

**BRITISH COLUMBIA UTILITIES COMMISSION**

**FortisBC Energy Inc. and FortisBC Inc.  
(collectively FortisBC)  
Multi-Year Rate Plan Application for 2020 to 2024**

**BCUC Project No. 1598996**

**Final Argument  
of  
BC Sustainable Energy Association**

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## **PART 1. Introduction and Summary**

### **A. Final argument of BCSEA**

1. This is the final argument of the intervener B.C. Sustainable Energy Association (BCSEA) in the Commission's proceeding regarding the FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) Multi-Year Rate Plan Application for 2020 to 2024 (Proposed MRPs).
2. This final argument responds to FortisBC's January 10, 2020 Final Argument.<sup>1</sup>

### **B. BCSEA's interests in the proceeding**

3. BCSEA represents individuals and organizations in BC who care about energy sustainability and climate change mitigation, and who want the energy they purchase and use to be sustainably produced and transported. Members of BCSEA are ratepayers of FEI (natural gas) and FBC (electricity). BCSEA's interests in this proceeding are as a non-profit public interest energy policy organization, and as a representative of its members' interests as ratepayers.
4. BCSEA's interests in the proceeding are indicated by their participation in related BCUC proceedings including:
  - a. FEI and FBC's stakeholder consultation and November 13, 2018 workshop on PBR benchmarking,
  - b. FEI's 2017 Long Term Gas Resource Plan and Long Term DSM Plan,
  - c. FBC's 2016 Long Term Electric Resource Plan and Long Term DSM Plan,
  - d. FEI's and FBC's respective 2013-2014 applications for Performance Based Ratemaking, and
  - e. FEI's and FBC's annual reports and next-year rates approvals, 2015-2018.
5. BCSEA has participated actively in the current proceeding.

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<sup>1</sup> [https://www.bcuc.com/Documents/Arguments/2020/DOC\\_56783\\_2020-01-10-FortisBC-Final-Argument.pdf](https://www.bcuc.com/Documents/Arguments/2020/DOC_56783_2020-01-10-FortisBC-Final-Argument.pdf).

### **C. High-level summary**

6. In summary, BCSEA supports approval of the Proposed MRPs, subject to the specific reservations and recommendations set out in detail in the argument below.
7. Highlights of BCSEA's positions are as follows:
  - a. BCSEA supports continuation of PBR-type plans for FEI and FBC for the next five years. This is because neither the Current PBR Plans nor the Proposed MRPs intrinsically inhibit the utilities' ability to carry out our Demand-Side Management activities or to carry out and expand their carbon-reduction activities; and for reasons of practicality.
  - b. BCSEA supports most of the design elements of the Proposed MRPs. BCSEA takes no position on the proposed zero percent productivity factor.
  - c. BCSEA supports FortisBC's methodology for establishing the Base O&M per customer amount for each of FEI and FBC. However, BCSEA opposes approval of FEI's proposal to add \$1.2 million annually for the Connect to Gas activities that are load-building, not carbon reduction.
  - d. Regarding FEI's Growth capital, BCSEA supports the use of Gross Customer Additions and the inclusion of distribution pressure system improvements. BCSEA does not oppose FortisBC's proposal to use the 2016-2018 average Growth capital as the starting point, although BCSEA recognizes that other starting points could be appropriate.
  - e. BCSEA supports a forecast, not formula, approach for capital expenditures (except FEI Growth capital) under the Proposed MRPs, because the Current PBR Plans were unsuccessful in this regard. BCSEA has no reason to disagree with FortisBC that its capital forecasts are robust. BCSEA takes no position on the quantum of the forecasts. BCSEA supports review of the forecasts in 2022. BCSEA supports continuation of Major Projects being reviewed outside the Proposed MRPs.
  - f. BCSEA calls for FortisBC to provide its annual Sustainability Report for consideration in the Annual Reviews under the MRPs. FortisBC situates its performance on the specific SQIs within its transition to a lower carbon future, which is comprehensively addressed in the Sustainability Report. Reviewing

the Sustainability Report would help ensure that any achieved cost savings do not come at the expense of service quality.

- g. BCSEA says that reporting of GHG emissions in the Annual Reviews should be retained, not discontinued. BCSEA supports FortisBC's proposed adjustments to specific SQIs.
- h. BCSEA strongly supports approval of the proposed Clean Growth Innovation Fund.
- i. BCSEA supports the concept of Targeted Incentives within the Proposed MRPs, as well as the proposed Targets, with certain qualifications.

#### **D. Organization of argument**

- 8. For convenience, this argument follows the ten-Part structure of FortisBC's Final Argument. In Parts 3, 5, 6, and 9, the argument follows the lettered sections of FortisBC's Final Argument.

#### **E. Adjustments to requested approvals**

- 9. BCSEA does not object to FortisBC's five proposed adjustments to its list of approvals.<sup>2</sup> Specifically, that:
  - a. Base O&M per customer should be based on the actual average number of customers in 2019.
  - b. The error in the calculation of FEI's 2019 Base Growth capital per customer amount would be corrected in a compliance filing.
  - c. The duplication of costs in the Small Planned Capital program forecast would be removed in the compliance filing.
  - d. Updated benchmarks and thresholds for FBC's Service Quality Indicators for the System Average Interruption Duration Index ("SAIDI") and System Average Interruption Frequency Index ("SAIFI"), that rely on 2019 data that is still being finalized, would be filed in FortisBC's compliance filing. BCSEA understand that the new benchmarks and thresholds for SAIDI and SAIFI SQIs would be open for review at the next Annual Review.

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<sup>2</sup> FortisBC Final Argument, para.5.

- e. FBC is not at this time seeking a targeted incentive related to electric vehicles, but intends to seek approval of a targeted incentive through the annual review process after legislation is passed that will help define FBC's role in this area. BCSEA discusses this topic further, beginning at paragraph 282 below.

## **PART 2. The 2014–2019 PBR Plans**

### **A. Overview**

10. BCSEA supports continuation of PBR-type<sup>3</sup> plans for FEI and FBC for the next five years.
11. This support is based on two high-level considerations, as well as practicality.
12. First, the Current PBR Plans and the Proposed MRPs do not inhibit the utilities' Demand-Side Management activities, which is a priority focus for BCSEA.
13. Second, the Current PBR Plans and the Proposed MRPs allow for the utilities to carry out and expand their carbon-reduction activities.
14. For BCSEA, practicality supports continuation of a PBR-type approach for FEI and FBC for the next five years.
15. These points are elaborated upon in Sections B, C and D of this Part, below.

### **B. DSM is not diminished by the Proposed MRPs**

16. BCSEA strongly supports energy conservation and efficiency, and FortisBC's Demand-Side Management (DSM) portfolios. BCSEA is satisfied that the proposed MRPs would not interfere with FortisBC's DSM activities.
17. BCSEA notes that the Proposed MRPs do not include a performance based incentive mechanism for DSM. This continues the approach taken in the Current PBR Plans.
18. BCSEA supports the reasoning that FEU provided in the 2014-2018 PBR proceeding, as follows:

“The Companies have not proposed a performance-based incentive mechanism for EEC activity in this proceeding because (1) we believe that the previously-approved mechanism is working well in that there are

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<sup>3</sup> Performance-Based Ratemaking.

no dis-incentives to the FEU pursuing EEC activity under the current mechanism and (2) the financial treatment previously approved and currently applied to the FEU's EEC activity is the same as the financial treatment applied by the electric utilities in British Columbia, with the exception of the amortization period...

