

June 27, 2008

Via Email
Original via Courier

Ms. Erica M. Hamilton
Commission Secretary
BC Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

Re: *An Application for a CPCN for the Advanced Metering Infrastructure (AMI)*
Project No. 3698493

Please find enclosed FortisBC Inc.'s Reply Argument with regard to the above noted project. Twenty copies will be couriered to the Commission.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Bennett'.

David Bennett
Vice President, Regulatory Affairs
and General Counsel

cc: Registered Intervenors

REPLY SUBMISSION OF FORTISBC INC.

ADVANCED METERING INFRASTRUCTURE CPCN APPLICATION

A. INTRODUCTION

1. FortisBC Inc. (“FortisBC” or “the Company”) hereby submits its Reply Submission on the Advanced Metering Infrastructure (“AMI”) Application for a Certificate of Public Convenience and Necessity (“CPCN”). Intervenor Submissions were received from the British Columbia Old Age Pensioners’ Organization et al (“BCOAPO”), Mrs. Buryl Goodman, Horizon Industries Ltd. (“Horizon”) Mr. Hans Karow, and Mr. Alan Wait.

B. SUBMISSION OF BCOAPO

(a) Legislative Framework

2. BCOAPO submits at paragraph 4 that there is no “need” for the AMI Project because FortisBC’s existing meter reading capabilities are sufficient to maintain reliable service to customers.
3. When considering evidence before it, the Commission must determine, among other things, whether the project is in the public interest and what constitutes public convenience and necessity. The Utilities Commission Act (“UCA”) sets out certain considerations, however it does not define either public interest or public convenience and necessity. The Commission, in previous decisions, has considered a broad range of interests in determining whether a CPCN should be granted and has noted that the test of what constitutes public convenience and necessity is a flexible test. In FortisBC’s submission the definition of “need” implied by BCOAPO does not define public necessity for the purpose of granting a CPCN. FortisBC submits that the benefits defined in the Amended Application show that this project will benefit customers and is in the public interest.
4. BCOAPO further submits in paragraph 4 that the Project is not required by the BC Energy Plan or the Utilities Commission Act (“UCA”).

5. Section 64.04 of the UCA states that:

“(4) If a public utility, other than the authority, makes an application under the Act in relation to advanced meters, the commission, in considering that application, must consider the government’s goal of having advanced meters and associated infrastructure in use with respect to customers other than those of the authority.”

6. At paragraph 60, BCOAPO recommends that the Commission not approve the Application until after the government’s smart metering regulations are in place.

7. FortisBC submits that there is no reason in section 64.04 (4) or any other section of the UCA to support BCOAPO’s recommendation that the implementation of the AMI Project should be delayed.

8. In FortisBC’s submission, there is no regulatory or legislative basis to deny or to defer the AMI Application. To the contrary, there is a strong regulatory and legislative basis to approve the Project.

(b) Conservation and Rate Design

9. BCOAPO’s submissions suggest that the AMI Project should not be considered independently of future conservation-based rates.

10. In paragraph 46, BCOAPO suggests that FortisBC is asking customers and the Commission to assume and accept that AMI-enabled programs will generate sufficient savings to justify the investment. It is FortisBC’s position that the operating savings and soft benefits outlined in the Amended Application fully justify the incremental rate increase of 0.11 percent. The possible future benefits such as those as a result of DSM programs have not been included in this financial justification. In fact, FortisBC does not purport the AMI Project to encompass rate design and has identified reasons why AMI implementation should precede any application to implement time-based rates on a wider basis (Exhibit B-11, FortisBC’s response to BCUC IR3 Q38.1).

