IN THE MATTER OF THE

Utilities Commission Act, R.S.B.C. 1996, Chapter 473

AND

IN THE MATTER OF AN APPLICATION BY FORTISBC INC. FOR ITS 2018 DSM Expenditure Plan

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Final Submissions of the ICG

April 3, 2018

A. Introduction

1) FortisBC (FBC) seeks acceptance of its 2018 DSM Expenditure Schedule (2018 DSM Plan) as set out in Exhibit B-1, and as filed under section 44.2(3) of the *Utilities Commission Act* (UCA). The 2018 DSM Plan does not incorporate the results of the filed CPR. FBC submits that if it had delayed the preparation of the 2018 DSM Plan filing to incorporate the results of the filed CPR and a market potential study[1], the timely acceptance of DSM expenditures for 2018 would not be possible.
2) The 2018 DSM Plan budget of $7.9 million was escalated from the 2017 DSM Expenditure Plan to align with the expenditure level contemplated in the 2016 LTERP and LT DSM Plan pro-forma budget for 2018. In effect, FBC argues that 2018 should be a "bridging year", pending the 2016 LTERP and LT DSM Plan decision and the filing of the next Multi-Year DSM Expenditure Schedule later in 2018. However, a year ago FBC argued that 2017 was a bridging year, and then argued that a schedule that extends activity levels is appropriate, and significant changes make sense only once the CPR and LTERP are fully reviewed. The Commission was not persuaded by that line of argument, and noted that FBC was not precluded from taking advantage of opportunities already identified.[2] Nevertheless, FBC is asking the Commission to accept another "bridging year".
3) FBC forecasts energy savings of 1,188[3] MWh and expenditures of $377,000 for the industrial program in 2018,[4] although the 2018 DSM Plan is a continuation and/or augmentation of programs that FBC is currently implementing, Year-over-year budget expenditure increases are $67,800 ($377k-$309k) or 22%, with a target energy savings decrease of 368 MWh or 24% .[5]
4) The increase in the industrial sector is due to a higher incentive rate of nominal $0.25 per kWh saved (up from $0.15 per kWh), which is expected to increase program participation.[6] The ICG has filed evidence in the 2016 LTERP and LT DSM Plan

[1] Exhibit B-3, p. 5, BCUC 2.4.1
[2] Order G-9-17, Appendix A, p. 10 of 10
[3] FBC Final Submissions, para. 63, counsel for FBC incorrectly identified the energy target savings as 1,888 MWh.
[4] Exhibit B-2, p. A3, BCUC 1.1.1, , Table A1-1
[5] Exhibit B-2-1, Attachment 1.1, p. 11, Table 3.1
[6] Exhibit B-3, p. 41 , BCUC 2.15.1.1

proceeding that compared FBC's $0.15 per kWh saved (now increased to $0.25 per kWh) with BC Hydro's $0.302 per kWh.[7] FBC also plans staff resources for the industrial sector to increase in 2018 in order to administer the Industrial Optimization Program.

5) The year-over-year decrease of the energy savings target of 24% is attributed to a time lag between project identification and the customers' capital funding cycle.[8] As noted below, the ICG does not accept this as an adequate explanation of this material decrease in the energy savings target.

6) The ICG does not object to FBC's request for yet another "bridging year" to accommodate the timing of the release of the 2016 LTERP and LT DSM Plan decision and the need for timely acceptance of DSM expenditures for 2018; provided that the "sliding scale mechanism" that is being considered in the LTERP process is not applied to the 2018 DSM Plan in advance of approval of the "sliding scale mechanism."[9](see next section) That is, until the "sliding scale mechanism" has been approved it should not be applied to any DSM incentives, including industrial sector incentives in the 2018 DSM Plan.