"FEU's general understanding of the DSM incentive mechanisms in other jurisdictions is that they have been designed to overcome the general disincentive for utilities to pursue DSM because DSM activities in those jurisdictions are not treated on an equal footing with supply side activities, and DSM in those jurisdictions will reduce the use of utility product and utility returns. The financial treatment for DSM activity approved and adopted in BC for the FEU and for the electric utilities effectively addresses the disincentive to DSM expenditure found in other jurisdictions. This approved treatment is consistent with the requirements of section 60(1)(b)(ii) of the UCA, whereas the performance measures listed above are not. The FEU believe the current approach in BC is appropriate and does not need to be changed."<sup>4</sup>

19. In the current proceeding, FortisBC does not propose a performance based incentive mechanism for DSM in the Proposed MRPs. BCSEA agrees with FortisBC's explanation as follows:

"FortisBC has not proposed a performance based incentive mechanism for DSM (EEC<sup>5</sup>) in the MRPs because the previously approved capitalized expenses mechanism continues to work well, and because DSM is approved through separate proceedings where it would be more appropriate to consider incentive mechanisms."<sup>6</sup>

20. Similarly, FortisBC confirms that its DSM expenditures would not be affected by the proposed MRPs. FortisBC states:

"As is the case in the Current [2014-2018] PBR Plans, FortisBC's DSM program costs are not affected by the proposed MRP framework. DSM program costs are approved through a separate process and are recorded in a rate base deferral account. DSM program costs are not determined by the index-based O&M mechanism. The DSM programs will continue to be supported by corporate functions including Human Resources, Finance and Accounting, and Regulatory Affairs for example, for which the associated labour costs are included in Base O&M, which is subject to the indexing mechanism, and by corporate IT systems that are included in forecast capital."<sup>7</sup>

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<sup>4</sup> BCUC IR 1.213 in the 2013 proceeding regarding the FortisBC 2014-2018 PBR Application, pdf p.547-548.

<sup>5</sup> Energy Efficiency and Conservation.

<sup>6</sup> Exhibit B-6, BCSEA 1.1.

<sup>7</sup> Exhibit B-6, BCSEA 2.1.1.

21. Both the 2014-2018 PBR and the proposed 2020-2024 MPRs involve a revenue cap rather than a price cap for both O&M<sup>8</sup> and capital. In the 2014-2018 PBR proceeding, FBC said:

“...This [2014 PBR] proposal recognizes that a revenue cap provides symmetrical risk sharing related to volumes where FBC promotes DSM and other factors cause variations in sales.

Therefore in order for FBC to have an opportunity to earn its allowed return on and of its investments it is essential that the Company’s PBR plan is designed in a way that the risk of use rate decreases is mitigated. The revenue cap will provide a framework for incenting the utilities to seek additional productivity gains while protecting them from exogenous demand variation risks.”<sup>9</sup>

22. FortisBC confirmed this approach in the current proceeding, which BCSEA supports. FortisBC states:

“The mitigation of the demand variation risk is the main reason for not recommending a price cap formula. FortisBC’s experience with the hybrid revenue cap approach is another reason. As stated on page 21 of the BCUC’s 2014 FEI PBR decision (Order G-138-14), the proposed formula approach to O&M and FEI’s Growth capital is consistent with the approach taken in previous MRPs and, as such, has a ‘track record’”.<sup>10</sup>

23. In summary on this point, BCSEA is satisfied that Demand-Side Management by FEI and FBC is not put at risk of harm by the PBR-type rate-setting approach in the Proposed MRPs for the test period.

### **C. Climate action is not inhibited by the Proposed MRPs**

24. BCSEA strongly supports accelerated action on climate change, and wants to ensure that FortisBC’s climate action initiatives would not be discouraged or impeded by the Proposed MRPs.

25. BCSEA agrees with FortisBC statement that “Certain O&M and capital items do not fit well within [a PBR] formula because, for example, they are tied to parts of the business that are changing in response to government policy.”<sup>11</sup> FortisBC confirmed that this statement “refers to initiatives such as Natural Gas for Transportation (NGT) and Renewable Natural Gas (RNG) O&M and capital items from FEI’s Current PBR

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<sup>8</sup> Operations and Maintenance.

<sup>9</sup> 2013 proceeding regarding the FortisBC 2014-2018 PBR Application, Exhibit B-7, FBC-BCUC-IR1-Response, IR 1.24.1, pdf p.56, underline added.

<sup>10</sup> Exhibit B-6, BCSEA 2.2.

<sup>11</sup> Exhibit B-1, Table A1-1: Summary of Proposed MRPs.

Plan, which are forecast annually with variances captured in the Flow-through deferral account.” FortisBC continued:

“FortisBC also expects that investment in Electric Vehicles (EV) will fit in this category. The Application also notes that the Companies may bring other initiatives forward should they arise over the term of the MRPs.

These initiatives will be discussed and determined through the Annual Reviews. Please also refer to Section C4.4 of the Application for further detail on those items that are proposed to be forecast annually.”<sup>12</sup>

26. BCSEA supports this approach.

27. FortisBC acknowledges that a key influence on changes between the Current PBR Plans and the Proposed MRPs is the policy direction and mandate from all levels of government (federal, provincial and local) towards decarbonization. FortisBC states:

“...As discussed in FortisBC’s Application and responses to IRs, key environmental policy initiatives being undertaken by government include the Federal Pan-Canadian Framework on Clean Growth Climate Change; the CleanBC Plan; the BC Energy Step Code and other local government initiatives; and other internal emissions regulations. It is apparent that addressing GHG emissions is a key public interest issue for the majority of Canadians and the scientific community. Given these realities, it is apparent that a transition to a lower carbon economy will occur and, indeed, has already begun.”<sup>13</sup>

28. FortisBC continues:

“The alignment and increased stringency of environmental policy initiatives brings new opportunities and challenges for FortisBC which need to be addressed, including in the Proposed MRPs. In response to BCUC IR 1.1.1, FortisBC provides a summary of opportunities and challenges presented by policies of this kind, how FortisBC expects to be impacted and how the Proposed MRP respond. For example, the CleanBC Plan includes a target of 15% renewable gas content by 2030 which provides an opportunity for increasing clean energy delivery through the natural gas distribution system. However, the plan also seeks to expand the electrification of buildings by providing incentives for electric heat pumps, which negatively impacts natural gas demand and is therefore an emerging challenge. As another example, the provincial Renewable and Low Carbon Fuel Requirement Regulation is expected to be updated to include a 20% reduction in carbon intensity by 2030, which will positively impact demand for natural gas for transportation. However, municipal adoption of increasingly stringent levels of the BC Energy Step

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<sup>12</sup> Exhibit B-6, BCSEA 3.1.

<sup>13</sup> FortisBC Final Argument, para.36, footnotes omitted.

Code and 100 percent renewable energy mandates will place downward pressure on the use of natural gas.”<sup>14</sup>

29. BCSEAS supports FortisBC’s recognition of the influence of decarbonization policies on the Companies and the Proposed MRPs. While BCSEA wants to see more climate action than FEI and FBC are proposing, BCSEA is satisfied that the Proposed MRPs are not an impediment to such action.

#### **D. Continuation of MRP for FEI and FBC for five years is practical**

30. FortisBC maintains that the Current PBR Plans have been “overall successful” as indicated by the analysis of the savings achieved, the level of service quality that was maintained, and the resulting customer rates. FortisBC says that this success, and the merits of PBR generally, evince “a clear and convincing case that FEI and FBC should continue with an MRP approach for the next five years.”<sup>15</sup>
31. BCSEA balks at characterizing the Current PBR Plans in terms of ‘overall success’ versus ‘overall failure’ as an indicator of whether, going forward, the Commission should approve a PBR-type regime rather than a cost-of-service (COS) rate-setting regime. In BCSEA’s view, the actual achievements and deficiencies of the Current PBR Plans cannot be meaningfully compared to what might have occurred under a hypothetical COS rate-setting regime.
32. Similarly, BCSEA is unable to conclude that ‘the merits of PBR generally’ are superior to ‘the merits of COS generally’ as a basis for selecting the rate-setting approach for FEI and FBC for the next five years.
33. For BCSEA, practicality supports continuation of a PBR-type approach for FEI and FBC for the next five years. The utilities, the Commission, and the stakeholders all now have six years’ experience with the PBR-type rate-setting approach for FEI and FBC. Switching to a COS rate-setting approach for FEI and FBC at the present time would entail a substantial new allocation of time and resources by all parties, beyond the considerable amount of effort that has gone into preparation and review of the Proposed MRPs. BCSEA is content at this time to proceed with the PBR approach for FEI and FBC for the test period.

