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BCUC File: 56380

November 15, 2017

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

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

Dear Mr. Wruck:

Re: FortisBC Inc. (FBC)

Application for Acceptance of 2018 Demand-Side Management (DSM) Expenditures

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Pursuant to section 44.2 of the *Utilities Commission Act* (UCA or the Act), FBC seeks British Columbia Utilities Commission (BCUC or the Commission) acceptance of its DSM expenditure schedule for the year 2018, as set out herein (2018 DSM Plan). The 2018 DSM Plan anticipates expenditures on DSM of $7.9 million in total. The following application provides details to support FBC's 2018 DSM Plan and its funding request, including proposed funding for each program area and cost effectiveness results.

Background

On August 8, 2016, FBC filed an application for acceptance of DSM expenditures for 2017 (2017 DSM Plan) of $7.6 million. The 2017 DSM Plan was a continuation of the expenditures and cost-effective programs previously accepted by the Commission in FBC's application regarding its 2015-2016 DSM Expenditure Schedule (2015-2016 DSM Plan). The Commission accepted the 2017 DSM Plan pursuant to Order G-9-17.

On November 30, 2016, FBC filed its 2016 Long Term Electric Resource Plan (2016 LTERP) and Long Term Demand Side Management Plan (LT DSM Plan). The LT DSM Plan included an assessment of the appropriate level of cost-effective DSM resource acquisition to match the Company's resource needs over the LTERP's planning horizon. The savings target presented for the first three years of the LT DSM Plan (2018-2020) was largely an extension of the previously approved 2015-2016 DSM Plan and 2017 DSM Plan.

The High DSM scenario FBC selected for its LT DSM Plan contemplated DSM expenditures for 2018 of $7.9 million and annual DSM savings of 26.4 GWh. These reflect increases of approximately $0.3 million and 0.7 GWh as compared to FBC's accepted DSM budget for 2017 of $7.6 million and savings target of 25.7 GWh[1].

The LT DSM Plan calls for a ramp up in DSM spending and savings, beginning in 2021 to optimize short term utilization of Tranche 1 Energy from FBC's Power Purchase Agreement (PPA) with British Columbia Hydro and Power Authority (BC Hydro).[2] On this basis, the LT DSM Plan targets savings that would offset an average of 77 percent of FBC's forecast load growth annually over the LTERP's 20-year planning horizon.

The regulatory review process for the 2016 LTERP and LT DSM Plan is still ongoing. Interveners filed their Final Submissions on November 10, 2017 and FBC's Reply Argument is scheduled for filing by November 24, 2017. Based on this timing, the Commission's decision on the LTERP and LT DSM will be made, at the earliest, late in 2017 or more likely in 2018. By way of example, when the FortisBC Energy Utilities (FEU) 2014 Long Term Resource Plan was under review, it was approximately 2.5 months between the completion of final written argument and the Commission's decision being rendered.

When the 2016 LTERP and LT DSM Plan were filed, FBC anticipated filing its next DSM expenditure schedule in mid-2017[3] following a Commission decision on the 2016 LTERP and LT DSM Plan. Due to the ongoing regulatory review of the 2016 LTERP and LT DSM Plan, FBC is now seeking acceptance of a DSM budget for 2018 in advance of a Commission decision on the 2016 LTERP and LT DSM Plan, in order to continue offering its existing DSM programs in 2018 without any market disruption.

FBC is requesting acceptance of the 2018 DSM expenditure budget contemplated in the LT DSM Plan of $7.9 million. The 2018 DSM Plan will be a continuation of the expenditures and cost-effective programs previously accepted in the 2017 DSM Plan, with small modifications in order to comply with changes to applicable legislation as discussed further below.

FBC expects to file a multi-year DSM expenditure plan for 2019 onwards in 2018 that addresses any directives from the Commission's decision on the 2016 LTERP and LT DSM Plan.

March 2017 Amendments to the DSM Regulation

The adequacy requirements, in section 3 of the *Demand-Side Measures Regulation* (DSM Regulation), were amended on March 24, 2017 pursuant to B.C. Reg. 117/2017 (the March 2017 Amendment) to include:

[1] 2016 LTERP and LT DSM Plan, Volume 2, Section 3.3, Table 3-2: Pro-forma DSM Savings Targets, pg. 16.
[2] 2016 LTERP and LT DSM Plan, Volume 2, Section 3, pg. 11.
[3] 2016 LTERP and LT DSM Plan, Volume 2, Section 2.1, pg. 6.

(e) one or more demand-side measures to provide resources as set out in paragraph (e) of the definition of "specified demand-side measure", representing no less than

(i) an average of 1% of the public utility's plan portfolio's expenditures per year over the portfolio's period of expenditures, or

(ii) an average of $2 million per year over the portfolio's period of expenditures;

(f) one or more demand-side measures intended to result in the adoption by local governments and first nations of a step code or more stringent requirements within a step code.

