission acceptance of the 2018 DSM Plan; however, ICG premises its support on the Commission rejecting FBC's use of the "sliding scale mechanism" in respect of DSM incentives for self-generation customers under the 2018 DSM Plan.[5] ICG also does not accept FBC's explanation for its 2017 DSM performance in the industrial sector and submits that, despite the increase in the industrial incentive rate, FBC should be directed to "do more in this area".[6]

6. *CEC*. The CEC recommends that the Commission accept FBC's 2018 DSM expenditures of $7.9 million as outlined in the 2018 DSM Plan.[7] Additional issues raised by CEC are as follows:

- The CEC recommends that the Commission "direct" FBC to file a multi-year DSM plan following the decision on the 2016 LTERP.[8]

- The CEC's Final Argument describes FBC's 2018 DSM Plan as a "directional improvement" over the 2017 DSM Plan because the B/C ratios were all higher in the 2017 approved plan compared to the 2018 plan.[9] The CEC further submits that FBC "should be utilizing all cost-effective DSM available and that this should ultimately result in a portfolio TRC of approximately 1.0".[10]

- In addition, CEC submits that the fact the 2018 DSM Plan's energy savings represent approximately 100 percent of forecast annual load growth shows that increases in

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4 BCSEA Final Argument, p. 6
5 ICG Final Argument, para. 22
6 ICG Final Argument, para. 18
7 CEC Final Argument, para. 1
8 CEC Final Argument, para. 2
9 CEC Final Argument, para. 38
10 CEC Final Argument, para. 40

DSM spending could potentially cost-effectively displace existing purchases of additional future power supply.[11]

7. *BCOAPO.* BCOAPO also recommends that the Commission accept FBC's 2018 DSM Plan.[12] Additional points of comment and suggestions from BCOAPO are as follows:

   - BCOAPO reiterates concerns it expressed in the LTERP proceeding regarding FBC's LRMC for clean or renewable BC resources of $100 per MWh.[13]

   - BCOAPO suggests that FBC explain its rationale for concluding that the proposed CET expenditure meets the cost-effectiveness requirements of the *DSM Regulation*.[14]

   - BCOAPO asserts that the 2018 DSM Plan suffers from "the same shortcomings as raised by the Commission regarding the 2017 DSM Plan" because it does not directly incorporate measures from the CPR.[15]

   - BCOAPO makes various submissions regarding FBC's past performance and 2018 plan for the Low Income program and specifically the ECAP measure.[16]

8. FBC addresses these matters in the balance of this Reply Argument, which is organized in approximately the same manner as FBC's Final Argument.

B. Legal and Regulatory Framework Issues

i. CEC Proposed Direction Regarding FBC's Next DSM Expenditure Filing

9. FBC respectfully submits that there is no need for the "direction" the CEC recommends the Commission make in respect of FBC's next DSM expenditure schedule filing. FBC has committed in this process to filing a multi-year DSM expenditure schedule application for 2019 and subsequent years and, absent significant unforeseen circumstances, intends

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11 CEC Final Argument, para. 43
12 BCOAPO Final Argument, p. 16
13 BCOAPO Final Argument, p. 6-7
14 BCOAPO Final Argument, p. 8
15 BCOAPO Final Argument, p. 11
16 BCOAPO Final Argument, p. 15

to do so. As such, there is no need for the recommended direction by the Commission that FBC file a multi-year DSM plan following a decision on the 2016 LTERP.

10. Further, even if it were considered necessary, FBC questions whether the Commission has authority to make such a direction under the *UCA*. Section 44.2(1)(a) of the *UCA* provides that a utility "may file with the commission an expenditure schedule containing … (a) a statement of the expenditures on demand-side measures the public utility has made or anticipates making <u>during the period addressed by the schedule</u>" (underlining added). Accordingly, under the *UCA*, the length of the period covered by a DSM expenditure schedule filing is left to the discretion of the utility.

ii. Fuel Switching as an Applicable Energy Objective

11. As noted, BCSEA disagrees with FBC's legal position regarding the impact of the amended *GGRR* on gas-to-electricity fuel switching programs. Whether the *GGRR's* new treatment of electrification undertakings is compatible with fuel switching being legally considered a "demand-side measure" was the subject of detailed written argument in the 2016 LTERP and LT DSM Plan proceeding. FBC does not intend to repeat those submissions here. FBC does note that BCSEA has not addressed the specific legislative incompatibilities that arise if fuel switching electrification measures are treated as DSM for the purposes of the legislative regime. For example, BCSEA has not said which of the two cost effectiveness methodologies would be used in assessing such programs and why.