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<sup>14</sup> FortisBC Final Argument, para.37, footnotes omitted.

<sup>15</sup> FortisBC Final Argument, para.10.

## **PART 3. Design of the Proposed MRPs**

### **A. Overview**

34. In this Part, BCSEA addresses the MRP design issues set out in Part Three of FortisBC's Final Argument.

### **B. Five year term**

35. BCSEA supports FortisBC's proposed five-year term for the MRPs.<sup>16</sup> Five years is a common term for multi-year ratemaking plans in North America. A much shorter term (e.g., three years) would tend to defeat the purpose of achieving regulatory efficiencies for the utilities, the Commission and the interveners. A much longer term (e.g., seven years) would risk becoming out of date in the later years. A five-year term provides enough time for FortisBC to plan and implement efficiencies and innovations as incited by the MRPs.

### **C. Formulaic approach for controllable O&M**

36. FortisBC says that continuation of a formulaic approach for controllable O&M is warranted. It proposes what it calls an inflation-indexed O&M approach in which each year the previous year's Base O&M per customer amount will be adjusted by inflation and then multiplied by a forecast of the average number of customers. The average number of customers would be subject to a true-up in subsequent years to eliminate the impact of any forecast variances.<sup>17</sup> BCSEA supports this formulaic approach for controllable O&M. It is simple, transparent and familiar, having been used in the Current PBR Plans.

37. FortisBC proposes two changes to the formulaic O&M approach in the Current PBR Plans: elimination of the one-year lag and the 50% multiplier from the forecast of average number of customers, and an implicit zero percent productivity factor.<sup>18</sup> These are addressed below.

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<sup>16</sup> FortisBC Final Argument, paras.67-76.

<sup>17</sup> FortisBC Final Argument, para.78.

<sup>18</sup> FortisBC Final Argument, para.82.

#### **D. Formulaic approach to FEI Growth capital**

38. FortisBC says that continuation of a formulaic approach for FEI's Growth capital is warranted.<sup>19</sup> FortisBC argues persuasively that during the Current PBR Plans the formula did not track the actual driver of Growth capital costs.<sup>20</sup> To address this divergence, FortisBC proposes an inflation-indexed Growth capital formula for FEI in which, each year, the Base Growth capital cost per Gross Customer Addition will be adjusted for inflation, and then multiplied by the forecast Gross Customer Additions. The forecast would be subject to a true-up for actual Gross Customer Additions to eliminate any impact of forecast variance.<sup>21</sup>
39. FortisBC proposes to use Gross Customer Additions in place of Service Line Additions to better reflect the primary cost driver of FEI's Growth capital, particularly given the shift in the market to more multi-family dwellings.<sup>22</sup> This would remove the 50% lagging growth factor in the Current PBR Plans.<sup>23</sup> BCSEA considers this reasonable, as it better reflects the underlying driver of FEI's Growth capital.
40. FortisBC proposes two additional changes: re-scoping and rebasing, and an implied zero productivity factor. These are addressed below.

#### **E. Inflation factor**

41. FortisBC says that the current composite inflation factor continues to reflect FEI and FBC's share of labour and non-labour costs.<sup>24</sup> Under the Current PBR Plans, the composite inflation index is based 55% on AWE-BC and 45% on BC-CPI. FortisBC says that if there was any adjustment it would be to a slightly higher inflation rate. However, FortisBC says a change would not be warranted and it recommends approval of the proposed I-Factor. BCSEA does not oppose this approach.

#### **F. Proposed zero productivity factor**

42. FortisBC argues that a zero percent productivity factor (X-Factor) is warranted given declining industry productivity growth and FEI and FBC's efficiency compared to its

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<sup>19</sup> FortisBC Final Argument, paras.85-94.

<sup>20</sup> FortisBC Final Argument, para.85, and Figure B2-3: FEI Figure B2-3: FEI Trend in New Attachments Compared with Actual and Formula-driven Growth Capital.

<sup>21</sup> FortisBC Final Argument, para.87.

<sup>22</sup> FortisBC Final Argument, para.90.

<sup>23</sup> FortisBC Final Argument, para.89.

<sup>24</sup> FortisBC Final Argument, paras.95-100.

peers.<sup>25</sup> FortisBC says that even a zero percent X-Factor will be difficult for FEI and FBC to achieve during the test period. In the 2014 PBR Decision, the BCUC set fixed X-Factor values, inclusive of stretch factors, of 1.10 percent for FEI and 1.03 percent for FBC.<sup>26</sup>

43. BCSEA considers that FortisBC's proposed zero percent productivity factor is contentious. FortisBC argues that the expected industry productivity trend is actually negative, which if accurate would mean that a zero percent X-Factor would challenge FEI and FBC to limit inflation-indexed spending to the composite inflation factor. On the other hand, BCSEA recognizes that the inclusion of a 'stretch factor' in the Current PBR Plans was considered by many parties to be crucial to the effectiveness of the Current PBR Plans (at least regarding formula-O&M if not formula-Growth capital). In the result, BCSEA has chosen not to take a position on the proposed zero percent productivity factor.

#### **G. Forecast growth factor with a true-up**

44. As noted above, FortisBC proposes a forecast growth factor for FEI and FBC's formula O&M and FEI's Growth capital similar to the Current PBR, but with a true-up to actual amounts in each test year for the previous years' forecasts.<sup>27</sup> This would eliminate the 50% multiplier and lagged actual customer growth factor used in the Current PBR Plans.

45. In support, FortisBC argues that the significant variance in FEI's Growth capital under the Current PBR Plans illustrates the underfunding caused by using a lagging growth factor with 50% multiplier; that a forecast increases alignment between the formula and the key driver of actual costs, and the true-up eliminates the impact of forecast error; and that a 100% growth factor is consistent with the majority of other relevant jurisdictions.<sup>28</sup> BCSEA's conclusion is that these three points have been established. Accordingly, BCSEA supports the 100% growth factor, with true-up, proposed by FortisBC.

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<sup>25</sup> FortisBC Final Argument, paras.101-153.

<sup>26</sup> Exhibit B-1, p.B-27, pdf p.76.

<sup>27</sup> FortisBC Final Argument, paras.154-179.

<sup>28</sup> FortisBC Final Argument, para.154.

## H. Earnings Sharing Mechanism

46. FortisBC proposes continuation of the 50/50 Earning Sharing Mechanism, with changes to the calculation of the earning sharing amount and removal of the dead band.<sup>29</sup> BCSEA supports continuation of the symmetrical ESM, which balances the interests of customers and the utility as the Commission determined in the 2014 FEI and FBC PBR Decisions.<sup>30</sup>
47. The calculation changes FortisBC is proposing would calculate the earnings sharing amount as 50% of the difference between achieved and approved return on equity, without flow-through of depreciation, interest and tax related to capital expenditures, and without a dead band. BCSEA supports these proposed changes. They will strengthen the efficiency incentive by including more costs in the ESM. And they will simplify the calculation of the earnings sharing amount.
48. BCSEA also supports removal of the dead band. As FortisBC notes, it proposes a forecast approach for the majority of its capital to improve the accuracy of the allowed capital amounts.<sup>31</sup>

## I. Efficiency Carry-Over Mechanism

49. FortisBC proposes to retain an Efficiency Carry-Over Mechanism but with changes in its calculation.<sup>32</sup> BCSEA agrees with FortisBC on the need for an Efficiency Carry-Over Mechanism to improve incentives in later years of the Proposed MRPs. FortisBC states:

“The incentive for utilities to pursue efficiency gains declines over the term of multi-year plans because the reward for a utility is greatest when the efficiency savings are made in the first year of the plan. As the plan’s term gets closer to its end, the amount of time remaining to achieve a return on efficiency investments becomes successively shorter, reducing the incentive properties of the plan.”<sup>33</sup>

50. FortisBC’s proposal is to calculate the ECM as follows:

“(a) Step one: Calculate half of the variance between the achieved ROE (after sharing) and approved ROE for year 4 and 5 of the MRPs; and

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<sup>29</sup> FortisBC Final Argument, paras.180-188.