B. Sliding Scale Mechanism and/or Further Analysis

7) The record of this proceeding does not include reference to the "sliding scale mechanism" that was proposed for the first time by FBC in its 2016 LTERP and LT DSM Plan[10], where FBC introduced the sliding scale mechanism as follows:

> "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 ongoing basis, to zero percent for customers that normally supply their entire load from self-generation."[11]

The ICG objected to the sliding scale mechanism and filed information requests and final

[7] 2016 LTERP and LT DSM Plan proceeding, Exhibit C7-9, response to IR 2.1
[8] Exhibit B-2-1, Appendix A, p. A13
[9] Exhibit B-1, last page, FBC references discussions with interveners. During those discussions, the ICG stated that it would support the FBC request for no further regulatory process re the 2018 DSM Plan provided that FBC would not reduce DSM incentives under the 2018 DSM Plan for self-generation customers. FBC did not accept the ICG's offer to support the FBC proposal that no further regulatory process was necessary, and instead continued in this proceeding to provide no certainty nor clarity regarding its intended approach to DSM incentives for self-generation customers under the 2018 DSM Plan.
[10] 2016 LTERP and LT DSM Plan, Exhibit B-1, Volume 2, Section 5.2, p.24
[11] Ibid., p. 24

submissions relevant to the "sliding scale mechanism." FBC should not now be permitted to proceed without the CPR results because such results are being reviewed by the Commission and at the same time proceed with the "sliding scale mechanism" when the mechanism also is being reviewed by the Commission. In other words, the Commission should not accept the 2018 DSM Plan that does not directly incorporate the results of the filed CPR and at the same time incorporate the "sliding scale mechanism."

8) As FBC stated, it was not feasible to evaluate and design new measures and programs in a reasonable timeframe for acceptance of the 2018 DSM Plan.[12] But the "sliding scale mechanism" is in fact a new measure and it is not reasonable to accept the "sliding scale mechanism" as part of the 2018 DSM Plan. Simply, when it has not been approved, it should not be applied. As the ICG argued in the 2016 LTERP and LT DSM Plan proceeding:

> "Customers need and deserve far more certainty regarding how incentives are to be calculated than FBC is willing or able to provide. At least until such certainty is provided, FBC efforts to reduce DSM incentives to self-generation customers should be rejected. As noted above, the ICG is of the view that lack of certainty is only one of many reasons the "sliding scale mechanism" should be rejected."[13]

Nevertheless, it appears that FBC proposes to apply some adjustment, probably the "sliding scale mechanism", to DSM incentives during the 2018 DSM Plan.[14]This was not made clear until FBC stated: "In the case of a self-generator, FBC undertakes a further analysis…" [15] What does FBC mean by "further analysis"? This reference to "further analysis" could not be more mysterious or obscure. It is even more obscure than a reference to the "sliding scale mechanism." It is not acceptable to customers and certainly should not be accepted by the Commission.

9) There is no certainty, clarity, nor transparency about what "further analysis" FBC intends to apply to DSM incentives for self-generators. Whatever FBC intends as part of "further analysis" it has not been approved by the Commission. It is not even clear that

[12] Exhibit B-3, p. 5, BCUC IR 2.4.1
[13] 2016 LTERP and LT DSM Plan proceeding, ICG Final Argument, para. 13
[14] Exhibit B-6, p.2, ICG 1.2.1,
[15] Ibid.

such "further analysis" is one of the issues being considered by the Commission in the 2016 LTERP proceeding. No customers, including self-generation customers, should be left in the position of guessing how FBC intends to calculate for DSM incentives, and with this reference to "further analysis" the uncertainty about such calculations has only increased. In the past and as long ago as 2012, FBC has suspended DSM incentives to self-generation customers instead of defining its "further analysis" approach. This alternative approach should also be rejected by the Commission.

10) The reference to "further analysis" is no more than a poorly considered attempt by FBC to reduce incentives to self-generators with no regulatory or legislative foundation and no regulatory approvals.

11) FortisBC states that it will offer the Custom Business Efficiency program for various industrial end-uses, and prescriptive product rebates (for example, variable speed air compressors and lighting products) will also be offered through the DSM online rebate portal.[16] However, there is no mention of "prescriptive product rebates" being reduced for any reason or for any customers.

