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

Attention: Mr. Patrick Wruck, Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. 2019-2022 Demand Side Management Expenditures Plan
Project No. 1598964

In accordance with the regulatory timetable for this proceeding set out in Order G-138-18, we enclose for filing the electronic version of the Reply Argument of FortisBC Energy Inc.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

original signed by:

Christopher Bystrom
Professional Law Corporation
CRB/gvm

Enclosure

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF THE UTILITIES COMMISSION ACT,

R.S.B.C. 1996, CHAPTER 473 (THE "ACT")

and

FORTISBC ENERGY INC.

2019-2022 DEMAND SIDE MANAGEMENT EXPENDITURES PLAN

REPLY ARGUMENT OF

FORTISBC ENERGY INC.

NOVEMBER 1, 2018

PART ONE: INTRODUCTION

1. The four interveners who filed Final Arguments regarding FEI's F2019-2022 Demand Side Management Expenditures Plan Application (Application) either support or do not oppose FEI's approval sought. The level of support from intervener groups as expressed in their final arguments is a testament to the depth of consultation that FEI conducted prior to filing and incorporated into its Application. The four interveners who filed Final Arguments were 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), BC Sustainable Energy Association and Sierra Club (BCSEA), Commercial Energy Consumer Association of BC (CEC) and Canadian Office and Professional Employees Union, Local 378 (known as Movement of United Professionals or MoveUP). In this Reply Argument, FEI addresses a number of questions, comments and recommendations made by interveners in their Final Arguments.

PART TWO: REPLY SUBMISSIONS

A. FEI's Planned DSM Spending Levels are Reasonable

2. While BCOAPO questions whether FEI will be able to ramp up its DSM spending to applied-for levels,[1] the CEC and BCSEA push FEI to achieve more, now or in the future. The CEC recommends that FEI "continue to increase its DSM spending over time until it is able to achieve a Portfolio Resource Cost of 1"[2] and BCSEA states that FEI should achieve all cost-effective DSM savings.[3] Between the challenge of ramping up expenditures and the policy direction to increase expenditures, FEI's DSM Plan represents a reasonable and balanced approach that targets a level of DSM spending that achievable and in the interest of customers. The level of DSM expenditures

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1 BCOAPO Final Argument, p. 4.

2 CEC Final Argument, p. 4, para. 3 and p. 10, para. 47.

3 BCSEA Final Argument, p. 4, para. 13.

in the DSM Plan is grounded in FEI's bottom up approach, and is supported by government policy drivers, the B.C. Conservation Potential Review and other third party studies, new programs and initiatives, integration with other utilities, and other factors as discussed in FEI's Final Argument. FEI has recognized and addressed the challenge of ramping of its DSM spending by identifying the deliverability risks to its DSM Plan and developing actions to mitigate those risks.[4]

3. While FEI has significantly increased spending in alignment with policy direction from government, FEI has no obligation to achieve all cost effective DSM savings, and it may not be in the public interest for FEI to do so. The Commission has recognized, for instance, that rate impacts are a factor that may be considered in determining the overall level of DSM expenditures at the portfolio level.[5] Recognizing the competing concerns of achieving energy savings and the cost of DSM programs, FEI's guiding principles steer FEI to a balanced approach where FEI offers programs to all customer groups and seeks to have incentive costs exceeding 50 percent of expenditures.[6] FEI's DSM Plan represents a broad-based portfolio that overcomes market barriers, reaches hard to reach customers, and pursues market transformation, while still being mindful of the rate impacts on all of its customers. Overall, FEI submits that its applied-for expenditure levels are supported by a DSM Plan that is both robust and balanced, and should be approved as filed.

B. FEI's DSM Plan Results in Significant GHG Emission Reductions

4. FEI's DSM Plan supports B.C.'s energy objectives by making significant reductions to greenhouse gas (GHG) emissions.[7] FEI's use of burner tip GHG emissions reductions (and not lifecycle GHG emissions reductions as suggested by BCSEA)[8] is a reasonable approach, and the metric for provincial reporting requirements is best left for government to determine. Further,

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[4] Exhibit B-2, BCUC IR 1.22.3.3.

[5] Order G-138-14 and Decision dated September 15, 2014, FortisBC Energy Inc. Multi-Year Performance Based Ratemaking Plan for 2014 Through 2018, at page

[6] Exhibit B-1, Application, p. 26.

[7] Exhibit B-1, Application, Table 3-1.

[8] BCSEA Final Argument, p. 9, para. 24.

there is no need to develop metrics for the cost-effectiveness of GHG emissions reductions through demand-side measures, as BCSEA suggests.[9] The DSM Regulation provides detailed guidance on how the cost effectiveness of demand-side measures is to be measured. The use of the total resource cost effectiveness test (TRC) ensures that the avoided cost of the carbon tax is a substantial benefit of undertaking DSM, and the modified TRC (MTRC) includes an avoided cost based on a zero energy emission alternative (ZEEA). In this way, both the TRC and MTRC ensure that GHG reductions are an important benefit and driver of DSM activity. As such, FEI sees no value in expending resources to develop additional cost effectiveness metrics for GHG emission reductions.