12. We expect that the Commission will address this legal issue in its decision on the 2016 LTERP and LT DSM Plan. As a practical matter, fuel switching remains under investigation and FBC expects to receive a report from Navigant on this topic in the second quarter of 2018. Fuel switching was not therefore plausibly included in the 2018 DSM Plan in any event.

iii. Application of section 18 of the CEA to Demand Response

13. On a related point, ICG in its Final Argument indicates that it is supportive of FBC obtaining both fuel switching and demand response reports in 2018, provided that <u>neither</u> of these studies are funded in connection with the 2018 DSM Plan. ICG submits that both

fuel switching measures and demand response programs are eligible for cost recovery under section 18(2) of the *CEA*.[17]

14. FBC respectfully disagrees that demand response programs and/or the funding of related studies are eligible for cost recovery under section 18(2) of the *CEA*. In order to be so eligible, expenditures need to be in respect of a "prescribed undertaking" within the meaning of the *GGRR*. Demand response measures do not meet the descriptions of any prescribed undertakings set out in the *GGRR*.

15. The forthcoming demand response and fuel switching potential reports are part of the broader, additional scope of CPR services being performed by Navigant. We are not aware of any IRs that addressed the source of funding for these reports, but FBC can confirm that they are not part of the 2018 DSM Plan expenditures.

C. 2018 DSM Expenditure Portfolio Issues

i. Appropriate Level of Cost Effective DSM

16. As noted, the CEC supports acceptance of the 2018 DSM Plan at the proposed spending level of $7.9 million and describes this as a "directional" improvement over the 2017 DSM Plan because of the lower B/C ratio. CEC goes on to argue that FBC should be pursuing "<u>all</u> cost-effective DSM available" (underlining added) and that FBC should be ultimately seeking a DSM expenditure portfolio with a TRC of 1.0.

17. In FBC's submission, CEC's argument that FBC should or must pursue <u>all</u> cost-effective DSM is not consistent with the legislative and regulatory regime that applies to this Application. There is no legislated requirement on FBC to that effect in the *UCA*, the *CEA*, or otherwise. Further, the legislature expressly set a DSM target for BC Hydro in the *CEA* that is a percentage reduction of its forecast increase in demand for electricity (66 percent). No such target or requirement was placed on FBC or other public utilities.

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[17] ICG Final Argument, para. 13

18. FBC also submits that CEC's argument in favour of a DSM portfolio with a TRC of 1.0 is based on the incorrect assumption that a B/C ratio of greater than 1.0 means that increased DSM expenditures can or should be made. FBC's DSM targets are based on its overall resource needs as reflected in the most current long term resource plan filed under section 44.1 of the *UCA*. Resource needs are then costed in expenditure schedules like the current Application. The fact that planned DSM spending could be less cost-effective and still pass the legislated TRC test does not change FBC's resource acquisition needs (or lack thereof), nor does it mean that FBC's DSM targets should change or that more DSM resources should be pursued irrespective of long term planning considerations.

ii. Greater than 100 Percent Load Growth Off-set

19. While the CEC supports acceptance of FBC's $7.9 million expenditure schedule as filed, CEC also submits that because the savings from the 2018 DSM Plan represent approximately 100 percent of FBC's forecast load growth in 2018, "increases in DSM spending could potentially cost effectively displace existing purchases of additional future power supply".[18] The CEC also states that it "supports additional spending to maximize savings and does not agree that offsetting 100% of load necessarily represents a maximum savings outcome".[19]

20. Neither CEC nor any other Intervener asked FBC any IRs in this proceeding about whether supply resources could be cost-effectively displaced in 2018 by increasing DSM spending and savings beyond a 100 percent off-set of forecast load growth. Accordingly, there is an insufficient evidentiary record for FBC to address whether such flexibility exists in 2018 and the issue of whether the marginal cost of additional DSM activity is more cost effective than the marginal energy saved would require a complex empirical analysis. FBC submits that such a topic is not appropriate to address in Reply Argument and FBC declines to do so here.