The new paragraph 1(e) of the definition of "specified demand-side measure" referenced in the amended section 3, above, is as follows:

(e) financial or other resources provided

(i) to a standards-making body to support the development of standards respecting energy conservation or the efficient use of energy, or

(ii) to a government or regulatory body to support the development of or compliance with a specified standard or a measure respecting energy conservation or the efficient use of energy in the Province.

In addition, a new paragraph was added under section 4(1.1) of the DSM Regulation, the Cost-effectiveness test, as follows:

(d) the benefit of the demand-side measure is what is would have been had no step code been adopted in the Province.

A new definition of the term "step code", used in the amended sections 3(f) and 4.1(d), was also added to section 1 of the DSM Regulation as follows:

"step code", in relation to a building to which Part 3 or 9 of the British Columbia Building Code (the Code) applies, means energy efficiency requirements in a regulation made under section 3 of the *Building Act* that are more stringent than the requirements in

(a) Sentence 10.2.1.1.(1) of the Code, for buildings to which Part 3 of the Code applies, or

(b) Subsections 9.36.2 to 9.36.4 of the Code, for building to which Part 9 of the Code applies …

As shown in Table 1 below, FBC's proposed 2018 DSM expenditure budget addresses section 3(e) of the DSM Regulation by including funding of $80,000 for Codes and Standards (C&S) under Supporting Initiatives. This funding represents 1 percent of the proposed 2018 DSM expenditure budget of $7.9 million. This C&S budget will be allocated to supporting energy efficiency products or installation standards produced by the Canadian Standards Association (CSA), advancing product or building codes, as well as FBC resources used to advance C&S generally.

With respect to section 3(f) of the DSM Regulation, FBC's Supporting Initiatives for its DSM programming includes funding of $75,000 for Community Energy Planning (CEP) assistance that local governments, including First Nations, can access to assist in adopting the progressive provincial Step Code for new construction using FBC's New Home Program under its Residential DSM programs. This is the continuation of an existing FBC DSM measure.

With the addition of the funding to C&S, noted above, and the continuation of the CEP as part of Supporting Initiatives, FBC's DSM programs in the 2018 DSM Plan are in compliance with the existing and new adequacy requirements under the DSM Regulation.

Furthermore, FBC's New Home program offering uses the BC Building Code as the baseline to calculate the benefit/cost ratio in compliance with section 4(1.1)(d) of the amended DSM Regulation.

2017 DSM Expenditure Results and Proposed 2018 DSM Plan

FBC's 2017 actual DSM expenditures to the end of October are $6.1 million, or 80 percent of the approved 2017 DSM Plan, and actual energy savings to the end of October are 22 GWh, or 86 percent of the 2017 DSM Plan target. Based on these YTD results and ongoing DSM activity levels, FBC anticipates achieving its 2017 DSM Plan savings and expenditure targets.

The 2018 DSM expenditure budget is a continuation of the 2017 DSM Plan, with some re-allocation, and additional funding to meet legislative requirements in certain program areas. Table 1, below, provides a comparison of the costs and savings for the accepted 2017 DSM Plan and the proposed 2018 DSM Plan.

Table 1: Proposed 2018 DSM Expenditure Plan

		2017 Approved		2018 Plan			2018/17 Difference	
		Savings MWh	Cost ($000s)	Savings MWh	Cost ($000s)	TRC[4] B/C Ratio	Cost ($000s)	% Diff
1	**Sector**							
2	Residential	10,493	2,718	7,132	2,486	1.4	-231.6	-9%
3	Commercial	13,666	3,131	19,165	3,473	2	341.6	11%
4	Industrial	1,556	309	1,188	496	2.8	187.2	61%
5	**Subtotal**	**25,715**	**6,158**	**27,486**	**6,456**	**1.8**	**297.2**	**5%**

[4] Total Resource Cost (TRC) based on net savings and costs, adjusted by program NTGR (net to gross ratio).

6	Supporting Initiatives	674	742		67.9	10%
7	Portfolio	777	743		-34.2	-4%
8	**Total**	**7,610**	**7,940**	**1.6**	**330.8**	**4%**

The 2018 DSM Plan is a continuation of a similar suite of programs and expenditures that FBC provided customers in 2017. Program area (sector) plan costs have shifted in response to market conditions. FBC is not proposing any new programs, or ending any existing programs, however the 2018 DSM Plan includes the following changes from the 2017 DSM Plan:

- Overall Program expenditures have been increased by 5 percent, or $0.3 million. Residential funding has been decreased by 9 percent or $0.2 million, offset by an 11 percent increase or $0.3 million in Commercial funding, to reflect the 2017 DSM activities in these sectors. The significant increase in the Industrial sector shown in Table 1, above, reflects a higher incentive rate and a re-allocation of staff resources to that program that were included in the Commercial sector previously; and

- Supporting Initiatives includes an increase in C&S funding to comply with the March 2017 Amendment to the DSM Regulation, as described above.