<sup>30</sup> Decision and Order G-138-14, p.124, pdf p.137; Decision and Order G-139-14, p.120, pdf p.131. Cited in FortisBC Final Argument, para.181.

<sup>31</sup> FortisBC Final Argument, para.187.

<sup>32</sup> FortisBC Final Argument, paras.189-198.

<sup>33</sup> FortisBC Final Argument, para.190.

(b) Step two: Average the calculated amounts in step one and cap the average at 50 basis points.”<sup>34</sup>

51. BCSEA does not object to FortisBC’s proposed ECM calculation. It falls within the range of potential ways to calculate the ECM that would be balanced and reasonable.

#### **J. Off-ramp and reopener provisions**

52. FortisBC proposes continuation of the financial Off-Ramp provisions in which an off-ramp is triggered if earnings in any one year vary from the approved ROE by more than +/- 200 basis points (post sharing) or if earnings average more than +/- 150 basis points (post sharing) from the approved ROE for two consecutive years.<sup>35</sup> If and when the financial off-ramp is triggered, a review of the MRPs would take place to determine if elements of the Plans require change or whether the Plans are not operating as designed. This is a reasonable approach that BCSEA supports.

#### **K. Flow-through treatments**

53. FortisBC makes a number of proposals regarding flow-through treatments (Y-Factor).<sup>36</sup> Some are modifications and some are retentions of the practices under the Current PBR Plans. FortisBC says all of its proposals are consistent with the principles reflected in Current PBR Plans that uncontrollable costs be flowed-through to rates and that controllable costs should be subject to earning sharing. BCSEA takes no issue with those principles.

54. FortisBC proposes to continue with the current Biomethane Variance Account transfer mechanism, which it describes as follows:

“[A]ll capital and operating costs to support FEI’s renewable natural gas program (“RNG Program”) [are transferred] to the BVA. The balance in the BVA is then recovered from biomethane customers through the Biomethane Energy Recover Charge (“BERC”), with any unrecovered balances transferred to the BVA Rider deferral account and recovered from non-bypass customers through the BVA rider.”<sup>37</sup>

55. BCSEA supports the Renewable Natural Gas Program. BCSEA considers that the Biomethane Variance Account transfer mechanism has been working well. BCSEA

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<sup>34</sup> FortisBC Final Argument, para.193.

<sup>35</sup> FortisBC Final Argument, para.199.

<sup>36</sup> FortisBC Final Argument, paras.200-218.

<sup>37</sup> FortisBC Final Argument, para.202.

agrees with FortisBC that there is no reason to change the BVA transfer mechanism at this time.<sup>38</sup>

56. BCSEA supports FortisBC's proposal that the interconnection costs for the seven interconnection facilities that FEI initiated when the RNG Program was approved on a pilot basis be accounted for in the BVA, consistent with all other interconnection costs.<sup>39</sup> As FortisBC states:

"With the proposed change, all RNG Program-related costs will be forecast each year, and any variances will be captured in the Flow-through deferral account with actual costs ultimately accounted for in the BVA. This will make the accounting and reporting of the RNG Program costs more consistent, simpler and more transparent."<sup>40</sup>

57. Regarding FBC's electric vehicle charging stations, makes the following conditional proposal:

"Subject to approval by the BCUC for inclusion of FBC's Electric Vehicle Direct Current Fast Charging ("DCFC") stations in rate base, FBC proposes to forecast capital and operating costs associated with the electric vehicle charging stations each year and record the related cost of service variances in the Flow-Through deferral account. These stations generate incremental tariff revenue which is subject to flow-through treatment. This treatment is consistent with treatment of other clean growth initiatives that generate incremental revenues. The IRs did not raise any issue with this proposal."<sup>41</sup>

58. BCSEA supports this proposal, consistent with BCSEA's support for FBC's implementation of public DCFC stations in order to foster development of the EV sector in B.C.

59. FortisBC proposes forecast and flow-through treatment for incremental costs that FEI or FBC incur in complying with legislatively mandated federal, provincial and municipal climate policy and with new Mandatory Reliability Standards.<sup>42</sup> BCSEA agrees with this approach, noting that the question of whether specific costs qualify or not may be addressed in the Annual Reviews.

60. Similar to its proposal regarding the Earnings Sharing Mechanism, FortisBC proposes that controllable depreciation, interest and tax variances driven by regular

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<sup>38</sup> FortisBC Final Argument, para.203.

<sup>39</sup> FortisBC Final Argument, para.204.

<sup>40</sup> FortisBC Final Argument, para.205, footnote omitted.

<sup>41</sup> FortisBC Final Argument, para.206.

<sup>42</sup> FortisBC Final Argument, para.207.

capital spending should be subject to earnings sharing rather than treated as a flow through.<sup>43</sup> FortisBC explains:

“As discussed above, FortisBC is returning to a traditional earnings sharing mechanism consistent with stakeholder feedback regarding the complexity of the current mechanism. Under the proposed approach, variances related to capital spending flow to the bottom line so that the shareholder takes more risk on overspending and retains more reward for controlling spending. This creates a greater incentive for the Companies to manage capital spending which will yield benefits to customers for the long term over the lives of the assets.”<sup>44</sup>

61. BCSEA supports this proposal, as it is consistent with the principle that controllable costs should be subject to earning sharing.
62. Similarly, FortisBC proposes that components of Other Revenue not related to Clean Growth Initiatives should be subject to earnings sharing to increase incentives.<sup>45</sup> BCSEA agrees, as these components are controllable.

#### **L. Deferral accounts**

63. FortisBC seeks approval of several new deferral accounts and continuation of the FEI and FBC Flow-through Deferral Account. The new deferral accounts are BCUC Levies Variance Account (FBC), MRP Incentives Account (FEI & FBC), and Innovation Funding Account (FEI & FBC).<sup>46</sup> BCSEA supports approval of these requests, as these deferral accounts are necessary to implement aspects of the Proposed MRPs that BCSEA addresses elsewhere in this Final Argument.

#### **M. Exogenous factors**

64. Regarding the exogenous factors (Z-Factor), FortisBC proposes to continue the existing exogenous criteria but without the materiality threshold.<sup>47</sup> The Current PBR criteria that FortisBC proposes to continue (i.e., excluding the materiality threshold) are:

“(a) attributable to events entirely outside the control of a prudently operated utility;

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<sup>43</sup> FortisBC Final Argument, para.211.

<sup>44</sup> FortisBC Final Argument, para.211.

<sup>45</sup> FortisBC Final Argument, para.212.

<sup>46</sup> FortisBC Final Argument, paras.219-226.

<sup>47</sup> FortisBC Final Argument, paras.227-238.

(b) directly related to the exogenous event and clearly outside the base upon which the rates were originally derived;

(c) impact of event is unforeseen;

(d) prudently incurred costs...<sup>48</sup>

65. BCSEA considers that these criteria for exogenous treatment remain appropriate.

66. BCSEA supports FortisBC's proposal to remove the materiality threshold. BCSEA agrees with FortisBC as follows:

"Removing the materiality threshold will make the Annual Review process administratively simpler and more efficient. The materiality threshold contributed to confusion and complexity during the Current PBR Plans as it led to argument and process related to how to measure the materiality threshold (annual, cumulative, O&M and capital, together or separate). The application of the materiality threshold to different circumstances will continue to give rise to confusion or complexity, as future exogenous events will inevitably present new facts and circumstances not previously considered."<sup>49</sup>

#### **N. Annual Review process**

67. FortisBC proposes continuation of the Annual Review process.<sup>50</sup> BCSEA has participated in the Annual Reviews under the Current PBRs. BCSEA's view is that the Annual Review process works well generally but that it could and should be improved by reviewing FortisBC's annual Sustainability Report. With that proviso, BCSEA supports continuation of the Annual Review process. The Sustainability Report is addressed below in Part 7, Section B, below.

### **PART 4. Base O&M per customer unit cost**

68. Part Four of FortisBC's Final Argument addresses Base O&M per customer amount for each of FEI and FBC. For each utility, FortisBC starts with 2018 Actual O&M, requests adjustments, and divides by the forecast average number of customers (subject to true up) over the 2020-2024 period.

