October 25, 2018

VIA E-FILING

Patrick Wruck
Commission Secretary
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3

BCPIAC
Public Interest Advocacy Centre

Reply to: Leigha Worth
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Our File: 7310.830

Dear Mr. Wruck,

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

We make the following submissions on behalf of our clients, the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and the Tenant Resource and Advisory Centre, known collectively in this process as "BCOAPO et al." The constituent groups of BCOAPO et al. represent the interests of low and fixed income residential energy consumers within BC and more specifically in this process, the interests of FortisBC Energy Inc.'s ("FEI" or "Fortis") low and fixed income residential ratepayers.

THE APPLICATION AND APPROVALS SOUGHT

On June 22, 2018, FEI filed its Application for its Demand Side Management ("DSM") Expenditures from 2019 to 2022 pursuant to section 44.2 of the *Utilities Commission Act* which states:

Expenditure schedule

44.2 (1)A public utility may file with the commission an expenditure schedule containing one or more of the following:

(a)a statement of the expenditures on demand-side measures the public utility has made or anticipates making during the period addressed by the schedule;

(b)a statement of capital expenditures the public utility has made or anticipates making during the period addressed by the schedule;

(c)a statement of expenditures the public utility has made or anticipates making during the period addressed by the schedule to acquire energy from other persons.

(2)The commission may not consent under section 61 (2) to an amendment to or a rescission of a schedule filed under section 61 (1) to the extent that the amendment or the rescission is for the purpose of recovering expenditures referred to in subsection (1) (a) of this section, unless

(a)the expenditure is the subject of a schedule filed and accepted under this section, or

(b)the amendment or rescission is for the purpose of setting an interim rate.

(3)After reviewing an expenditure schedule submitted under subsection (1), the commission, subject to subsections (5), (5.1) and (6), must

(a)accept the schedule, if the commission considers that making the expenditures referred to in the schedule would be in the public interest, or

(b)reject the schedule.

(4)The commission may accept or reject, under subsection (3), a part of a schedule.

(5)In considering whether to accept an expenditure schedule filed by a public utility other than the authority, the commission must consider

(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,

(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.

(5.1)In considering whether to accept an expenditure schedule filed by the authority, the commission, in addition to considering the interests of persons in British Columbia who receive or may receive service from the authority, must consider

(a)British Columbia's energy objectives,

(b)an applicable integrated resource plan approved under section 4 of the *Clean Energy Act*,

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

(d)if the schedule includes expenditures on demand-side measures, the extent to which the demand-side measures are cost-effective within the meaning prescribed by regulation, if any.

(6)If the commission considers that an expenditure in an expenditure schedule was determined to be in the public interest in the course of determining that a long-term resource plan was in the public interest under section 44.1 (6),

(a)subsection (5) of this section does not apply with respect to that expenditure, and

(b)the commission must accept under subsection (3) the expenditure in the expenditure schedule.

In this Application, FEI is seeking approval of:

a) a total of $324.6 million for DSM expenditures from 2019 through to 2022 in accordance with its Expenditure Schedule;
b) funding transfers as set out in Section 9.1;
c) the forecast rate base additions accounting treatment as set out in Section 9.2; and
d) a move to a 16 year amortization period for DSM expenditures.

BCOAPO Submissions

BCOAPO's member organizations represent a cross-section of the Province's most economically vulnerable residents, and the same cross-section of FEI's ratepayers. However, despite the fact that DSM costs all ratepayers money, our clients have supported responsible levels of DSM spending even before utilities began to recognize and respond to the inability of

low and fixed income ratepayers to participate in traditional DSM. Our clients are continuing their support for the reduction of GHG emissions and cleaner energy and FEI's proposed level of spending in this Application.

