

IN THE MATTER OF THE  
Utilities Commission Act, R.S.B.C. 1996, Chapter 473

AND

FortisBC Inc.

For Acceptance of

2016 Long-Term Electric Resource Plan and Long-Term Demand Side Management Plan  
Project No. 3698896

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ICG Submissions

November 10, 2017

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## **A. Introduction**

1. FortisBC (FBC) seeks acceptance of its 2016 Long Term Electric Resource Plan (LTERP) and the 2016 Long-Term DSM Plan (LT DSM Plan). The LTERP includes a long-term plan for meeting the forecast peak demand and energy requirements of customers with demand-side and supply-side resources over the 20-year planning horizon. The LTERP identifies the following objectives:

- Ensure cost-effective, secure and reliable power for customers;
- Provide cost-effective demand-side management, and
- Ensure consistency with provincial energy objectives (for example, the applicable Clean Energy Act (CEA) objectives).

The ICG has two primary concerns about the LTERP and LT DSM Plan that will be considered in these Final Submissions. First, FBC proposes to introduce a sliding scale mechanism to determine DSM incentives to self-generators that cannot be justified, is discriminatory, and is contrary to provincial energy objectives. Second, FBC's preferred portfolio does not appropriately consider market risks.

## **B. The Sliding Scale Mechanism, DSM Regulation, and Procedural Fairness**

2. In its Application, FBC introduces 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.<sup>1</sup>

There is no further explanation of this sliding scale mechanism nor any other mention of the sliding scale mechanism in the Application. Then in response to information requests it becomes clear that this proposal was poorly considered by FBC. In fact, as noted below FBC's justification for the sliding scale mechanism changes from the time of filing the Application to Final Submissions.

3. In Final Submissions and in the LT DSM Plan,<sup>2</sup> FBC relies on issues related to eligibility of self-generation customers as the basis to deny DSM incentives. There are two

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<sup>1</sup> Exhibit B-1, p. 24

<sup>2</sup> FBC Final Submission, para. 66, and LT DSM Plan, Section 5.2 entitled "Self-Generation Eligibility for DSM Services"

potential DSM eligibility issues: project eligibility, and customer eligibility. FBC does not advance criteria relevant to determinations about project eligibility. Moreover, FBC appears to acknowledge that self-generator customers are eligible for DSM programs and incentives<sup>3</sup>, but then proposes to restrict incentives to self-generation customers. In the end, FBC proposes to discriminate amongst eligible customers based on its sliding scale mechanism, even though it acknowledges self-generation customers are eligible for DSM programs.

4. FBC confirmed in response to an information request from the ICG, that its proposed sliding scale for self-generation customers is not contemplated by legislation or regulation.<sup>4</sup> The information request and response bears repeating:

Please confirm that the proposed calculation [sliding scale mechanism] of financial incentives for self-generation customers is not contemplated by legislation or regulations?

Confirmed, to FBC’s knowledge it is not specifically addressed.

Nonetheless, in Final Argument, FBC submits that its sliding scale mechanism is consistent with the scheme of the UCA and the DSM Regulation.<sup>5</sup> Not only is it too late for FBC to now claim legislation and regulation support for its sliding scale mechanism, the claim has no foundation. Counsel for FBC should have checked with the authors of the above quoted information response, who presumably concluded that the proposed calculation (sliding scale mechanism) of financial incentives for self-generation customers is not specifically addressed in legislation or regulation, before advancing this new justification for the “sliding scale mechanism”.

5. The ICG did not have an opportunity to submit information requests to FBC regarding this new justification for the “sliding scale mechanism” because FBC’s late reference to legislation and regulation as support for the “sliding scale mechanism” was contrary to its stated response to information requests. This raises significant issues related to procedural fairness. It would now be procedurally unfair to the ICG and other interveners for the Commission to rely on the DSM Regulation as the foundation for the “sliding scale mechanism” as now proposed by FBC. In the event that the Commission

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<sup>3</sup> Exhibit B-7, ICG IR 1.4.5

<sup>4</sup> Exhibit B-7, ICG IR 1.4.7

<sup>5</sup> FBC Final Submissions, para. 67

disagrees, the ICG will provide the following submissions regarding the TRC and the avoided cost.

6. In the Application, FBC described the TRC formula as follows:

The TRC is the governing test used to determine the cost-effectiveness of a utility's DSM portfolio. It comprises of benefits (the present value of the measures' energy savings, over their effective measure life, valued at the utility's avoided costs) divided by the costs (incremental cost of the measures plus program administration costs).<sup>6</sup>

FBC's new justification for the "sliding scale mechanism" is contrary to the above definition of the TRC. That definition correctly establishes the volume of energy savings as the measures' energy savings. That volume is then multiplied by the utility's avoided costs. The utility's avoided cost is an input to the CPR, which is unique to the utility's circumstances, not the customer's purchases, and is an amount expressed in dollars per MWh determined by the LRMC of the utility. Once determined it is not an amount that is unique to each customer. Such an approach would be inconsistent with it being the LRMC of the utility.

