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September 20, 2018

British Columbia Public Interest Advocacy Centre
Suite 803 470 Granville Street
Vancouver, B.C.
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Attention: Ms. Leigha Worth, Executive Director

Dear Ms. Worth:

Re: FortisBC Energy Inc. (FEI)

Project No. 1598964

Application for Acceptance of 2019-2022 Demand Side Management (DSM) Expenditures Plan (the Application)

Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO) Information Request No. 1

On June 22, 2018, FEI filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-138-18 setting out the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCOAPO IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Commission Secretary
Registered Parties

1.0 Reference: Exhibit B-1, Appendix B, FEI 2017 Annual DSM Report, page 8

The referenced page states (in part):

FEI's 2017 DSM expenditure limit of $35.4 million was accepted on September 12, 2014,pursuant to the Decision on FEI's 2014-2018 PBR Plan. The Company's 2017 DSM expenditures were within accepted levels for 2017 and have increased from 2016 spending of just over $32 million.

As part of the Commission's decision, FEI was granted approval to add $15 million of the requested annual DSM budget to rate base each year of the PBR period, with any additional DSM spend being captured in a DSM non-rate base deferral account attracting AFUDC. Any new amounts accumulated in the non-rate base DSM deferral account are then transferred to the FEI rate base DSM deferral account in the following year. The Commission also approved the amortization of these amounts over 10 years. In accordance with the Commission's decision, $19.039 million was placed in the non-rate based DSM deferral account in early 2018.

1.1 Is it the current approved practice to treat all DSM spending as additions to rate base, i.e., no DSM spending is treated as a current expense?

Response:

Confirmed. Expenditures up to $15 million are forecast in FEI's rate base DSM Deferral Account and expenditures greater than $15 million are accounted for in FEI's non-rate base DSM Deferral Account and then transferred to FEI's rate base DSM Deferral account the following year. No DSM spending is treated as current expense.

1.2 If the response to the preceding part is negative, please explain how FEI determines which DSM expenses are treated as capital additions and which are expensed in the period in which they are incurred.

Response:

Please refer to the response to BCOAPO IR 1.1.1.

1.3 Has it been historically the case that any and all DSM spending above the "base" amount (e.g., $15M for 2017) has attracted the WACC in a non-rate base deferral account and then been subsequently transferred to rate base upon clearing the deferral account balance?

Response:

FEI has used the accounting treatment whereby annual DSM expenditures greater than $15 million have attracted AFUDC (after tax WACC) and then are transferred to rate base in the following year since 2012. Prior to 2012 (years 2009, 2010 and 2011), all DSM expenditures were forecast as part of rate base when setting rates through FEI's annual rate setting applications.

1.4 Can FEI confirm that rate base attracts a WACC return?

Response:

Confirmed. Rate base attracts the Return On Rate Base (RORB) which includes the after tax return on equity and the before tax return on debt, equivalent to WACC.

1.5 Has FEI ever applied for recovery of DSM expenditures and had its recovery request denied by the BCUC? If so, please provide details.

Response:

FEI has not had recovery of DSM expenditures denied. However, FEI applies for acceptance of DSM expenditures and the accounting treatment for recovery of those expenditures before they are incurred. Consequently, FEI requests acceptance of a forecast of expenditures and the Commission accepts in whole or in part those proposed expenditures and the mechanism by which those costs will be recovered. As indicated below, the Commission has not accepted all of FEI's proposed expenditures in the past.

On May 28, 2008, Terasen Gas Inc. (TGI) and Terasen Gas Vancouver Island Inc. (TGVI) (now FEI) collectively filed their Energy Efficiency and Conservation Programs Application (the EEC Application), seeking approval of increased funding of EEC programs for the timeframe of 2008-2010. The EEC Application requested approval for total funding of $56.6 million over three years ($46.944 million for TGI and $9.667 million for TGVI). On April 16, 2009, the Commission released its Decision and Order No. G-36-09 (the EEC Decision), which approved funding in aggregate of $41.5 million ($34.4 million for TGI and $7.1 million for TGVI). In this decision, the Commission reduced the amount of DSM expenditures that FEI had requested in its application.

FEI's 2012/2013 Revenue Requirements Application overall funding request for DSM (EEC) expenditures was $74.5 million for each of 2012 and 2013. With Order G-44-12, the Commission approved $29.7 million and $36.2 million for 2012 and 2013, respectively.