However, our clients do question whether the Utility will be able to ramp up its DSM spending to the applied-for levels both effectively and efficiently. The root of this concern is that in this process BCSEA's IR's confirmed that over the period of 2014 through 2018, FEI's largest annual DSM spend was less than $37M and between 2014 and 2017[1], the actual total spend was less than the approved amount for each year. Admittedly, the projection for 2018 of $38.607M is greater than the approved $35.874 but that projection is not an actual and this modest increase along with FEI's proposal to roll over unspent amounts do little to allay our clients' concerns that the utility may find it challenging to find enough effective and efficient DSM to spend the significantly larger amounts applied for in each of the four years of this DSM Expenditure Plan. This large spends are outlined in table 6-1, reproduced below:

Table 6-1: FEI DSM Expenditures - 2019-2022 Forecast, Shown in As Spent Dollars [9]

Program Area	Utility Expenditures ($000s)				
	All Spending				
	2019	2020	2021	2022	Total
Residential	23,521	25,722	28,476	31,383	109,101
Commercial	13,837	17,357	27,441	31,081	89,715
Industrial	3,103	3,152	3,644	3,708	13,607
Low Income	6,630	6,795	6,984	7,217	27,626
Conservation Education and Outreach	7,155	7,360	8,595	9,467	32,578
Innovative Technologies	2,043	2,202	2,631	3,062	9,938
Enabling Activities	8,426	8,321	9,230	8,918	34,895
Portfolio Level Activities	1,635	1,676	1,822	1,975	7,108
ALL PROGRAMS	**66,350**	**72,585**	**88,822**	**96,811**	**324,567**

It is, in our submission, fair to characterize these amounts ($66.350M for 2019, $72.585M for 2020, $88.822 for 2021, and $96.811 for 2022) as huge increases over FEI's recent and approved DSM spending. As such, it begs the question in light of their recent trend of underspending how they will manage to ramp up both the scale and scope of their DSM spends to these levels so quickly. This question becomes even more relevant in light of their response to another BCSEA IR indicating that accurate forecasting of participation rates has been challenging[2], begging the question whether there is reason to believe there will be continuing uncertainty with respect to the Utility's ability to live up to these spending levels while remaining

[1] Exhibit B-4, BCSEA IR 1.8.1.1
[2] Exhibit B-4, BCSEA IR 1.8.1.2, Table 1

cost efficient and responsible. BCOAPO has not seen evidence on the record that sufficiently allayed the concerns of its expert and counsel regarding this uncertainty continuing to be material going forward and the effect of and possible utility responses to a failure to realize the Utility's forecast customer participation levels.

BCOAPO also notes with some concern that the majority of the increases proposed for the Residential and Low-Income sectors are largely discretionary. The March 2017 Amendments to the DSM Regulation are responsible for only about 24% of the residential spend increase of $11.3M (2019 over 2017)[3] and less than 5% of the Low-Income increase.[4] As a result, it is open to FEI to engage in transfers with or without Commission approval depending on the percentage of the portfolio it seeks to transfer out of the Residential or Low Income portfolios. However, we will deal with this concern in the section immediately below.

<u>Funding Transfers as set out in Section 9.1</u>

FEI's funding transfer proposals are as follows:

- Funding transfers under 25 percent from one approved Program Area to another approved Program Area would be permitted without prior approval of the Commission;
- In cases where a proposed transfer out of an approved Program Area is greater than 25 percent of that approved Program Area, prior Commission approval would be required.
- In cases where a proposed transfer into an approved Program Area is greater than 25 percent of that approved Program Area, prior Commission approval would be required.
- The transfer of any amount of funds from an approved Program Area to Innovative Technologies would require prior Commission approval.

These are consistent with the Commission-approved practice since the 2012-13 test period[5], although FEI's proposal that it now be permitted to rollover its unspent expenditures into following years for the duration of the plan is new. FEI summarized this proposal as follows: "In effect, FEI is requesting that the Commission accept the total expenditures per Program Area over the time period of the expenditure schedule."[6]

[3] Exhibit B-2, BCUC IR 1.12.2
[4] Exhibit B-2, BCUC IR 1.16.1
[5] Exhibit B-1, page 35.
[6] *Ibid.*

BCOAPO does not oppose FEI's proposal but BCOAPO does have some issues we would like to flag for both the Utility and this Commission Panel.