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18 CEC Final Argument, para. 43
19 CEC Final Argument, para. 60

21. Further, in respect of the CEC's apparent contention that FBC should be encouraged to off-set more than 100 percent of load growth through DSM spending, FBC notes that CEC has expressed its support for the High DSM scenario in the LT DSM Plan. The High Scenario contemplates a load-growth off-set that averages 77 percent annually over the LTERP's planning horizon. FBC also reiterates its submission above (and stated in further detail in Final Argument in the LTERP proceeding) that there is no legislative requirement mandating it to pursue any particular level of DSM spending or savings.

iii. Cost Effectiveness: LRMC for Evaluating Cost Effective DSM

22. BCOAPO's Final Argument reiterates the submissions it made in respect of the LRMC FBC has estimated for BC clean or renewable resources in the 2016 LTERP and LT DSM Plan proceeding.

23. In FBC's submission, the issues related to the LRMC are more appropriately addressed in the LTERP process and the Commission's forthcoming decision. FBC relies on the submissions it made in its Final Argument and Reply Argument in that regulatory proceeding. Again, from a practical perspective, the issues noted by BCOAPO do not impact the 2018 DSM Plan. BCOAPO suggests that an LRMC value of $106 per MWh should be used to evaluate the cost effectiveness of DSM measures under the *DSM Regulation*, rather than the $100 per MWh used in the LTERP.[20] However, as noted in the Application and FBC's Final Argument, even at the LRMC of $112 per MWh from the 2012 LTRP, the 2018 DSM Plan would have a TRC of 1.7 and hence remain cost effective within the meaning of the *DSM Regulation*.

iv. Cost Effectiveness: The CET

24. BCOAPO notes in its submissions that the mTRC value of the CET in the 2018 DSM Plan is only 0.8 and therefore not cost effective on an individual measure basis. BCOAPO proposes that FBC explain its rationale for determining the CET measure meets the cost-effectiveness requirements in the *DSM Regulation*.

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[20] BCOAPO Final Argument, p. 7

25. FBC agrees with BCOAPO's suggestion that the CET could be considered a "public awareness program" within the meaning of paragraph (a) of the definition of that term in section 1 of the *DSM Regulation*. On that basis, the CET would be in compliance with the cost-effectiveness provisions of the regulation because section 4(5) provides that, in respect of such programs, the Commission must determine cost-effectiveness based on whether the expenditure portfolio is cost-effective as a whole. As noted, the TRC of the 2018 DSM Plan as a whole is 1.6. The TRC of the Residential sector, of which the CET is a part, is 1.4.

26. In FBC's view the CET is more accurately considered to fall within the definition of an "energy management program", which is one of the "specified demand-side measures" enumerated in section 1 of the *DSM Regulation*. An "energy management program" is defined as "a program to assist customers to optimize energy use". Under section 4(4) of the *DSM Regulation*, the Commission must (like with "public awareness programs") determine cost-effectiveness of specified demand-side measures based on whether the expenditure portfolio is cost-effective as a whole. Accordingly, including the CET in the 2018 DSM Plan does not impact the plan's overall cost-effectiveness under the regulation even though the CET has an individual mTRC of less than 1.0.

v. Commission "Directives" from the 2017 DSM Plan Decision

27. BCOAPO relies on what it describes as "BCUC Directives" from Commission Order G-9-17 as a basis for its comment that FBC's 2018 DSM Plan "suffers from the same concerns as raised by the Commission regarding the 2017 DSM Plan in terms of the range of DSM opportunities".[21]

28. FBC does not consider the Commission's comments in its decision regarding the 2017 DSM Plan to constitute "directives" to FBC for the 2018 DSM Plan or otherwise.

29. Further, the Commission's comments that BCOAPO relies upon were premised on what was described as concern "that existing programming sits on a foundation of recent

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[21] BCOAPO Final Argument, p. 11

activity which in itself can be characterized as having fallen short. In other words, 'more of the same' is inherently plagued by underperformance".[22] The Commission then critiqued FBC's explanation for its past DSM performance. As described in this proceeding, FBC had stronger performance in its DSM programs in 2017. Based on preliminary actual results, FBC exceeded its portfolio level savings target in 2017 and effectively met its spending budget. BCSEA described this performance as a "notable step in the right direction"[23] and the CEC submitted that "FBC has been very successful in its DSM spending achieving more savings than planned at slightly lower cost than approved. CEC commends FBC on this performance".[24]

30. Given the improved DSM performance in 2017, FBC does not agree that the 2018 DSM Plan suffers from the same concerns the Commission identified in respect of the 2017 DSM Plan. Rather than underperformance, the 2018 DSM Plan is based on a foundation of recent activity that can be fairly characterized as strong. In the circumstances, a further year extension of substantially equivalent DSM programming, with a modest increase in spending, is reasonable and should be accepted. The subsequent multi-year DSM expenditure FBC intends to file, which will have the benefit of the market potential study from Navigant, is the appropriate time for FBC to review the range of DSM opportunities it pursues.