1.6 In the circumstance that all DSM spending were to be considered as rate base additions and that any overspending of approved amounts would be booked in a deferral account to be later transferred to rate base, does FEI agree that it has a financial incentive to overspend on DSM?

<u>Response:</u>

FEI has not put forward any proposals regarding the financial treatment of overspending of approved amounts because the circumstance of overspending has not arisen in the past, and because FEI cannot foresee a scenario where it would overspend without prior Commission acceptance of the expenditures under section 44.2 of the UCA. FEI would not have a financial incentive to overspend approved amounts, because FEI requires prior Commission acceptance under section 44.2 of the UCA before it can recover DSM expenditures in rates, and overspending could harm FEI's relationship with the Commission and other stakeholders.

Regardless of the mechanism used to account for DSM spending, whether rate base or non-rate base deferral accounts are used, FEI works to realize annual expenditures in line with Commission approvals.

2.0 Reference: Exhibit B-1, Appendix A, FEI 2019-2022 Plan, ICF Final Report, Exhibit 1, Exhibit 5, and Exhibit 6 and Exhibit B-1, Table 5-1, 2014-2018 Total DSM Expenditures

Preamble: Per Exhibit 1 and Exhibit 5, of the total proposed DSM spending of $320.816M over the period 2019-2022, a total of $82.403M – 25.69% of all spending – is associated with four Program Areas:

Conservation Education and Outreach	$31.459M
Innovative Technologies	$ 9.762M
Enabling Activities	$34.252M
Portfolio Level Activities	$ 6.840M

Per Exhibit 6, the savings from each of these Program Areas has not been estimated.

Exhibit 1 indicates that the total spending on these four areas is about three times the total proposed spending of $27.626M on the Low Income Program.

For comparative purposes, per Table 5-1, Total Approved DSM expenditures for all programs were $35.874M.

2.1 At a high level, please explain how FEI determined that spending a significant proportion of its overall DSM budget on these four areas – which amount in total to about three times the total proposed for the Low Income program for 2019-2022 and for which no savings have been estimated – is appropriate.

Response:

The four program areas listed in the preamble to the request have the appropriate levels of funding to achieve the objectives within each of those program areas. The budgets for these program areas have been built from the bottom up to deliver on the proposed activities within each program area. The 2019-2022 DSM Plan is an interdependent package of DSM activities and the four noted program areas are an integral component of the success of all other program areas. Please also refer to the response to BCOAPO IR 1.2.2 for further background on how FEI determines DSM spending for the DSM Plan.

The program areas listed in the preamble support all program areas, including Low Income. The following table describes how these four areas support Low Income programs.

Program Area	How Program Area Supports Low Income
Conservation Education and Outreach	Creates awareness for all FortisBC energy efficiency programs. e.g., Community Events.
Innovative Technologies	Studies feasibility and potential for measures that benefit all programs, including low income. E.g. analysis of energy saving potential in manufactured/mobile homes.
Enabling Activities	The Commercial Energy Specialist Program funds multiple Energy Specialist positions dedicated exclusively to Housing Societies.
Portfolio Level Activities	Supports all program areas including Low Income. e.g. FEI office facilities, industry association memberships, EECAG activities, etc.

FEI's 2019-2022 DSM Plan proposes Low Income budget growth that allows for continuation of all existing Low Income programs, expansion of programs that have the opportunity to grow, new programs for Low Income customers, and sufficient budget to ensure supports are in place to address some of the barriers that Low Income customers face. FEI believes that the Low Income program area budget is appropriate based on FEI's experience, the proposed level of growth, and the fact that the Low Income sector will also benefit from the budgets allocated for the above-noted four program areas.

2.2 Please provide, at a high level, the principles and criteria underpinning FEI's determinations of (i) which programs should be included in its DSM plan, (ii) the overall level of DSM spending, (iii) the allocation of the total DSM spend among program areas, and (iv) the allocation of spending between incentive spending and utility spending.

Response:

FEI's list of DSM Guiding Principles can be found on page 26 of the Application. The CPR generally informs program areas by guiding which measures to target and helping to prioritize which of these measures to develop first. However, FEI does not actively prioritize inclusion of certain programs over other programs in the DSM Plan, nor set top-down allocations of total DSM spend among program areas. Instead, the 2019-2022 DSM Plan represents a bottom-up forecast of specific DSM programs.