69. BCSEA supports this methodology. However, BCSEA disagrees with one of FortisBC's proposed adjustments.

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<sup>48</sup> FortisBC Final Argument, para.228.

<sup>49</sup> FortisBC Final Argument, para.235.

<sup>50</sup> FortisBC Final Argument, paras.239-242.

70. BCSEA opposes approval of FEI's proposal to add \$1.2 million annually for additional spending on FEI's Connect to Gas activities.<sup>51</sup> This would be on top of \$2.38 million in 2019 Base O&M for Connect to Gas.<sup>52</sup>
71. Connect to Gas is not a carbon reduction program. Connect to Gas is a load-building program. Its purpose is customer growth and retention. Connect to Gas promotes the addition of new customers, fosters customer retention and helps increase the adoption of natural gas appliances.<sup>53</sup>
72. Connect to Gas promotes natural gas equipment in new construction. FortisBC states:
- “...Connect to Gas seeks to promote the adoption of natural gas appliances and solutions in homes and businesses, aimed predominantly at builders, developers, architects, engineers, equipment manufacturers, and contractors. The messaging for Connect to Gas is technology focused, designed to influence the selection of equipment.”<sup>54</sup>
73. Connect to Gas cannot be justified by carbon reduction. FortisBC emphasizes that the incremental funding for Connect to Gas does not overlap with the targeted incentive for GHG Emissions Reductions (Customer), which is limited to conversions of existing oil or propane heating equipment to natural gas.<sup>55</sup>
74. BCSEA submits that incremental funding for the natural gas load-building Connect to Gas program would be contrary to carbon reduction policies and contrary to FortisBC's “do more with what we have” approach. Respectfully, it should not be approved by the Commission.

## **PART 5. FEI's Base Growth capital per customer unit cost**

### **A. Overview**

75. In Part Five of its Final Argument, FortisBC proposes FEI's Base Growth capital per Gross Customer Addition amount that will be subject to the unit cost approach described in Part 3.
76. FEI's Growth capital consists of expenditures on mains, services, and meters. For the Proposed MRP, FortisBC proposes that FEI's Growth capital will also include

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<sup>51</sup> Exhibit B-1, Table C2-9, FEI Connect to Gas Incremental Funding, p.C-30, pdf p.165.

<sup>52</sup> Exhibit B-1, p.C-29, Table C2-8.

<sup>53</sup> Exhibit B-1, pp.C-30.

<sup>54</sup> FortisBC Final Argument, para.290.

<sup>55</sup> FortisBC Final Argument, para.580, and para.580, third bullet.

distribution pressure system improvements (i.e., System Improvements (DP) will be re-categorized from Sustainment/Other capital to Growth capital). Growth capital costs are all primarily driven by growth in customers.<sup>56</sup>

77. FortisBC explains the basic methodology, and its substantive proposal to start with the average 2016-2018 actual unit costs, as follows:

“To set the 2019 base unit cost that will be used for 2020 and future years, FEI starts with the average 2016-2018 actual unit costs as this amount is representative of FEI’s level of capital investment required to provide service to new customers. Two adjustments are then made to the 2016-2018 average actual unit cost to arrive at the ‘2019 Base unit cost’. The goal of these adjustments is to determine the appropriate starting point for Growth capital unit costs for the Proposed MRP, incorporating known and measurable adjustments as appropriate.”<sup>57</sup>

### **B. The scope of FEI’s Growth capital**

78. BCSEA accepts FEI’s premise that its Growth capital includes (and should include) the capital categories clearly and directly driven by growth in customers.<sup>58</sup>

79. FortisBC proposes to use Gross Customer Additions (the number of new customers attaching to the gas distribution system with new mains and/or service installations), instead of service line additions, in the FEI Growth capital formula.<sup>59</sup> BCSEA agrees that Gross Customer Additions is a more accurate measure of the driver of Growth capital than service line additions.

80. As noted above, FortisBC proposes that FEI’s Growth capital amount will include distribution pressure system improvements. FortisBC’s rationale for this change is that “the primary driver for these expenditures is customer additions and the timing of the expenditures is generally within the same year that the customer additions take place.”<sup>60</sup> BCSEA agrees with this proposal.

81. FortisBC proposes to leave Intermediate pressure (IP) System Improvements and New Stations to supply gas to new customers in Sustainment capital for FEI.<sup>61</sup>  
FortisBC explains:

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<sup>56</sup> FortisBC Final Argument, para.327.

<sup>57</sup> FortisBC Final Argument, para.327.

<sup>58</sup> FortisBC Final Argument, para.330.

<sup>59</sup> Exhibit B-1-1, pdf p.194; FortisBC Final Argument, para.330.

<sup>60</sup> Exhibit B-10, BCUC IR 1.40.4; FortisBC Final Argument, paras.331-332.

<sup>61</sup> Exhibit B-10, BCUC IR 1.40.4; FortisBC Final Argument, para.333.

“Although [Intermediate pressure (IP) System Improvements and New Stations] expenditures are primarily driven by customer additions, the expenditures are generally much larger and tend to lead or lag a significant portion of the customer additions that created the need for the work. As such, they are not well suited to the proposed unit cost approach to Growth capital and are, therefore, not included in Growth capital for the MRP.”<sup>62</sup>

82. BCSEA agrees with this approach.

**C. The 2016-2018 average Growth capital expenditures as the starting point for FEI’s Base Growth capital**

83. As noted above, FortisBC proposes to use FEI 2016-2018 average Growth capital expenditures as the starting point for FEI’s Base Growth capital (i.e., before proposed adjustments). FortisBC’s rationale is as follows:

“Using 2016 through 2018 actual Growth capital expenditures to determine the Growth capital base reflects recent experience and is representative of FEI’s current level of capital investment required to provide service to new customers. Specifically, the 2016 through 2018 actual expenditures for New Customer Services and New Customer Mains incorporate the unit cost pressures that have been recently experienced related to local government requirements, increased service activities on Vancouver Island, unfavorable CAD/USD exchange rates and growth in larger industrial main additions.”<sup>63</sup>

84. BCSEA does not oppose FortisBC’s proposal to use the 2016-2018 average Growth capital as the starting point for determining FEI’s Base Growth capital, although BCSEA recognizes that other starting points could be appropriate.

**D. Adjustments for construction price increases and the impact of muster kit and material allocation**

85. FortisBC proposes to adjust the 2016-2018 average Growth capital for (a) construction price increases and (b) the impact of muster kit and material allocation.

86. FortisBC includes four factors within construction price increases: contractor price increases, higher growth and higher contract pricing on Vancouver Island, field quality assurance enhancements, and increased testing of installations prior to being placed into service. BCSEA acknowledges that in principle these are factors that

<sup>62</sup> Exhibit B-10, BCUC IR 1.40.4.

<sup>63</sup> Exhibit B-10, BCUC IR 1.8.13, pdf p.66.

justify an adjustment of the starting point. However, BCSEA takes no position on the size of the adjustments that FortisBC proposes.

87. FortisBC says “Muster kits and material allocations are the standard parts and fittings for routine work that are stocked in bulk at local musters and allocated out to completed jobs.” The reason for the proposed adjustment is explained as follows:

“The muster kit material charge for services was increased in 2017 to better reflect the actual cost for the materials used in an average service installation. Conversely, there was a reduction in the muster kit material charge for mains muster kits based on an evaluation of actual materials used in an average mains installation. The net impact of the changes is an increase of 1 percent (\$642 thousand) on average Growth expenditures.”<sup>64</sup>

88. BCSEA takes no position on the proposed adjustment for “muster kit and material allocation.”

## **PART 6. Capital under the 2014-2019 PBR Plans**

### **A. Overview**

89. This Part concerns the level of FEI’s Sustainment capital and Other capital, and FBC’s Regular capital, within the Proposed MRPs for 2020 to 2024. For these types of capital, FortisBC proposes using a five-year forecast. BCSEA supports this cost of service approach that moves away from the formulaic approach to capital in the Current PBR Plans (except regarding FEI Growth capital).