5. A priority in FEI's 2019-2022 DSM Plan is achieving energy savings through energy efficiency and conservation, which in turn supports government policy to reduce carbon emissions.[10] FEI, however, disagrees with BCSEA that FEI should pursue low carbon electrification measures either inside or outside of its DSM Plan.[11] It is not in the interest of gas customers to incent gas customers to purchase electric equipment and leave the gas system, which would increase the costs and rates for remaining gas customers. FEI is taking other steps to reduce GHG emissions outside of its DSM Plan, including FEI's Natural Gas for Transportation programs, Renewable Natural Gas offer, and Connect to Gas Program.[12] In addition, emerging initiatives and technologies have the potential to enable significant GHG abatement in the long term via the use of FEI's gas infrastructure.[13] FEI is therefore taking the a number of significant steps to reduce GHG emissions and support government policy. FEI's DSM Plan, however, should remain focussed on achieving energy savings through energy efficiency and conservation.

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9 BCSEA Final Argument, p. 9.

10 Exhibit B-6, BCSEA IR 1.1.6

11 BCSEA Final Argument, p. 6 and 8.

12 Exhibit B-2, BCUC IR 1.1.1.

13 Exhibit B-2, BCUC IR 1.1.1.

C. FEI's Proposed Funding Transfer Rules will Benefit Customers

6. The CEC supports FEI's request for a new funding transfer rule to allow FEI to rollover unspent amounts from one year to the next in the same program area.[14] However, based on a concern about potential spending below plan, CEC recommends that the Commission should be required to approve a rollover of more than 15% underspending of the DSM plan as a whole.[15] FEI submits the CEC's recommendation will not provide any benefit to customers or address its concern regarding the potential for FEI to spend less than planned amounts:

(a) If FEI were unable to execute more than 15% of its planned DSM expenditures in a given year, this is precisely when FEI's request to rollover spending to the next year is needed. Requiring FEI to file another application for approval to rollover funds, as suggested by the CEC, defeats the purpose of, and is inconsistent with, FEI's proposed funding transfer rule that the CEC supports.[16] Moreover, diverting FEI's resources to a regulatory process would likely compound any challenges FEI is facing with respect to implementing its DSM Plan.

(b) FEI's funding transfer rule is more effective without CEC's added requirement at addressing CEC's concern with underspending.[17] As FEI has explained in its Application and Final Argument,[18] FEI's proposed funding transfer rule provides flexibility on when FEI can make its planned expenditures and therefore increase FEI's ability to execute on its DSM Plan. The CEC's added requirement will not provide any additional benefit to ratepayers or make it more likely that FEI will be able to spend its planned DSM expenditures. To the contrary, as noted above, adding an additional regulatory process may compound any difficulties being experienced by FEI.

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[14] CEC Final Argument, p. 3, para. 262.

[15] CEC Final Argument, paras. 137-139.

[16] CEC Final Argument, p. 3, para. 2.

[17] As indicated in paras. 3, 137 and 138 of CEC's Final Argument, CEC's proposal is rooted in its concern that FEI may not spend all of its planned DSM expenditures.

[18] FEI Final Argument, paras. 120-125.

(c) There are already mechanisms in place for accountability for the degree to which FEI is not able to spend its planned DSM expenditures. Any spending below accepted amounts will be reported in FEI's annual DSM reports, and can also be examined by interveners and the Commission when FEI files its next DSM plan.

7. FEI therefore submits that CEC's recommendations should not be adopted.

8. BCOAPO does not oppose the approval of FEI's new funding transfer rule, but expresses concerns regarding FEI delaying spending to the later years of the DSM Plan or holding off on or reducing spending in some programs, such as the Low Income and Residential programs, in favour or others.[19] BCOAPO's concerns are misplaced. FEI intends to follow and roll out the DSM Plan that it has worked hard to develop.[20] The proposed funding transfer rule does not create any incentive for FEI to decrease spending at the beginning of the plan or shift planned expenditures from one program to the other. While there may be an increase in spending above plan towards the end of the plan period, any spending will still be in accordance with the DSM Plan which the Commission will have accepted as being in the public interest. It will be beneficial for FEI to have the opportunity to implement the accepted DSM Plan, even if some expenditures occur at a later time than originally planned.

9. Furthermore, FEI does not interpret the funding transfer rules to allow it to make arbitrary reductions to a program, or to hold off on expenditures in one program in favour of another. Rather, as set out in FEI's responses to information requests and Final Argument, 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.[21] In short, the existing and proposed funding transfer rules will give FEI flexibility to adjust

[19] BCOAPO Final Argument, pp. 6-7.