The LRMC and Cost Effectiveness Results

The 2017 DSM Plan used the Long Run Marginal Cost (LRMC) of $112 per MWh for clean or renewable BC resources as set out in its 2012 Long Term Resource Plan (2012 LTRP) and an updated Deferred Capital Expenditure (DCE) factor value of $79.85 per kW-yr. The Commission accepted FBC's 2017 DSM Plan based on those assumptions pursuant to Order G-9-17.

The proposed 2018 DSM Plan uses the updated LRMC value of $100 per MWh filed as part of the Company's 2016 LTERP[5] and continues to use the approved DCE factor of $79.85 per kW-yr. Based on the 2016 LTERP LRMC value of $100 per MWh, the 2018 DSM Plan achieves a Total Resource Cost (TRC) Benefit/Cost ratio of 1.6 at the portfolio level.

Using the 2012 LTRP LRMC value of $112 per MWh, to evaluate the 2018 DSM Plan, results in a marginally higher TRC Benefit/Cost ratio of 1.7 at the portfolio level.

Requirements under Section 44.2 of the UCA

Under section 44.2(5) of the *UCA*, the Commission must consider the following criteria in determining whether to accept a DSM expenditure schedule:

(a) the applicable of British Columbia's energy objectives,

(b) the most recent long-term resource plan filed by the public utility under section 44.1, if any,

[5] 2016 LTERP and LT DSM Plan, Volume 1, Section 9.3.1, pg. 119.

(c) the extent to which the schedule is consistent with the applicable requirements under sections 6 and 19 of the *Clean Energy Act*,

(d) if the schedule includes expenditures on demand-side measures, whether the demand-side measures are cost-effective within the meaning prescribed by regulation, if any, and

(e) the interests of persons in British Columbia who receive or may receive service from the public utility.

Commission Order G-9-17 determined that the 2017 DSM expenditure schedule, a continuation of the 2015-16 DSM Plan, met the criteria for acceptance under section 44.2 of the UCA, specifically stating:

> The evidence demonstrates that the DSM programs contained in the 2017 DSM expenditure schedule meets the criteria for acceptance under section 44.2 of the UCA, and considers that making the expenditures referred to in the schedule is in the public interest as set out in the UCA. As noted, this expenditure schedule is a continuation of the plans/programs that were scrutinized in detail and accepted in the review of the FBC 2015-16 DSM Application. The Panel has therefore chosen to not reiterate in these Reasons for Decision the detailed discussion that is already set out in the FBC 2015-16 DSM Decision, and considers that the 2017 DSM expenditure schedule is in the public interest for the same reasons as expressed in the FBC 2015-16 DSM Decision.[6]

FBC submits that the proposed 2018 DSM expenditure plan, being a continuation of the 2017 accepted programs and expenditures, meets the criteria for acceptance under section 44.2 of the UCA.

The 2018 DSM Plan continues to support BC's energy objectives as described in section 2 of the *Clean Energy Act*. For example, it promotes the use of innovative technologies that support energy conservation and efficiency, as well as community-focused energy efficiency through DSM Supporting Initiatives. The 2018 DSM Plan will also continue FBC's co-ordination of DSM activities with other utilities, such as BC Hydro and FortisBC Energy Inc (FEI).

The 2018 DSM Plan is, as described above, consistent with and would further the 2016 LTERP, which is FBC's most recent "filed" long-term resource plan (although Commission acceptance remains outstanding). FBC submits that the 2018 DSM Plan is in the interests of its customers and is compliant with the relevant provisions of the governing legislation and is cost-effective under the tests stipulated under the legislation.

Approval Sought and Proposed Regulatory Process

FBC submits that, for the reasons stated above, acceptance of the 2018 DSM Plan and its associated expenditure budget is warranted. The 2018 DSM Plan is a continuation of the cost-effective programs accepted in the 2017 DSM Plan, ensures no disruption to existing DSM programs in 2018, and meets the updated legislative requirements under the March 2017

[6] Order G-9-17, Appendix A, page 5 of 10.

Amendments to the DSM Regulation, and therefore FBC submits that no further regulatory process is required for Commission acceptance of the 2018 DSM Plan expenditures.

FBC expects to file a multi-year DSM expenditure plan for 2019 onwards in 2018, following a decision in the 2016 LTERP and LT DSM Plan, that addresses the Commission's directives in that decision.

Finally, FBC notes that it has spoken with its regular interveners to the Company's DSM applications, the BC Sustainable Energy Association (BCSEA), Commercial Energy Consumers (CEC), and the Industrial Customers Group (ICG), to notify them of FBC's plan for requesting Commission acceptance of its 2018 DSM Plan prior to filing.

If further information is required, please contact Sarah Wagner at (250) 469-6081.

Sincerely,

FORTISBC INC.

Original signed:

Diane Roy

cc (email only): Registered Parties to the FBC 2017 DSM Expenditures proceeding