D. DSM Program Sector Issues

i. Residential ASHPs

31. As noted, BCSEA strongly encourages FBC "to move quickly to accelerate participation in the ASHP program".[25]

32. In FBC's submission, the approach to the ASHP program contemplated in the 2018 DSM Plan is appropriate, including for the reasons in the IR responses BCSEA itself quotes from at page 3 of its Final Argument. The CEC also submits that what FBC is proposing

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22 Quoted at BCOAPO Final Argument, p. 9
23 BCSEA Final Argument, p. 2
24 CEC Final Argument, para. 12
25 BCSEA Final Argument, p. 4

is "the appropriate approach to take with this program".[26] In support of this submission, CEC notes the declining enrollment in the ASHP program, its TRC of 0.9, and the fact that FBC has identified barriers to entry and will be launching a communications program in 2018 that will address these and work towards increasing enrollment.[27]

ii. Low Income Program

33. BCSEA and BCOAPO both make submissions in respect of FBC's planned funding and savings for the Residential Low Income Program. BCSEA describes the 2018 DSM Plan as involving an "unjustified scaling back of the Low Income program" and that it expects to see higher savings and spending in FBC's subsequent multi-year DSM expenditure schedule.[28] FBC has provided its explanation and rationale for the Low Income budget and savings target in 2018 and will not repeat those submissions again. FBC notes that BCSEA has not identified specific reasons why it does not agree with or accept those submissions. FBC agrees that it is appropriate to re-evaluate the level of spending and targeted savings for this program for the 2019 multi-year DSM filing, which will benefit from the experience in this program in 2018 and the steps FBC intends to take to increase customer participation.

34. BCOAPO similarly questions FBC's explanations for the experience with, in particular, the ECAP program in 2016 and 2017. BCOAPO notes that ECAP performance was below plan in both of these years and was not therefore a recent development. However, the ECAP was first launched in 2016, so the forecasting of spending and savings for that year necessarily did not have an empirical basis of past experience.

35. BCOAPO also expresses concern at FBC's efforts to strengthen the program's outreach and increase customer participation. However, in its IR responses, FBC provided detailed information regarding the extensive stakeholder consultation and initiatives it took to strengthen outreach in 2017, which resulted in a modest increase in participation in the

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[26] CEC Final Argument, para. 52
[27] CEC Final Argument, para. 51
[28] BCSEA Final Argument, p. 4

last quarter of the year.[29] FBC also detailed a number of new initiatives it has planned for 2018 in this regard. BCOAPO has not provided any specific explanation as to why it does not consider these steps to be appropriate and reasonable. FBC submits that they are. FBC also notes CEC's support for FBC's market condition assessment and CEC's submission that adjustments to the Low Income program are appropriate in light of recent market experience.[30]

iii. DSM Incentives for Industrial Self-Generation Customers

36. ICG generally supports acceptance of the 2018 DSM Plan; however, ICG argues that the Commission should reject the application of what it calls the "sliding scale mechanism" to DSM incentives for self-generation customers in the 2018 DSM Plan. This is in reference to FBC's proposed practice for providing DSM incentives to industrial self-generation customers as described in the LT DSM Plan. FBC's proposal was included in the LT DSM Plan based on a comment from the Commission in Order G-27-16 regarding the Self-Generation Policy Application (Stage 1). The LT DSM Plan stated as follows in this regard:

> The benefits of DSM measures and programs are valued on energy savings priced at the LRMC and DCE, over the effective measure lives, and evidenced through reduced utility sales to participating customers. In turn, the DSM financial incentives that are made available to qualified customers, under DSM programs, are predicated on reduced electricity consumption or demand to the Company.
>
> Customers that normally supply a portion of their load through self-generation may be eligible for DSM programs and financial incentives in proportion to the share of potential energy savings to the Company. Qualifying DSM projects will be subject to DSM program terms and conditions, including Measurement & Verification of the DSM project savings and satisfactory evidence of reduced FBC sales to the participating self-generation customer for the duration of the effective measure life. The prorating of DSM incentives would be on a sliding scale ranging from 100% for customers who procure their entire electricity load requirements from the Company on an on-going basis, to zero percent for customers that normally supply their entire load from self-generation.

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29 Response to BCOAPO IR 3.4-3.6, Ex. B-4, p. 5-7
30 CEC Final Argument, paras. 46, 50

37. This proposal has been subject of extensive IRs and written argument in the 2016 LTERP and LT DSM proceeding. FBC does not intend to repeat those submissions here, but considers that its position on this issue is reasonable, appropriate, and consistent with applicable legislation and regulations.