[20] Exhibit B-2, BCUC IR 1.21.3.1; Exhibit B-5, CEC IR 1.16.2 and CEC IR 1.17.2.

[21] Exhibit B-5, CEC IR 1.15.2; Exhibit B-3, BCOAPO IR 1.6.2; FEI Final Argument, paras. 117-118.

to changing circumstances that may arise over the next four years and will increase the probability that FEI will be able to execute on its DSM Plan.

D. DSM Deferral Accounts Will Facilitate Recovery of Actual DSM Expenditures

10. While BCOAPO does not oppose FEI's proposed accounting treatment for DSM expenditures, BCOAPO expresses concern over the potential for "phantom rate base".[22] FEI's proposal is to increase the amount entered into the rate base DSM deferral account from $15 million to $30 million. As FEI has submitted, $30 million is an appropriate amount based on historical and forecast spending.[23] As long as FEI continues to spend more than $30 million per year as it did from 2015 to 2017,[24] and as it is projecting to do again 2018,[25] there will be no "phantom rate base".

11. FEI's proposed accounting treatment is consistent with Order G-44-12, where the Commission determined that $15 million was the appropriate amount to place into the rate base deferral account each year.[26] The Decision accompanying Order G-44-12 states (at page 150):

> The Commission Panel is satisfied that the proposal for $15 million on a net of tax basis to be added to an EEC Rate Base Deferral account in both 2012 and 2013 is in the public interest. The FEU have been ramping up their EEC expenditures over the past two years as programs are implemented and begin to take hold. This is expected to continue into the current test period and there is no evidence to suggest that an amount less than the proposed $15 million is likely to be spent. The Panel has considered the proposal to create an EEC Non-Rate Base deferral account to capture the remaining portion of the EEC costs to a maximum of the approved EEC expenditure amount less the $15 million threshold to be recovered over a ten year period with the method of recovery to be determined as part of the next revenue requirements. We are satisfied that the methodology will allow all applicable costs to be captured and at the same time protect the interests of

[22] BCOAPO Final Argument, p. 7.

[23] Exhibit B-1, p. 36. Exhibit B-5, CEC IR 1.16.2 and 1.16.3.

[24] Exhibit B-1, Table 5-1.

[25] Exhibit B-2, BCUC IR 1.17.2; Exhibit B-5, CEC IR 1.17.2.

[26] Order G-44-12 and Decision dated April 12, 2012, FEU 2012-2013 Revenue Requirements and Rates Application. Online: https://www.bcuc.com/Documents/Proceedings/2012/DOC_30355_04-12-2012-FEU-2012-13RR-Decision-WEB.pdf

> ratepayers by keeping the majority of forecast costs out of rates until the expenditures have been made.

12. FEI's proposal to move to $30 million is consistent with the spirit of the above Decision. Like $15 million at that time, there is no evidence to suggest that an amount less than the proposed $30 million is likely to be spent over the years of the DSM Plan. It is therefore appropriate to increase the amount recorded in the rate base DSM deferral account from $15 million to $30 million.

13. Contrary to BCOAPO's submissions, expensing some DSM amounts in a year is not related to, and will not address, any concern over "phantom rate base." Moreover, expensing DSM expenditures would be inconsistent with the accounting treatment approved by the BCUC since its April 16, 2009 Decision on the Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. Energy Efficiency and Conservation Application.[27] There is no change of circumstance since that Decision that would suggest that the approved accounting treatment is no longer appropriate. In addition, expensing DSM expenditures would result in rate spikes for customers, as DSM expenditures are currently amortized over 10 years. BCOAPO expresses concern on page 8 of its Final Argument about the potential for short-term rate spikes resulting from an 8- or 5-year amortization period. Expensing DSM amounts would result in even greater short-term rate spikes and presumably should give rise to even greater concerns to BCOAPO. Expensing DSM expenditures would therefore not be consistent with the interest of BCOAPO's clients as described on page 8 of BCOAPO's Final Submission. FEI therefore submits that BCOAPO may misunderstand the impacts of expensing DSM amounts in comparison to the existing approved accounting treatment. In any case, expensing FEI's DSM expenditures would be inconsistent with past Commission approvals, and would have detrimental impacts on FEI's customers.

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[27] Online: https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/111641/1/document.do

PART THREE: CONCLUSION

14. FEI submits that the Final Argument filed by interveners demonstrate broad support for FEI's DSM Plan and the approvals sought in its Application. FEI submits that it's proposed DSM capital expenditures and related approvals should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: November 1, 2018

[original signed by Christopher Bystrom]
Christopher Bystrom
Counsel for FortisBC Energy Inc.