7. The sliding scale mechanism is not part of the TRC, and there is no mention of the sliding scale mechanism in the above definition or any other definition of the TRC. The sliding scale mechanism proposed by FBC would be applied, if at all, after the TRC is applied. That is why when asked in an information request if the sliding scale mechanism is supported or contemplated by legislation or regulation the answer was no. In order to introduce the sliding scale mechanism, FBC is in effect asking the Commission to rewrite the DSM Regulation with the sliding scale. The Commission should reject such a proposition from FBC.
8. The ICG agrees with FBC that the energy savings or benefits of an energy efficiency measure implemented by a self-generation customer will be energy savings or benefits realized by both the utility and the participant. But it is also clear that the TRC was designed to ensure that the energy savings of both the utility and participants are inputs to the TRC. The ICG requests that the Commission conclude that the TRC is not restricted to the energy savings of the utility and includes the energy savings of both the utility and the customer.

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<sup>6</sup> Exhibit B-1, 2016 Long-Term DSM Plan, p. 8

9. The CEA establishes BC objectives that are to be considered by the Commission. The CEA also defines a “demand-side measure” to be a rate or program undertaken to conserve energy or promote efficiency.<sup>7</sup> The ICG submits that this definition includes energy conservation of both the utility and the customer. The DSM Regulation enacted under the UCA then provides further direction to the Commission regarding cost-effectiveness of demand-side measures that are defined by the CEA. That is, the definition in the CEA of “demand-side measure” has the effect of prescribing the benefits of the demand-side measure to include energy conservation of both the utility and the customer. Then the DSM Regulation prescribes the TRC<sup>8</sup>, which as noted above, includes the energy savings of the utility and the customer.
10. There is also an overarching policy consideration that is relevant to this determination as to whether the energy savings of the TRC are restricted to the energy savings of the utility. The legislative scheme makes it clear that all energy conservation is a policy objective and is to be considered by the Commission. Incentives that are calculated based on energy savings realized by the customer and the utility, not just energy savings realized by the utility are included in the definition of a “demand-side measure”, and are consistent with provincial policies.

### **C. The Sliding Scale Mechanism Lacks Sufficient Certainty**

11. In Mr. Switlishoff’s evidence, he stated:

It is unclear how FortisBC would determine how much of a reduction it could expect in its electricity supply to Zellstoff Celgar as a result of this energy savings project. It would be administratively burdensome to determine the amount of energy savings to attribute to this project during those periods when Zellstoff Celgar is purchasing electricity from FortisBC, and FortisBC has not provided any methodology for that determination.<sup>9</sup>

Not only can the “sliding scale mechanism” not be justified based on legislation or regulation, it has not been presented with sufficient certainty and details regarding its application to be approved.

12. FortisBC acknowledges this lack of certainty when it stated:

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<sup>7</sup> CEA, definition of “demand-side measure”

<sup>8</sup> DSM Regulation, s. 4(2)

<sup>9</sup> Exhibit C7-4, p. 3

FBC is unable to provide an illustrative example as there is less certainty that any DSM measures or project undertaken by Celgar will be reflected in reduced FBC sales due to the smaller magnitude of Celgar's FBC consumption and the inconsistent monthly profile of this consumption.<sup>10</sup>

Although FBC advances the use of the "sliding scale mechanism" to calculate incentives for Celgar, FBC then "ducks" the request for an illustrative example of how it might work claiming there is too much uncertainty to provide such an illustrative example.

The Commission should not approve a "sliding scale mechanism" that FBC will apply in the future to determine incentives for self-generation customers when FBC cannot even provide an illustrative example of how it might be applied.

13. 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.

#### **D. The Sliding Scale Mechanism is Unduly Discriminatory**

14. The ICG further submits that there are inherent uncertainties regarding load for all customers, not just self-generation customers. For example, a commercial customer may reduce loads for a variety of reasons, including loss of business. A DSM incentive, because it is designed to advance provincial policy objectives, does not consider such load uncertainties. FBC's concern is that DSM incentives may be offered to self-generation customers to reduce load that may be self-supplied. However, in order to avoid discriminatory rates, FBC should be concerned about energy savings. The reasons for reduced energy savings between a self-generation customer and any other customer then becomes a distinction without a difference. Again, the provincial policy objective is all energy conservation, not just utility energy conservation.