90. For FEI, the Proposed MRP includes Sustainable and Other capital on a forecast basis (discussed in this Part 6), and Growth capital on a formula basis (discussed in Part 5).

91. For FBC, the Proposed MRP includes Regular capital on a forecast basis, and Regular capital includes Growth capital, Sustainment capital and Other capital. For FBC, the Proposed MRP has no capital on a formula basis.

92. In addition, both FEI and FBC will seek approval of “Major Projects” outside of the Proposed MRPs. Major Projects are projects where the cost exceeds the BCUC-approved CPCN threshold. They are approved through a separate CPCN application or capital expenditure schedule filing.<sup>65</sup>

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<sup>64</sup> Exhibit B-1, p.C62.

<sup>65</sup> FortisBC Final Argument, para.354.

93. FortisBC says that to mitigate uncertainty in the latter years of the forecast, in 2022, it will review its forecast capital for 2023 and 2024 and will file an updated capital forecast if necessary. This is addressed below.

## **B. Proposed mixed forecast and formula approach**

94. BCSEA agrees with FortisBC's observation that "The collective experience of utilities and regulators has demonstrated that the treatment of capital under multi-year ratemaking plans is challenging."<sup>66</sup> More specifically, during the Current PBRs, both FEI and FBC "exceeded the capital formula amount each year and, in particular, faced challenges in keeping the level of capital required to address customer growth within the formula capital amount."<sup>67</sup>

95. FEI's Sustainment and Other capital, and FBC's Regular capital, constitute the majority of FEI's and FBC's capital expenditures.<sup>68</sup> Therefore, under the Proposed MRPs the majority of FEI's and FBC's capital expenditures would be subject to a forecast approach, not a formula approach. BCSEA agrees.

96. Under the Proposed MRPs, the approved forecast for capital will be embedded in rates over the term, with no adjustment for actuals until after the end of the term. Any variance between forecast and actual capital will be subject to the 50/50 earnings sharing mechanism, as in a formula-driven approach. This will incent the utilities to achieve efficiencies, and any savings achieved will be shared equally between FortisBC and ratepayers.<sup>69</sup>

97. In BCSEA's view, this is a positive aspect of the proposed mixed forecast and formula approach. BCSEA agrees with FortisBC that the proposed treatment is preferable to a flow-through approach:

"If capital expenditures were treated as flow-through, the Companies would have less incentive to pursue capital efficiencies as all benefits would immediately be returned to customers. Similarly, there would be no penalty to the Companies for over-spending as the revenue requirements impacts would be fully recovered by way of the flow-through mechanism."<sup>70</sup>

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<sup>66</sup> FortisBC Final Argument, para.356.

<sup>67</sup> FortisBC Final Argument, para.356.

<sup>68</sup> FortisBC Final Argument, para.354.

<sup>69</sup> FortisBC Final Argument, para.370.

<sup>70</sup> Exhibit B-10, BCUC IR 1.64.2, cited in FortisBC Final Argument, para.371.

### **C. FortisBC's capital forecasts**

98. BCSEA has no reason to disagree with FortisBC's contention that its capital forecasts are the result of a robust capital planning process that reflects its continual improvements to its capital management processes.

### **D. FEI's Sustainment and Other capital**

99. FEI's forecast of Sustainment and Other Capital Expenditures for 2020-2024, is set out in Table C3-5.<sup>71</sup>

100. BCSEA accepts that FEI's Sustainment and Other capital is required for the safety, reliability and integrity of FEI's system and to maintain compliance. However, BCSEA takes no position on the quantum of the forecast.

### **E. FBC's forecast of its Regular capital**

101. FBC's forecast of Regular Capital Expenditures 2020-2024 for 2020-2024 is set out in Table C3-21.<sup>72</sup>

102. BCSEA accepts that FBC's forecast of its Regular capital is required for the safety, reliability and integrity of FBC's electrical system and to maintain compliance. However, BCSEA takes no position on the quantum of the forecast.

### **F. Review of forecast capital for 2023 and 2024, with updated capital forecast if necessary**

103. As noted above, within the Proposed MRPs, FortisBC proposes to review FEI's and FBC's forecast capital in 2022 and, if necessary, file an updated forecast in the Annual Reviews for 2023 rates to account for any material changes to the forecast that occur over that time period and ask for approval of the changes. FortisBC explains this as being necessary due to the significant changes in FortisBC's evolving operating environment and uncertainties inherent in a five-year forecast.<sup>73</sup> This is a reasonable approach, in BCSEA's view.

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<sup>71</sup> Exhibit B-1, p.C-64.

<sup>72</sup> Exhibit B-1, p.C-81.

<sup>73</sup> FortisBC Final Argument, para.354.

## **G. Approval of Major Projects outside of the framework of the Proposed MRPs**

104. BCSEA supports FortisBC's commitment to continue to seek approval of Major Projects outside of the framework of the Proposed MRPs.

## **PART 7. Annual Review and Service Quality Indicators**

### **A. Overview**

105. BCSEA has named this Part of the Argument "Annual Review and Service Quality Indicators" to emphasize that the scope of the Annual Review is not limited to the existing approved SQIs.

106. The scope of the Annual Review was an issue in the proceeding that led to the approval of the current PBR framework in September 2014. FortisBC called for a narrow scope. Interveners called for a broad scope.

107. In the 2014 PBR Decision, the Panel found that "a more extensive Annual Review process is necessary to build trust among all stakeholders and to ensure the PBR Plan functions as intended."<sup>74</sup> Notably, the scope of the Annual Review is not 'cast in stone.' Rather, item 7 in the list of topics for each Annual Review is to "Assess and make recommendations to the Commission on the scope for future Annual Reviews."<sup>75</sup>

108. In Section B of this Part of the Argument, BCSEA calls for a requirement that FortisBC provide its annual Sustainability Report for consideration in the Annual Reviews under the MRP. One of the purposes of the Annual Reviews under the MRP is to ensure that any achieved cost savings do not come at the expense of service quality. The SQIs are an important mechanism in this respect. However, the potential for service quality to be eroded by cost savings incented by the MRP framework is not limited to the specific approved SQIs. This is particularly important now that FortisBC situates its performance on individual SQIs within its transition to a lower carbon future. FortisBC's annual Sustainability Report is ideally suited to assist the Commission and the parties in the Annual Review of FortisBC's performance under the MRP. The Sustainability Report is already produced, so filing it in the Annual Review would have no incremental cost.

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<sup>74</sup> Decision and Order G-138-14, pdf p.184, p.198.

<sup>75</sup> Decision and Order G-138-14, pdf p.185, p.199.

109. In Section C of this Part, BCSEA argues against FortisBC's proposal to discontinue reporting to the Annual Reviews on FEI's annual GHG emissions.
110. In Section D of this Part, BCSEA addresses FortisBC's proposals for revisions to the existing SQIs.

## **B. FortisBC's Sustainability Report should be filed in Annual Reviews**

111. BCSEA submits that FortisBC's annual Sustainability Report<sup>76</sup> should be provided for consideration at the MRP Annual Reviews. The report on FortisBC's performance on some 40 indicators of sustainability would provide useful information at the Annual Review within the proposed MRP framework.
112. FortisBC opposes a requirement that it provide the Sustainability Report to the Annual Reviews, stating:

"The purpose of the Annual Review is to set rates for the following year. As part of the Annual Review process, FortisBC will continue to report on a balanced set of SQIs (including GHG emissions for FEI) that are designed to show that cost reductions under the MRP are not being made at the expense of reasonable level of service. In addition, the new reporting and review requirements for Targeted Incentives and the Innovation Fund [<sup>77</sup>] already focus on those aspects of FortisBC's transition to a lower carbon future that are components of the rate setting framework. The Corporate Sustainability Report, however, covers a wider variety of issues which are not relevant to the Annual Review process."<sup>78</sup>

113. BCSEA disagrees, for the following reasons:
- a. The Annual Review is not limited to setting rates for the following year but also serves the important function of ensuring that any achieved cost savings are not at the expense of reduced quality of service.
  - b. FortisBC's statement that it will continue to report on GHG emissions for FEI is unclear given FortisBC's proposal<sup>79</sup> to discontinue such reporting.