12) Although FBC does not mention the "sliding scale mechanism" on the record in this proceeding, the application of the "sliding scale mechanism" to the lighting rebate program is the subject of a complaint by Zellstoff Celgar, which is currently being considered by the Commission, and based on the submissions by FBC in that complaint proceeding it is clear that FBC intends to apply the "sliding scale mechanism" to all DSM incentives made available to self-generators during the 2018 DSM Plan.

C. Fuel Switching and Demand Response Opportunity Assessment Study

13) In response to information requests, FortisBC stated that it is considering a Demand Response (DR) opportunity assessment study, and "may partially fund it out of the 2018 DSM Plan."[17] In Final Submissions, FortisBC states the fuel switching and demand response reports are expected to be completed in the second quarter of 2018.[18] The ICG supports the FortisBC proposal to prepare fuel switching and demand response reports, provided that such studies are not funded out of the 2018 DSM Plan. Both fuel

[16] Exhibit B-2, p. A13, section A4.1
[17] Exhibit B-3, p. 11, BCUC 2.4.5.2
[18] FBC Final Submissions, para. 16

switching measures and demand response programs are eligible for cost recovery under s. 18(2) of the CEA.

D. Industrial Sector DSM Expenditures

14) FortisBC states that increases in industrial expenditures are largely due to customer feedback that indicated larger incentives were necessary to drive energy-efficiency projects. The ICG has told FortisBC repeatedly and for several years that "larger incentives were necessary to drive energy-efficiency projects." Moreover, the ICG has told FortisBC that its incentives are not only not sufficient to drive energy-efficiency projects, but such incentives are much lower than BC Hydro incentives that are sufficient to drive energy-efficiency projects. In response to a BCUC information request regarding the comparison of FBC and BC Hydro incentives,[19] FortisBC provides a Commission quote that misses the following critical conclusion of the Commission:

> "… the Panel agrees with ICG that the significant differences in incentive levels between FBC and BC Hydro industrial programs, when taken together with other considerations (cost of industrial DSM of only 2.0c/kWh, positive RIM and low proposed funding levels compared to previously approved levels/LTRP/other customers) lead to the Panel to believe that FBC could do more in this area."[20]

15) In Final Submissions, FBC also fails to acknowledge the Commission direction:

> "… **the Commission directs FBC to include in its next DSM Annual Report an update on FBC's efforts to identify and mitigate (through DSM programs) market barriers to energy efficiency investment and consumption decisions of its industrial customers**."[21] (emphasis in original)

16) It is noteworthy that the evidence in this proceeding is that Free-Rider are less for the industrial sector than any other sector[22], and at the same time FBC proposes its "sliding scale mechanism" and/or "further analysis". FBC continues to single out industrial customers with targeted measures intended to reduce incentives based on concerns about

[19] Exhibit B-3, p. 31, BCUC IR 2.11.1(b)
[20] Order G-186-14 and Decision, dated December 3, 2014, Application for Approval of Demand Side Management Expenditures for 2015 and 2016, p. 28
[21] Ibid., p. 28
[22] Exhibit B-3, p.16, BCUC 2.5.3, Table 5-1

"actual savings" when the evidence is that FBC should be much more concerned about "actual savings" attributed to DSM incentives for residential and commercial customers. Of course, the cause for concerns in the commercial, residential and industrial sectors are different, one related to free-riders and the other related to load requirements, but in both cases the concern is about "actual savings" that can be attributed to the DSM incentives. All the more reason for FBC to "do more in this area."