#### **E. Previous Decisions and DSM Programs**

15. The Commission has also considered DSM programs for industrial customers in previous decisions and has not distinguished between energy savings from the utility and customers. In fact, the Commission determined that FBC should ensure sufficient focus is

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<sup>10</sup> Exhibit B-7, ICG IR 1.4.4,

given to identifying and addressing DSM opportunities for its industrial customers as a way of achieving efficiencies benefits.<sup>11</sup> FBC would have this Commission Panel conclude that such DSM opportunities and benefits referred to by the early Commission Panel only included energy savings to FBC. Certainly, for self-generation customers, the “sliding scale mechanism” will create, not mitigate, market barriers to energy efficiency investment and consumption decisions of its industrial customers.

#### **F. BC Hydro and FBC DSM Programs**

16. Once again, there is not a level playing field for industrial customers of FBC and customers of BC Hydro because BC Hydro DSM incentives are much higher than FBC DSM incentives.<sup>12</sup> Removing market barriers for self-generation in the FBC service area is unlikely given that FBC does not consider that it is currently incented to mitigate market barriers for self-generation.<sup>13</sup>In Final Submissions<sup>14</sup>, FBC refers to the evidence of Mr. Switlishoff and claims that the comparison to incentives from BC Hydro and FBC is “problematic” because the project described in the evidence of Mr. Switlishoff is not eligible for BC Hydro’s incentives. In response to a FBC information request<sup>15</sup>, Mr. Switlishoff revised his evidence regarding the estimated energy savings of the project to 309 MWh per year. Based on the revised energy savings the project would be eligible for BC Hydro’s incentives, which Creative Energy agrees requires energy savings of at least 300 MWh annually. FBC does not dispute the quantity of savings or the methodology by which it was determined.
17. FBC disputes the comparison of BC Hydro and FBC incentives in Mr. Switlishoff’s evidence because BC Hydro’s incentives use a maximum effective measure life of 10 years. A revised analysis based on a maximum effective measure life of 10 years was provided in response to an information request.<sup>16</sup> The ICG submits that the Commission should accept the evidence of Mr. Switlishoff that the BC Hydro DSM incentive is more

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<sup>11</sup> Application for Approval of Stepped and Stand-by Rates for Transmission Customers, Decision, p. 15

<sup>12</sup> Exhibit B-11, BCUC 2.72.2.1

<sup>13</sup>Exhibit B-11, BCUC 2.73.3

<sup>14</sup> FBC Final Submissions, p. 22, para. 68

<sup>15</sup> Exhibit C7-9, ICG Response to FBC IR 1.1

<sup>16</sup> Exhibit C7-9, ICG Response to FBC IR 2.1

than twice the FortisBC DSM incentive for the same project (\$93,318<sup>17</sup> vs. \$34,350<sup>18</sup>). FBC quotes a Commission Decision regarding comparisons of FBC incentive levels and BC Hydro incentive levels to support its view that the comparison is not relevant to this proceeding.<sup>19</sup> However, FBC fails to acknowledge the following conclusion:

“... the Panel agrees with ICG that the signification differences in incentive levels between FBC and BC Hydro industrial programs, when taken together with other considerations (cost of industrial DSM of only 32.0c/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.”<sup>20</sup>

In that proceeding, the evidence was that the difference between the BC Hydro incentives and the FortisBC incentives was similar to the evidence of the difference in this proceeding. In Final Submissions, FBC also fails to acknowledge the following Commission direction:

**“... the Commission directs FBC to include in its next DSM Annual Report an update on FBC’s efforts to identify and mitigate (though DSM programs) market barriers to energy efficiency investment and consumption decisions of its industrial customers.”**<sup>21</sup> (emphasis in original)

In other words, the comparison of BC Hydro and FBC incentive levels cannot be justified based on utility specific circumstances of BC Hydro and FBC. That is, the Panel believed that FBC could do more in this area. It may be true as FBC submitted that the programs do not need to be the same, but it is also true that a previous Commission Panel after considering the significant differences in incentive levels also concluded that “FBC could do more in this area.”

18. Then in the Stage I Decision, Self-Generation Policy Application the Commission said:

For these reasons, the Panel encourages FortisBC to address DSM programs of self-generation customers as part of its next resource plan or its next DSM Expenditure filing. If and when any such programs are established they would indirectly become part of FortisBC’s SGP.<sup>22</sup>

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<sup>17</sup> Exhibit C7-9, ICG Response to FBC IR 2.1

<sup>18</sup> Exhibit C7-4, ICG Evidence, p. 3

<sup>19</sup> FBC Final Submissions, para. 66

<sup>20</sup> Order G-186-14 and Decision, dated December 3, 2014, Application for Approval of Demand Side Management Expenditures for 2015 and 2016, p. 28

<sup>21</sup> Ibid., p.28

<sup>22</sup> Stage I Decision, Self-Generation Policy Application the Commission, p.50

In this resource plan, FBC has addressed DSM programs of self-generation customers. However, in a manner that restricts not expands access by self-generation customers to DSM programs. BC Hydro does not restrict DSM incentives for self-generation customers based on a sliding scale or in any other way. Moreover, the sliding scale of FBC cannot be justified based on utility specific circumstances, and if the Commission accepts FBC position that the avoided costs used in the TRC are the utility avoided costs, then one of the consequences of that finding will be a significant reduction to DSM levels to BC Hydro self-generation customers.