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<sup>76</sup> Exhibit B-15, Attachment 43.4, pdf p.51.

<sup>77</sup> "FortisBC clarifies that the "new reporting and review requirements proposed for Targeted Incentives and the Innovation Fund" is in reference to the MRP elements (Targeted Incentives and the Clean Growth Innovation Fund) for which the Companies will be providing progress updates in the Annual Reviews during the MRP. FortisBC considers the Targeted Incentives and the Clean Growth Innovation Fund as integral components of the rate setting framework proposed, which are focused on FortisBC's transition to a lower carbon future." Exhibit B-15, BCSEA IR 2.43.2.

<sup>78</sup> Exhibit B-6, BCSEA IR 1.20.1.

<sup>79</sup> FortisBC Final Argument, para.470.

- c. BCSEA welcomes implementation of new reporting and review requirements for Targeted Incentives and the Innovation Fund focusing on those aspects of FortisBC's transition to a lower carbon future that are components of the rate setting framework.
  - d. BCSEA disagrees that there are aspects of FortisBC's transition to a lower carbon future that are not relevant to the Annual Review process.
114. FortisBC says the Sustainability Report summarizes its sustainability activities and efforts across the different parts of its business. It says the Report "showcases the various initiatives in each of the pillars (Customers, Partners & Communities, Environment and Employees) that define how sustainability is intrinsically part of FortisBC's priorities and operations."<sup>80</sup> BCSEA responds that the "sustainability [that] is intrinsically part of FortisBC's priorities and operations" is an important component of the quality of service that is properly protected from deterioration due to any achieved cost savings under the MRP framework.
115. In its response to BCSEA IR 2.43.1, FortisBC provides a table describing each of the four pillars with its view of "why the content may not be relevant to the MRP Annual Review process."
116. Regarding the Customers pillar, FortisBC states:
- "Some of the information and metrics reported in this pillar are the same as that reported for the MRPs. The metrics include SAIDI, SAIFI, emergency response time, first contact resolution and customer satisfaction. The Annual Review process provides a forum to discuss performance for these metrics relative to the targets established as part of the MRP."<sup>81</sup>
117. In this statement, FortisBC implicitly acknowledges that some of the Customers information in the Sustainability Report is not the same as the information provided in the Annual Review process. FortisBC implies that any information in the Sustainability Report not currently provided to the Annual Review is not relevant to the Annual Review because only information currently provided to the Annual Review is relevant. With respect, this is circular. BCSEA argues for a broader understanding of the purpose of the Annual Review that goes beyond the important, but narrowly defined, SQI metrics.

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<sup>80</sup> Exhibit B-15, BCSEA IR 2.43.1

<sup>81</sup> Exhibit B-15, BCSEA IR 2.43.1, pdf p.45.

118. Regarding the Partners and Communities pillar, FortisBC states

“This section discusses the partnerships and relationships with local communities, stakeholders, regulatory agencies, Indigenous groups and business organizations. Featured is the Companies’ community investment program supporting a variety of projects focused on safety, education, environment or Indigenous initiatives.

There is no specific requirement to consider and review this as part of the Annual Review process.”<sup>82</sup>

119. Two points in response. First, the funds for FortisBC’s Partners and Communities activities come at least in part from revenues from customers under the MRP framework. This engages the purpose of the Annual Review to ensure that any achieved cost savings are not at the expense of reduced service quality.

120. Second, the fact that there is no current requirement to provide information regarding FortisBC’s Partners and Communities activities to the Annual Review is not a valid reason for the Commission not to require submission of this information, particularly where the information is already in report form and concerns one of the four pillars that define how sustainability is intrinsically part of FortisBC’s priorities and operations.

121. Regarding the Environment pillar, FortisBC states:

“The Environment section includes discussion of the innovative energy solutions that fit in B.C.’s lower-carbon future and FortisBC’s diligence on environmental stewardship and management. Activities described include those to reduce environmental impacts, including renewable gases, hydrogen-injection, carbon capture and the installation of fast-charging electric vehicle stations. Discussed also are efforts to reduce natural gas emissions from FEI’s natural gas system.

Reductions in GHG emissions in areas which are the focus of the proposed Targeted Incentives (i.e., RNG, natural gas used for transportation, etc.) and for which specific reporting is proposed as part of the Annual Review process. There is no specific requirement to consider and review Environment information as part of the Annual Review process.”<sup>83</sup>

122. BCSEA submits that the Annual Review should not deliberately exclude information relevant to FortisBC’s annual performance on a major area of service quality – Environment, in this instance – merely because there is no existing requirement that FortisBC provide such information.

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<sup>82</sup> Exhibit B-15, BCSEA IR 2.43.1, pdf p.45.

<sup>83</sup> Exhibit B-15, BCSEA IR 2.43.1, pdf p.45.

123. Regarding the Employee pillar, FortisBC states:

“This section focuses on the value of the Companies’ employees. Highlighted are the training and development activities for employees and the efforts supporting inclusion in the workplace. Improvements to the Companies’ overall safety culture are presented.

There is no specific requirement to consider and review this as part of the Annual review process.”<sup>84</sup>

124. FortisBC’s overall safety culture is already a major focus of the performance review aspect of the Annual Reviews. In BCSEA’s view, the discussion quite properly extends beyond the Companies’ numerical results on the All Injury Frequency Rate SQI. BCSEA submits that the “Employee pillar” component of the Sustainability Report would provide useful, well-organized contemporary and historical information on this important topic in the Annual Reviews.

125. In conclusion on this point, FortisBC’s annual Sustainability Report would provide appropriate, valuable information and should be provided for consideration at the MRP Annual Reviews.

### **C. Reporting of GHG emissions should be retained, not discontinued**

126. BCSEA strongly disagrees with FEI’s proposal to discontinue reporting total GHG emissions as part of the Annual Review process under the Proposed MRPs.<sup>85</sup>

127. To be clear, the requirement to report total GHG emissions results is not an SQI. Rather, as FEI acknowledges,<sup>86</sup> it is a BCUC directive in FEI’s Annual Review for 2015 Delivery Rates that requires FEI to provide estimated annual GHG emissions reported to the Ministry of Environment in its Annual Reviews.<sup>87</sup>

128. FEI gives three arguments for discontinuing the requirement to report total annual GHG emissions as part of the Annual Review under the MRP. BCSEA submits that these arguments do not support eliminating the GHG reporting requirement in the MRP Annual Review.

129. First, FEI says it is already reporting GHG emissions reductions in other contexts where it is more meaningful.<sup>88</sup> FEI does report GHG emissions to the provincial

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<sup>84</sup> Exhibit B-15, BCSEA IR 2.43.1, pdf p.45.

<sup>85</sup> FortisBC Final Argument, para.470.

<sup>86</sup> FortisBC Final Argument, para.470, footnotes omitted.

<sup>87</sup> BCUC Decision G-86-15, p.19, cited in FortisBC Final Argument, para.470.

<sup>88</sup> FortisBC Final Argument, para.470.

government under legislated GHG reporting requirements. However, BCSEA submits that it cannot be said that provincial GHG reporting is “more meaningful” than GHG reporting within the MRP Annual Review, because the two contexts have different functions.

130. For example, FEI presumably reports worker health and safety information to WorkSafe BC under provincial requirements, but that does not negate the value of the All Injury Frequency Rate SQI reported annually as part of the MRP. The purpose of annual reporting as part of the MRP is different than the purpose of reporting to the provincial government. Specifically, the purpose of annual reporting as part of the MRP is to ensure that any achieved cost savings are not at the expense of reduced service quality.
131. BCSEA’s members want the energy they purchase and use to be sustainably produced and transported.<sup>89</sup> FEI’s ongoing reduction of its GHG emissions is an important service quality. BCSEA supports utility cost savings (of course), but not at the expense of deteriorating GHG emissions reductions.<sup>90</sup> For BCSEA, the requirement to report total annual GHG emissions as part of the Annual Review under the MRP has become an important component of the MRP framework. As a result of this filing during the Annual Reviews, BCSEA has been able to obtain information on FEI’s current year GHG emissions reduction activities in comparison with those of previous years.
132. Second, FEI says it has proposed the inclusion of targets relating to the reduction of GHG emissions as part of its proposed Targeted Incentives.<sup>91</sup> In response, this is an accurate statement and a commendable initiative. However, even if the GHG emissions Targeted Incentives are approved they do not negate the value of continuing to report total annual GHG emissions as part of the Annual Review.
133. FortisBC itself has emphasized the importance of consistency in reporting, as it enables the identification of trends in the performance of individual metrics and the overall service level provided to customers.<sup>92</sup> This certainly applies to enhanced GHG emissions reductions, which is a change in investment strategies or operating practices that may not be fully realized over a single MRP term.