17) In this regard, the ICG supports the following FBC comments:

> FBC has increased the industrial incentive rate following stakeholder sessions with several of its key accounts in 2017 and receiving the feedback that, beyond lighting measures, industrial incentives were not generally sufficient to encourage program participation while capital is increasingly constrained. This is particularly noticeable in the wood product industry, which represents a significant share of FBC's industrial load. As such, FBC plans to increase the incentive level to encourage participation from this sector. [23]

As noted above, as long ago as 2014 the Commission agreed with the ICG that not enough was being done in this area [industrial sector]. As long as the "further analysis" approach of FBC is rejected, the 2018 DSM Plan advances the efforts of the ICG to achieve parity with BC Hydro incentive levels. In the event DSM incentives are reduced to self-generation customers, then FBC will undoubtedly continue to underperform in the industrial sector. Moreover, the "mass market advertising" of DSM programs in the residential sector together with advertising for FBC's "brand" will continue to make residential DSM programs more attractive to FBC than industrial DSM programs. For example, to promote incentive programs to the residential sector, "collateral such as brochures, posters, point-of-sale materials, business case reports and promotional items are utilized."[24]

18) For that reason, the ICG does not expect FBC's approach to DSM incentives for industrial customers to markedly change, despite its recognition, however belated, that "industrial incentives were not generally sufficient to encourage program participation." In 2017, FBC underperformed in the industrial sector by 43 percent in savings and 33

[23] Exhibit B-3, p.32, BCUC 2.11.2
[24] Exhibit B-2, p. A14

percent in costs.[25] Just as FBC attributed the decrease in year-over-year (2017 vs.2018) target energy savings to problems with forecasts and time lags, FBC attributes underperformance in 2017 to problems with forecasts and time lags of industrial sector projects.[26] The ICG does not accept problems with forecasts and time lags as an adequate explanation of either the year-over-year decrease in target energy savings nor underperformance in 2017. The ICG submits that once again the Commission should direct FBC to do "more in this area", including to study the implementation and design of industrial DSM programs. Underperformance in 2017 and decreases to target energy savings in 2018 should be further investigated by FBC in consultation with industrial customers before being accepted by the Commission.

E. Cost Effectiveness of the 2018 DSM Plan

19) The ICG supports the FBC submissions that a portfolio level approach to cost effectiveness remains appropriate for review of the 2018 DSM Plan.[27] The ICG also supports the LRMC of $100 per MWh and the DCE value of $79.85 per kW-yr for the purpose of cost effectiveness testing. However, the ICG does not accept FBC's apparent view industrial incentives should be limited by the value of energy savings realized by FBC.[28] The benefits are the energy savings of the energy efficiency measure and such benefits are not limited to energy savings realized by FBC. Nevertheless, the Commission Panel in this proceeding need not make determinations relevant to that issue, provided that the Commission Panel rejects the FBC proposal to apply the "sliding scale mechanism" or any "further analysis" to the 2018 DSM Plan.

F. Adequacy of the 2018 DSM Plan

20) The ICG supports the FBC conclusion that the 2018 DSM Plan meets the adequacy requirements of the *DSM Regulation*.[29]

G. Conclusion

21) The 2017 DSM Plan for the industrial sector did not achieve 2017 energy savings targets

[25] Exhibit B-4, p. 1, BCOAPO IR 1.1.1
[26] Exhibit B-4, p. 2, BCOAPO IR 1.1.2
[27] FBC Final Submissions, para. 31
[28] FBC Final Submissions, para. 32
[29] Exhibit B-2, p.2, BCUC IR 1.1.1

(underperformance of 43%), and the 2018 DSM Plan is for a decrease in energy savings targets of 24%. Moreover, at the same time that FBC plans in 2018 to achieve energy savings targets of 24% below 2017 targets, FBC plans to reduce DSM incentives to self-generation customers. This plan to reduce DSM incentives lacks certainty, clarity and transparency. FBC will also continue to underperform in the industrial sector with reductions to DSM incentives.

22) The ICG supports the FBC proposed 2018 DSM Plan, and recommends acceptance of the 2018 DSM Plan under section 44.2(3) of the *UCA*; provided that Commission rejects the "sliding scale mechanism" or any "further analysis" designed to reduce DSM incentives to self-generation customers under the 2018 DSM Plan.