11. In particular, the Company submits that development of time-based conservation rates including widespread Time-of-Use and Critical Peak Pricing would be inefficient or impractical to implement without AMI (B-11, FortisBC response to BCUC IR3 Q38.4.1). Furthermore, time-based conservation rates are potentially ineffective if designed in the absence of the hourly interval data available with FortisBC's "staged approach" to such rate design (B-11, FortisBC response to BCUC IR 3 Q37.1.1).
12. At paragraph 4, BCOAPO states that AMI technology is not necessary in order to implement conservation rates such as residential inclining block rates. FortisBC agrees, in the case of residential inclining block rates. However, FortisBC submits that the range of conservation rates that could be effectively implemented without AMI technology is very limited, and that a broader range of rate structures is available using interval data.
13. BCOAPO at paragraph 34 states that "there is a question" as to the conservation benefits of in-home displays. In Exhibit B-11 (FortisBC's response to BCOAPO IR3 Q37.1.1) the Company agreed that "it is difficult to quantify those benefits and to predict customer behaviour and bill impacts from pilots alone." FortisBC does not agree that there is any question as to the existence of such benefits as outlined in FortisBC's response to BCUC IR3 Q59.4. This is also noted in the response to BCUC IR3 Q37.1.1 which summarizes the document "Advanced Metering Infrastructure: What Regulators need to know About Its Value to Residential Customers". One of the key points in this document states "Response to these [DSM] programs was better when customers had technological tools available to assist them in monitoring and controlling their usage".
14. In Exhibit B-11 (FortisBC's response to Horizon IR3 Q38.5), FortisBC states that "innovative rate structures by themselves could shift between 2 and 5 percent of energy use to periods of lower demand." FortisBC considers that innovative rates comprise one means of achieving demand response, which is defined in Exhibit B-11 (FortisBC's response to BCUC IR3 Q38.1) as "changes in electric usage by end-use customers from their normal consumption patterns in response to changes in the price of electricity over time, or to incentive payments designed to induce lower electricity use at peak times."

15. In section 4 of its submission, BCOAPO expresses concern over impacts to low-income ratepayers. In particular, at paragraph 56, BCOAPO states that low income customers may not have the ability to participate and benefit from the AMI Project, and at paragraph 53, that AMI implementation may impose additional costs on low income ratepayers, for items such as load control devices.
16. FortisBC identified in Exhibit B-11 (FortisBC's response to BCUC IR3 Q57.1) the benefits of AMI implementation that will accrue to low income customers in the same way as to other customers.
17. With regard to future costs, there is no evidence that conservation or rate design measures developed subsequent to AMI implementation will impose costs on low-income ratepayers. The Company states in Exhibit B-11 (FortisBC's response to BCOAPO IR3 Q22.7) that "it has not been determined whether the devices would be provided by the utility or would be the responsibility of the ratepayers" and further states that "this decision is primarily linked to the design of any time based rates, and cost-related issues will form part of the rate design process."
18. FortisBC confirms in Exhibit B-11 (FortisBC's response to BCUC IR3 Q57.6) that the impact on low income customers will be considered in any future application to implement time-based rates.

(c) Project Economics

19. BCOAPO states at paragraph 46 that "FortisBC is asking customers and the Commission to assume and accept that AMI-enabled programs will generate sufficient savings to justify the investment." BCOAPO also notes in section 2b that not all of the Project benefits can be easily quantified, including immediate benefits such as customer internet access to usage data and more accurate meter readings.
20. FortisBC is of the opinion that the benefits immediately available upon AMI implementation, including "soft" benefits listed in Exhibit B-1, page 17, Table 4.1.2 fully justify the approval of the Amended Application.

21. At paragraph 15, BCOAPO states with regard to future benefits, including support for innovative rate structures, load control, remote disconnection, increased meter reading/billing frequency and avoided cost of replacing handheld meter reading equipment in 2013: “In each case, however, ratepayers would need to incur costs before any benefits in these areas could be achieved”.
22. Of the items listed in BCOAPO paragraph 15, ratepayers will not incur additional costs beyond the AMI implementation to achieve support for rate design, or for the avoided replacement of manual meter reading equipment. These benefits will be realized in future, but at no incremental cost to ratepayers. In addition, the other benefits that the Customers will get without the need to incur additional costs are set out in Exhibit B-1 Table 4.1.2 and Exhibit B-6 Table 4.1.1.
23. BCOAPO at paragraph 42 demonstrates that the economics of the AMI Project change if the economic life of the AMI meters is assumed to change. FortisBC submits that there is no credible evidence provided within this application that the depreciation rate currently approved by the Commission and proposed to be used in this Application for customer meters is inappropriate.
24. At paragraph 17 of its submission, BCOAPO states that the Project costs do not include additional capital costs required to meet required project functionality, namely the capability of reading gas and water meters. In Exhibit B-3 (FortisBC’s response to BCUC IR2 Q4.1), the Company confirms that for most AMI technologies there is no incremental cost associated with this requirement and that if any incremental capital costs arise, FortisBC would first require agreements with other utilities that would ensure that FortisBC customers bear none of the related costs.
25. As requested in BCOAPO’s submission, paragraph 39, FortisBC provides the following clarification with regard to the revenue requirement impact associated with the amortization of existing meters. Both analyses assume that the existing meters are written off over a five year period, however the analysis in Exhibit B-6 (FortisBC’s response to BCUC IR2 Q23.2, amended) which results in a Net Present Value (“NPV”) of revenue requirements of 0.22 percent assumed a higher rate of retirement in the early

years. The NPV of 0.14 percent provided in Exhibit B-11 (FortisBC's response to BCUC IR3 Q66.1 is more appropriately based on a constant rate of retirement over the five year period.