The first is possible issues with Utility's ability to roll over unspent monies from one year to another. Under certain circumstances FEI is right: this would not materially whether the public interest is served *provided the monies are spent at the appropriate time on appropriate programs within the 2019-22 timeline*. We appreciate that this flexibility may be useful to FEI to increase efficiency in the event of things like unanticipated market changes but our clients want to put on the record their concern that this could lead to very low spending and corresponding DSM savings early in the term with a tsunami of spending in the last year without the opportunity to realize the corresponding DSM savings benefits. We trust that both FEI and Commission are aware of the pitfalls of such a strategy and will do what is necessary to ensure not only the expenditures but that FEI and its customers see a reasonable approximation of forecast DSM benefits within the term of this expenditure plan.

A second concern is the possibility of FEI choosing to transfer any of its funding for any given year out of the Low Income and Residential DSM Programs. That would, in our submission, materially impact whether the public interest is being served by FEI's DSM expenditures. The reason our clients take this position cannot be a mystery. They are both low and fixed income *and* residential ratepayers but this obvious self-interest does not negate the importance of maintaining the level of spending for these two areas in the face of rising energy costs and the increasing number of people facing or experiencing energy poverty. However, we do note that in response to one of our IR's, the Utility indicated that it does not intend to cut funding of Low-Income DSM programs by 25% in each year[7]: something they could do without Commission approval if their proposal is accepted. BCOAPO et al. takes no small amount of comfort from that assurance.

A third concern would be if FEI was to hold off on investments in programs that would be in the public interest in favour of ones that might be of greater benefit to a small group than to the majority. There must be a balance struck between the interests of the few and the many. In BCOAPO's submission, that interest may require the Utility making decisions that do not only look at the net impact on the Utility's operations, but the impact of the program versus the impact of another potential program and how those align with the greater good and the

[7] Exhibit B-3, BCOAPO IR 1.6.2

government's goals as set out in the province's energy objectives. In BCOAPO's submission, this means these two programs must remain a priority.

In other words, BCOAPO does not object to FEI's proposal, although it does urge the Utility to resist any urge that may arise to transfer funds out of the residential or low income programs and to continue working with stakeholders to ensure its actions during the DSM Expenditure period take into consideration all appropriate considerations.

The Forecast Rate Base Additions Accounting Treatment as Set Out in Section 9.2

FEI has proposed that for F2019-22 it change its forecast rate base additions to the Energy Efficiency (EEC or DSM) Deferral Account from the current $15M to $30M on a net of tax basis and that the difference between its forecast and actual spending will be accounted for in FEI's non-rate base DSM Deferral Account where it will attract a weighted cost of capital return in the year the monies are spent. Then, at the beginning of the next forecast year, the closing balance of the non-rate DSM account will be transferred to FEI's rate base DSM Deferral Account. This was confirmed in FEI's response to BCOAPO IR 1.1 as was the fact that due to this treatment none of these expenses are actually being expensed to be recovered in the revenue requirement. The Application indicates that its proposal is "consistent with the spirit of Order G-44-12". BCOAPO is unclear how this is "in the spirit" of that Order so we request that FEI clarify what exactly in G-44-12 relates to its proposal in its final argument as well as discussing on the record what specifically, in FEI's opinion, justified and continues to justify this treatment (as opposed to expensing it as it is spent for recovery in the Revenue Requirements).

Should the Commission now find the reasoning for FEI's proposed accounting treatment is no longer applicable, BCOAPO suggests that at the very least some of the DSM spending could be expensed for a one time recovery.

BCOAPO's concern is rooted in the fact that there could be returns earned on "phantom rate base" where forecast amounts are added to rate base but then not fully spent earning a return for the year before. While the exploration of this issue by BCUC Staff in IR's 1.22.6 revealed small amounts of returns might result from this situation[8], it remains a concern our clients would like to see addressed to the Commission's satisfaction to ensure no returns are unfairly earned

[8] Exhibit B-2

on monies not yet spent when the Utility is proposing to double the amount of its DSM spending to receive this accounting treatment.