With respect to the specific items listed in the request:

i. The 2019-2022 DSM Plan prioritizes cost-effective measures to achieve energy savings and support market transformation to higher efficiency equipment and buildings while ensuring compliance with the DSM Regulation.

ii. The overall level of DSM spending flows out of the bottom-up approach described above, and is determined by the incentive levels required to achieve participation, forecast program uptake, and the non-incentive spend required to support program uptake as well as achieve compliance with the DSM Regulation.

iii. Total DSM spend among program areas flows out of the bottom-up approach and is not pre-determined.

iv. Incentive spending is determined by the incentive levels required to achieve participation and forecast program uptake. Non-incentive spending is determined using operational delivery considerations and promotional elements required for specific programs. There is no pre-determined allocation beyond DSM Guiding Principle No. 2 which states that expenditures will have a goal of incentive costs exceeding 50 percent of the expenditures in a given year. For more information on how FEI determines non-incentive expenditures please refer to the response to BCUC IR 1.22.4.1.

3.0 Reference: Exhibit B-1, Appendix A, Exhibit 1

3.1 Please explain why, although total DSM spending on all programs is proposed to be increased by 45.91% - from $66.350M to $96.811M over 2019-2022, the spend on Low Income programs is relatively flat, increasing by only 8.85% - from $6.630M to $7.217M over the same period.

<u>Response:</u>

FEI notes that due to an error in the background spreadsheet, the inflation portion of the DSM expenditures for 2020-2022 was incorrectly calculated in Appendix A, Exhibit 1 and in the Application, Table 6-1. Please refer to the Errata filed concurrently with these IR responses. The correction results in a proposed increase in total DSM spending on all programs by 45.86 percent - from $66.350 million to $96.775 million over 2019-2022.

Low Income expenditures are relatively flat through the 2019-2022 period because the majority of the growth in Low Income expenditures occurs in the first year of the Plan. The Low Income budget in 2018 is $3.77 million whereas the Low Income budget in 2019 is proposed to be $6.63 million which represents a 76 percent increase in the first year of the Plan. This is driven largely by the introduction of several rebates available through the Prescriptive Program, which FEI intends to introduce in 2019.

4.0 Reference: Exhibit B-1, page 19, Table 5-1, FEI Annual Total DSM Expenditures 2014-2018

4.1 Please provide a breakdown of the information in the referenced table broken down by Program Area and by incentive versus utility spending.

<u>Response:</u>

FEI notes that the cited Table 5-1 in Exhibit B-1 was incorrectly labeled and should have been labeled as a figure. The information requested, however, is more readily provided in table format. As both incentive and non-incentive expenditures are utility spending, FEI interprets the request as being for expenditures broken out by incentives versus non-incentives.

The table below provides the incentives, non-incentives and total utility DSM expenditures ($000s) for 2014 to 2017 actuals and 2018 approved values. The information for 2014 to 2017 is as shown in FEI's Annual DSM Reports to the Commission.

Total DSM Expenditures ($000s) 2014 to 2018

Program Area	Incentives					Non-Incentives					Total				
	2014	2015	2016	2017	2018 Approved	2014	2015	2016	2017	2018 Approved	2014	2015	2016	2017	2018 Approved
Residential	8,559	10,531	10,291	9,688	7,895	2,342	2,204	2,240	2,515	3,488	10,901	12,735	12,531	12,203	11,383
Commercial	7,281	8,740	8,560	8,847	8,009	2,133	2,006	2,077	1,987	2,042	9,413	10,746	10,637	10,834	10,051
Industrial	494	578	529	1,614	2,165	224	412	474	485	818	719	989	1,003	2,099	2,983
Low Income	268	910	1,597	1,592	1,920	611	640	679	1,052	1,563	880	1,550	2,277	2,644	3,483
Conservation Education and Outreach	0	0	0	0	0	2,733	2,830	2,415	2,590	2,400	2,733	2,830	2,415	2,590	2,400
Innovative Technologies[1]	-6	217	67	95	568	528	409	690	833	642	522	626	757	928	1,210
Enabling Activities	0	0	0	0	0	1,107	1,189	1,378	1,181	1,915	1,107	1,189	1,378	1,181	1,915
Portfolio Level Activities	0	0	0	0	0	1,277	1,200	1,167	1,559	2,450	1,277	1,200	1,167	1,559	2,450
ALL PROGRAMS	**16,596**	**20,976**	**21,045**	**21,836**	**20,556**	**10,955**	**10,889**	**11,120**	**12,203**	**15,318**	**27,551**	**31,865**	**32,165**	**34,039**	**35,874**

Note 1: In the 2014 Annual DSM Report, FEI explained that an accrual reversal of $7,250 in incentive spending for the Condensing Gas-Fired Ventilation Unit Pilot resulted when a participant was accounted for in the 2013 program year, but withdrew their participation in the pilot in 2014. This accrual reversal accounts for the negative pilot/demonstration project incentive expenditures in the table for 2014.