26. FortisBC also wishes to clarify the statement made in paragraph 14 of BCOAPO's submission. BCOAPO states that "the majority of residential customers are currently billed monthly but meters are read bi-monthly". This statement (Exhibit B-2, FortisBC response to BCUC IR1 Q9.4) describes the billing of residential customers at FortisAlberta. The majority of FortisBC customers are billed and read bi-monthly. As further stated in paragraph 14, FortisBC "sees moving to a monthly billing based on actual readings".

(d) Project Approval Process

27. BCOAPO requests that if the Request for Proposal process produces a revised cost estimate greater than 110 percent of the CPCN estimate, intervenors in this proceeding should have an opportunity to review the detailed cost estimates.
28. FortisBC does not accept this proposal. It is the Company's position that any review of commercially sensitive information contained in the detailed cost estimates must be limited to the Commission.
29. BCOAPO recommends that, should the Commission approve the Amended Application, it should exclude half of the incremental capital costs of the Amendments to the Application from rate base until such time as the benefits can be "clearly justified through DSM and conservation rate programs".
30. FortisBC does not accept this recommendation. FortisBC only intends to proceed with AMI implementation, upon approval, if all costs are recoverable in rates.

C. SUBMISSION OF MRS. GOODMAN

31. Mrs. Goodman states that the AMI Project will provide the capability to improve customers' awareness of power usage, which is consistent with government policy and is in use by other utilities.

32. Mrs. Goodman recommends approval of the Application. FortisBC acknowledges with appreciation the support of Mrs. Goodman,

D. SUBMISSION OF HORIZON

33. Horizon opposes the Amended Application (item 1.0) on the basis that “it does not make Open Standards mandatory for the Home Area Network” and (item 3.0) a “lack of detail on required features and functions of the Home Area Network for evaluating the vendors”.
34. FortisBC’s position on these issues is provided in Exhibit B-6 (FortisBC’s response to Horizon IR2 Q1.3) and Exhibit B-11 (FortisBC’s response to Horizon IR3 Q10.2).
35. FortisBC notes that Horizon is itself a vendor of home automation and home networking technologies, including in-home display and load control devices. The Company respectfully submits that the Commission ought to accord little or no weight to Horizon’s submissions as they relate to HAN technology.

E. SUBMISSION OF MR. KAROW

36. Mr. Karow refers in his submission to a number of outstanding responses to his information requests. FortisBC confirms that it has responded to all of Mr. Karow’s requests.
37. Mr. Karow also appears concerned with regard to Canadian standards for radiofrequency emissions. FortisBC confirms that the AMI Project will be fully compliant with all relevant legislation.

F. SUBMISSION OF MR. WAIT

38. Mr. Wait opposes approval of the AMI application, primarily for reasons related to future rate design. These concerns are similar to those described by BCOAPO and are addressed in FortisBC’s reply to the submission of BCOAPO above.

39. At paragraph 3 Mr. Wait states that “this is not the time to get the best price on AMI equipment”. FortisBC evidence that costs for AMI technologies are not likely to decrease in the near future is found in Exhibit B-3 (FortisBC’s response to BCUC IR2 Q3.2).
40. Mr. Wait, at paragraph 5, recommends the deferral of the AMI Project in order to monitor the load reduction achieved by other utilities. In FortisBC’s submission, Mr. Wait’s objective is met by the AMI Project. The Company is proposing a staged approach to rate design that will provide immediate benefits to customers and ensure that lessons and outcomes from other utilities’ experience are incorporated into future rate design.
41. FortisBC acknowledges Mr. Wait’s comments regarding cost allocation of distribution meters. Future Cost of Service Analyses will address such cost allocation issues.

G. CONCLUSION

42. For the reasons stated above, and as stated in FortisBC’s Final Argument and in the Amended Application, FortisBC requests that the Original Application as applied for on December 19, 2007 (Exhibit B-1) and amendment filed March 28, 2008 (Exhibit B-6) Amended Application be approved, and a CPCN for the AMI Project be granted.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

A handwritten signature in black ink, appearing to read "DIBH". The letters are stylized and connected.

David Bennett
Vice President, Regulatory and General Counsel