A Move to a 16 Year Amortization Period for DSM Expenditures

While BCOAPO has, at times, cast a side eye at some utilities' evidence about the duration of their DSM persistence, FEI's past Commission-approved practice of amortizing DSM Expenditures over 10 years is at the conservative end of current industry standards and the 15 years found in Direction No. 7 regarding BC Hydro[9].

However, FEI has, in this application, filed table 9-1 showing the rate impacts of its current practice and three possible changes to its DSM amortization period: two of which are rooted in the 2014-2018 PBR Decision where the Commission Panel directed FEI to examine and include in its next DSM Application, "an analysis of the rate impact of a reduction in the EEC amortization period to eight years and five years."[10] The third scenario is based on the Utility's own analysis of an appropriate amortization period rooted in its average weighted measure life of all the measures in the DSM Plan.

Table 9-1: FEI Incremental Delivery Rate Impacts

FEI Summary of Rate Impacts

Incremental Delivery Rate Impact Compared to Prior Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Current Treatment: Amortizing DSM Expenditures over 10 years	0.73%	0.90%	0.87%	0.99%	1.12%	1.13%	1.07%	0.84%	0.54%	0.43%
Scenario 1: Amortizing DSM Expenditures over 8 years	1.32%	0.94%	0.94%	1.04%	1.08%	1.15%	1.14%	0.84%	0.48%	0.16%
Scenario 2: Amortizing DSM Expenditures over 5 years	3.06%	0.90%	0.88%	0.73%	0.89%	1.21%	1.11%	0.59%	0.05%	-0.36%
Scenario 3: Amortizing DSM Expenditures over 16 years	-0.15%	0.75%	0.82%	0.84%	0.99%	1.00%	0.98%	0.79%	0.52%	0.50%

Incremental Delivery Rate Impact Compared to Prior Year	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Current Treatment: Amortizing DSM Expenditures over 10 years	0.29%	0.00%	-0.12%	-0.19%	-0.48%	-0.61%	-0.67%	-0.59%	-0.41%	-0.37%
Scenario 1: Amortizing DSM Expenditures over 8 years	-0.06%	-0.18%	-0.38%	-0.46%	-0.71%	-0.71%	-0.51%	-0.45%	-0.38%	-0.33%
Scenario 2: Amortizing DSM Expenditures over 5 years	-0.60%	-0.81%	-0.69%	-0.31%	-0.49%	-0.54%	-0.50%	-0.43%	-0.47%	-0.26%
Scenario 3: Amortizing DSM Expenditures over 16 years	0.39%	0.30%	0.32%	0.19%	0.08%	0.04%	-0.11%	-0.23%	-0.29%	-0.31%

To say the least, BCOAPO is concerned by the prospect of the short term rate spikes that result in the 8 and 5 year amortization scenarios. This increase, on top of any others that may result, particularly due to capital cost pressures, would be difficult to absorb for our economically vulnerable clients and they would pose a disproportionate burden on that section of FEI's residential ratepayers.

[9] https://www.bcuc.com/Documents/SpecialDirections/2014/OIC097-SpecialDirectionNo7-BCUC-HC2-BCH-Repealed.pdf
[10] Exhibit B-1, page 36-37

Aside from its concerns about moving to a shorter amortization period, BCOAPO does not take any position on whether it is appropriate for FEI to continue with its current amortization or to move to a 16 year period

Conclusion

Although there are aspects of FEI's application that raise concerns as outlined above, we do not feel that they are strong enough to warrant taking a position to oppose the Utility's Application. We have identified those concerns for both FEI and the Commission to ensure they are on record and the Commission's radar to deal with as it sees fit. As is always the case, BCOAPO will be monitoring FEI's DSM activities and working with the Utility to ensure it is aware of any concerns should they arise in the hopes that we may continue to develop a productive relationship to the benefit of our clients, the Utility, and the public interest.

Sincerely,
BC PUBLIC INTEREST ADVOCACY CENTRE

Original on file signed by:

Leigha Worth
Executive Director | General Counsel