5.0 Reference: Exhibit B-1, pages 23-24, Table 6-2, Previously Approved versus New Programs

5.1 Please confirm that the only new programs proposed are (i) the Strategic Energy Management Program for Industrial customers and (ii) the Community Energy Specialist Program. If unable to so confirm, please explain.

Response:

Confirmed. In addition to these new programs, several existing programs have incorporated new measures. Details regarding each program are provided in Exhibit B-1, Appendix A.

6.0 Reference: Exhibit B-1, page 35, Funding Transfers

The referenced page states:

FEI proposes that program funding transfer rules follow the same process as was directed by the Commission for the 2012-2013 test period and retained for the 2014-2018 test period. The existing program funding transfer rules are as follows:

- *Funding transfers under 25 percent from one approved Program Area to anotherapproved Program Area would be permitted without prior approval of the Commission;*
- *In cases where a proposed transfer out of an approved Program Area is greater than 15 percent of that approved Program Area, prior Commission approval would be required.*
- *In cases where a proposed transfer into an approved Program Area is greater than 25 percent of that approved Program Area, prior Commission approval would be required.*
- *The transfer of any amount of funds from an approved Program Area to InnovativeTechnologies would require prior Commission approval.*

6.1 For completeness, please clarify what would happen in the event that FEI wished to transfer exactly 25% (i.e., neither greater than nor less than 25%) from one approved program area to another approved program area. Would that require BCUC approval?

<u>Response:</u>

FEI notes there appears to be a transcription error in the preamble to the question. The second bullet point should state 25 percent instead of 15 percent. FEI confirms that the reference to which the preamble refers in the Application correctly states it as 25 percent.

FEI acknowledges that the funding transfer rules cited in the reference above do not clarify how the rule applies to a transfer amount of exactly 25 percent of the approved Program Area expenditure. Based on past Commission decisions, FEI understands that a funding transfer of exactly 25 percent of the receiving Program Area would not require Commission approval.

The Commission's decision on funding transfer rules (other than to new programs) on page 278 of the decision (Order G-138-14) reads as follows:

> **The Commission Panel approves FEU's request that program funding transfer rules follow the same process approved by the Commission for the 2012–2013 test period.**

The Commission's determination regarding funding transfers for the 2012-2013 test period on page 173 of that decision (Order No. G-44-12) reads as follows:

> **To achieve this balance, the Commission Panel has determined that the practice of transferring funds among Program Areas should be allowed to continue but with some limitations. Accordingly, the Commission approves the movement of funding to a maximum of 25 percent from one approved Program Area to another approved Program Area without prior approval of the Commission. In cases where a proposed transfer into an approved Program Area is greater than 25 percent of that approved Program Area, prior Commission approval is required. Finally, the transfer of funds to new programs, not approved in this Application, or to Innovative Technologies (see below) will require prior Commission approval.**

Based on the wording of these decisions, a funding transfer of exactly 25 percent of the receiving Program Area would not require Commission approval.

Practically speaking, however, FEI anticipates that if it determined that a funding transfer of close to or more than 25 percent was going to be necessary, it would initiate discussions with the Commission and apply as appropriate for the required transfer. In other words, FEI would need to take action to either limit expenditures below the 25 percent transfer amount or make application for approval to exceed the 25 percent before the 25 percent mark is actually reached in order to abide by the directive.

6.2 Please confirm that this proposal would allow FEI to decrease its Low Income spending by up to 25% in each and every year of the plan without BCUC approval. If unable to confirm, please explain.

<u>Response:</u>

Not confirmed. While the funding transfer rules enable FEI to move funds among approved program areas, FEI does not interpret the rules to allow FEI to proactively decrease the budget of the Low Income program area or the budget in any other program area in a given year. If it is determined during a given year that a particular program area will not realize its approved expenditure amount due to factors such as changes in market conditions or customer response, and another program area is experiencing higher than expected results, a funding transfer can occur. As discussed in the response to BCUC IR 1.21.3.1, FEI carefully developed the DSM Plan and intends to follow and roll out the DSM Plan that it has worked hard to develop. Transparency in the use of funding transfers out of or into the Low Income and other program areas is provided through the DSM Annual Reports submitted to the Commission.