38. ICG argues that FBC's policy for self-generation customers, as described in the LT DSM Plan, should not be implemented in respect of the 2018 DSM Plan because it has not been expressly approved by the Commission and because of an alleged lack of "clarity" and "transparency".

39. In the latter regard, ICG partially quotes from FBC's IR response in this process that, "In the case of a self-generator, FBC undertakes a further analysis ..." ICG then states that it does not understand what FBC means by a "further analysis".[31] However, ICG does not mention that the full quotation from this IR response provides the information it claims to not understand. The full FBC response reads:

> Large custom projects, that may include a number of non-standardized measures, will typically have energy and demand savings calculated by the applicant and/or its retained consultants.
>
> FBC reviews the validity of either approach, including undertaking the necessary measurement and verification protocols to ensure the energy saving materialize as expected.
>
> In the case of self-generator, FBC undertakes a further analysis <u>to determine what portion of the project measure(s) or project savings will accrue to the Company in the form of reduced utility sales to that customer</u>.[32]

40. FBC submits that this is a clear and transparent statement of the circumstances and purpose of the "further analysis" it intends to conduct in respect of DSM projects undertaken by self-generation customers.

41. In respect of ICG's other argument in opposition to application of the "sliding scale" or prorated approach to self-generator DSM incentives, FBC submits that it can only pay

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31 ICG Final Argument, para. 8
32 Response to ICG IR 1.2.1, Ex. B-6, p. 2

incentives for DSM projects if it considers that customers are legally entitled to receive them. For the reasons stated in the LTERP process, FBC does not consider that payment of DSM incentives to self-generator customers, in respect of measures or portions of measures that do not actually reduce FBC's load, to be consistent with the governing legislation and regulations. In the absence of a Commission determination to the contrary, in its decision regarding the LTERP and LT DSM Plan, FBC intends to follow the approach described in that proceeding.

iv. Industrial Sector Performance and Approach

42. While ICG is generally supportive of FBC's 2018 DSM Plan and does not argue that planned spending or savings for the industrial sector are inadequate, ICG does submit that FBC should be directed "to do 'more in this area', including to study the implementation and design of industrial DSM programs".[33] The explanations ICG gives for this position are, first, that residential DSM programs are allegedly "more attractive to FBC than industrial DSM programs" because of mass market advertising in the residential sector and, second, that ICG does not accept FBC's explanations for its industrial DSM performance in 2017 or its year-over-year decrease in target energy savings in this sector.[34]

43. FBC does not understand why the types of advertising involved would make one customer sector "more attractive" than another for the purposes of DSM programming. FBC respectfully disagrees with this suggestion.

44. With respect to FBC's performance and planned savings in the Industrial sector, we note that FBC's 2018 DSM Plan contemplates an increase in spending compared to the 2017 DSM Plan, which in turn was an increase over FBC's planned spending for 2016.[35] Further, ICG provides no explanation why it does not "accept" the reasons given for FBC's performance in the Industrial sector in 2017 or its planned savings target in 2018. In IR responses on this topic, FBC noted that the Industrial sector "is characterized by

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33 ICG Final Argument, para. 18
34 Ibid.
35 BCUC Order and Decision G-9-17, Appendix A, p. 4

large projects undertaken by a small number of high consuming customers that involve a higher investment by the customer than other projects and by longer periods of time to implement and verify".[36] FBC also cited the "time lag between identifying potential projects, and the customers' capital funding cycle" in explaining why higher energy savings from the increase in the industrial incentive rate are not planned for 2018 but are anticipated in subsequent years.[37]

45. FBC submits that these are reasonable explanations for previous performance and present planning in the Industrial sector and that ICG has offered no basis on which the Commission should disagree with or reject them. Accordingly, the "direction" that ICG proposes the Commission make in respect of FBC's Industrial DSM programming is unnecessary and inappropriate.

E. Conclusion

46. For these reasons, and for the reasons stated in FBC's Final Argument, FBC submits that the Commission should accept the 2018 DSM Plan and the expenditure schedule it contains pursuant to section 44.2 of the *UCA.*

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

April 10, 2018

Nicholas T. Hooge
Counsel for FortisBC Inc.

36 Response to BCOAPO IR 1.1.2, Ex. B-4, p. 2
37 FBC Response to BCUC IR 1.1.1, Ex. B-2, Appendix A, p. A13