19. The ICG requests that the Commission find in this proceeding, based on the evidence of Mr. Switlischoff, that there continues to be a significant difference in BC Hydro and FBC incentive levels that has not been explained by FBC based on utility specific circumstances. And that FBC needs to continue to do more in this area.
20. In the event that the Commission does not approve the sliding scale mechanism as advocated by the ICG, then the ICG requests that the Commission direct FBC to calculate DSM incentives for self-generation customers on the same basis as all other customers. In the absence of such a direction, past experience suggests that FBC will continue to deny DSM incentives to self-generation customers, but on some other basis.

#### **G. Preferred Portfolio**

21. The ICG recommends to the Commission the portfolio analysis that for the first time FBC has undertaken in this Application. The ICG also believes the load forecasts and the resource options identified and costed were appropriate for the purposes of this LTERP.
22. The FBC has selected as its preferred portfolio: Portfolio A4, which assumes the reference case load forecast, base case Mid-C prices, and base case PPA prices. In response to an information request, FBC provided the market purchase volumes for several portfolios, including Portfolio A4.<sup>23</sup> Volumes of market purchases change significantly under various portfolios.
23. Under the new PPA, FBC must nominate in advance its annual energy take prior to the contract year, and then take or pay for at least 75 percent of that annual volume. The

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<sup>23</sup> Exhibit B-7, BCUC IR 2.63.1.1

volume of market purchases is not intended to set the market volumes for FBC's future Annual Electric Contract Plans (AECF). The price for market purchases, including purchases from self-generation customers, is therefore based on comparison to the Tranche 1 market purchases under the PPA. However, the price for Tranche 1 is intended to capture the benefits of embedded costs of BC Hydro systems. Table 8-4<sup>24</sup> provides the comparison of Tranche 1 prices to other resource options. As noted on the table, no resource options can compete on price with Tranche 1 prices. That price is therefore not attractive to self-generation customers except from time to time on a real-time basis – depending on short-term market conditions.

24. The ICG agrees that FBC's access to market purchases provides significant value to its ratepayers. In 2016, market purchases reduced power purchase expense by approximately \$5.3 million or a 1.5% rate decrease.<sup>25</sup> FBC stated that it will entertain the purchase of self-generation output as a supply-side resource using the evaluation criteria in section 8.2 of the LTERP. However, FBC has also stated that it is not seeking additional sources of supply at this time. The only opportunity for self-generators to sell to FBC is short-term in nature and the price, as noted above, is set by the Tranche 1 price of energy. FBC's long term price or LRMC is much higher and could attract self-generation output, but is not being offered to self-generation customers. FBC's position is that such an offer would not be prudent.
25. The ICG does not support FBC's selection of its preferred portfolio: Portfolio A4. As noted by FBC, the results show that the LRMC of \$91 per MWh for the portfolio with a CCGT plant (C1) is lower than the LRMC of \$96 per MWh for Portfolio A4. The ICG prefers Portfolio C1. It meets the 93% clean energy target, and does not rely on market. FortisBC states that it will rely on the market for so long as it is economic to do so, but there should be a portfolio ready to implement when market purchases are no longer economic. Then FBC should include in its action plan opportunities for contracts with self-generation customers based on an LRMC from Portfolio C1. The incentive for such purchases from self-generators need not necessarily be to mitigate market barriers, but to advance BC energy objectives and for more prudent resource planning. As FBC

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<sup>24</sup> Exhibit B-1, p. 109

<sup>25</sup> Exhibit B-11, BCUC 2. 63.2

observes: “Due to the risks of relying on market access indefinitely into the future (as discussed in Section 5.5 and 8.2.2, FB believes that self-sufficiency as some point in the planning horizon is a more prudent approach to resource planning.”<sup>26</sup>

## **H. Conclusion**

26. For the reasons noted above, and as per the direction sought in paragraph 20 above, the ICG submits that self-generation customers should receive DSM incentives on the same basis as all other customers.
27. The ICG was an active participant in the Resource Planning Advisory Group (RPAG) and believes that the FBC consultation process for this LTERP should be accepted by the Commission and that such consultation adheres to the stakeholder input guidelines. The ICG also supports FBC’s recommendation that the RPAG continue prior to the Company’s next long term resource planning process. Generally, the ICG supports the Action Plan as proposed by FBC. In particular, the ICG believes that FBC should continue to assess the potential requirements and timing for new resource options within its service territory, including purchases from self-generation customers.

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<sup>26</sup> Exhibit B-1, p. 120