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<sup>89</sup> Exhibit C3-1.

<sup>90</sup> Not to suggest that this has been the case.

<sup>91</sup> FortisBC Final Argument, para.470.

<sup>92</sup> FortisBC Final Argument, para.460.

134. Further on this point, if GHG Targeted Incentives are approved and the annual reporting includes information that retains consistency with the historical GHG annual emissions reports then the GHG reporting directive could be eliminated if it has become superfluous. However, such a decision should be based on experience, not speculation.
135. Third, FEI says the Utilities publish a Sustainability Report annually which includes GHG emissions information. FEI says “The Sustainability Report provides added context to GHG emissions figures and is therefore a more suitable format for reporting GHG emissions.”<sup>93</sup>
136. BCSEA commends FortisBC’s recent implementation of an annual Sustainability Report. However, FortisBC maintains that the Sustainability Report should not be provided to the Annual Reviews.<sup>94</sup> As discussed in the previous section, BCSEA asks the Commission to require FortisBC to provide the Sustainability Report for consideration at the MRP Annual Reviews. However, BCSEA does not agree that FortisBC’s publication of an annual Sustainability Report is a valid reason for eliminating the directive to report GHG emissions at the Annual Reviews.
137. In conclusion on this point, the Commission’s directive requiring FEI to report total GHG emissions as part of the Annual Review process should be continued under the Proposed MRPs. In the future, if experience shows that reporting under new requirements provides historical consistency with the earlier FEI GHG annual emissions data, then elimination of the directive could be considered at that time.

#### **D. Service Quality Indicators in the MRPs**

138. BCSEA agrees with FortisBC that generally the existing SQIs have been appropriate and useful in monitoring the Utilities’ performance during the Current PBR Plan term.<sup>95</sup>
139. FortisBC proposes limited adjustments to the SQIs for the term of the Proposed MRPs.<sup>96</sup>

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<sup>93</sup> FortisBC Final Argument, para.470.

<sup>94</sup> Exhibit B-6, BCSEA IR 1.20.1, 1.20.2.

<sup>95</sup> FortisBC Final Argument, para.455.

<sup>96</sup> As indicated in the text, above, BCSEA opposes discontinuation of the directive to file annual GHG emissions data. However, this filing requirement is not an SQI.

140. BCSEA supports approval of the proposed changes that would make the Benchmark and Threshold more stringent for the FEI Public Contacts with Gas Lines SQI, the Benchmark more stringent for the FEI Billing Index SQI,<sup>97</sup> the Threshold more stringent for the FBC First Contact Resolution SQI, the Benchmark more stringent for the FBC Billing Index SQI, and the Benchmark and Threshold more stringent for the FBC Meter Reading Accuracy SQI.<sup>98</sup>
141. FortisBC proposes an Average Speed of Answer SQI as an informational SQI in place of the existing Telephone Abandonment Rate informational SQI, for both FEI and FBC.<sup>99</sup> BCSEA agrees that the TAR SQI has lost its meaningfulness as there is no way to know if a ‘hang up’ reflects a positive customer experience (e.g., desired information received through prompts) or a negative customer experience (e.g., frustration at not being able to speak with a live operator).<sup>100</sup> The TAR SQI should certainly be retired.
142. The proposed Average Speed of Answer SQI appears to be an appropriate replacement as a metric for FortisBC’s performance regarding customers’ experience. BCSEA supports approval of the ASA informational SQI. BCSEA suggests that after experience has been gained with the ASA informational SQI consideration should be given to adding a Benchmark and a Threshold to the metric.
143. FortisBC proposes two changes to the FBC SAIDI and SAIFI SQIs.
144. First, FBC proposes to report the actual results on a single-year basis rather than a three-year rolling average.<sup>101</sup> BCSEA agrees. As FortisBC states, “Reporting a single year’s results in comparison to the benchmark and threshold is easier to understand and provides a clearer indication of FBC’s performance in a given year.”
145. Second, FBC proposes to provide new proposed benchmarks and thresholds for the SAIDI and SAIFI SQIs for the MRP term once 2019 actual results are available. These would replace the existing benchmarks and thresholds. FBC says this is required because “implementation of the OMS in 2017 has impacted how outage

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<sup>97</sup> Exhibit B-1, Table C7-1, p.C-148, reproduced in FortisBC Final Argument, para.463.

<sup>98</sup> Exhibit B-1, Table C7-5, p.C-151, reproduced in FortisBC Final Argument, para.477.

<sup>99</sup> Both the existing Telephone Abandonment Rate SQI and the proposed Average Speed of Answer SQI concern non-emergency calls. There is a separate Telephone Service Factor (Emergency) SQI for emergency calls, for both utilities.

<sup>100</sup> FortisBC Final Argument, para.473.

<sup>101</sup> FortisBC Final Argument, para.489.

data is tracked and how SAIDI and SAIFI are reported.”<sup>102</sup> The new proposed benchmarks and thresholds would be based on three years of data under the OMS: 2017, 2018 and 2019. BCSEA supports this proposal.

146. BCSEA agrees with FBC that its SAIDI and SAIFI results should continue to be normalized in accordance with the Institute of Electrical and Electronics Engineer (“IEEE”) method.<sup>103</sup>
147. Normalization of FBC’s transmission and distribution reliability metrics refers to the exclusion of outages resulting from “major events.” While BCSEA supports continuation of the industry standard practice of normalization of FBC’s SAIDI and SAIFI statistics, BCSEA is concerned about the number and severity of “major events” disrupting FBC’s transmission and distribution systems. Major event days in the FBC service territory have been caused by mudslides, wind or snow storms and wildfires.<sup>104</sup> FBC says it collects and studies major outages that qualify as “major events” separately from the SAIDI and SAIFI statistics.<sup>105</sup> It says this information “is used to help inform decisions around design practices and to improve FBC’s operational response during these events.” BCSEA believes it would be helpful for FBC to address “major events” in conjunction with the SAIDI and SAIFI results in the Annual Report.
148. Regarding what is sometimes called “the SQI enforcement mechanism,” BCSEA agrees with FortisBC that the existing process for interpreting metric performance as approved for the Current PBR Plan should continue as it was the product of a consensus recommendation in 2014.<sup>106</sup>
149. BCSEA accepts FortisBC’s summary description of the existing process as follows:
- “In summary, as under the Current PBR Plans, FEI and FBC will report each year’s actual results, once available, to the BCUC and stakeholders as part of the Annual Review. This will allow for a comparison of the Utilities’ SQI performance against the benchmark targets and thresholds. During the Annual Reviews under Current PBR Plans, the BCUC has provided guidance on how a serious degradation of service should be determined, which would continue to apply to the Proposed MRPs. In the event of a serious degradation of service quality caused in whole or in

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<sup>102</sup> FortisBC Final Argument, para.489.

<sup>103</sup> FortisBC Final Argument, para.493.

<sup>104</sup> Exhibit B-1-1, Appendix C5-2, FBC Service Quality Indicators, p.12, pdf p.503.

<sup>105</sup> Exhibit B-10, BCUC IR 1.94.1.1., cited in FortisBC Final Argument, para.494.

<sup>106</sup> BCUC Order G-14-15, dated February 4, 2015, cited in FortisBC Final Argument, para.503.

part by FortisBC's actions or inactions, the BCUC may order a reduction to the share of earnings sharing retained by the Utilities. Any such reduction, which is to be determined following a further BCUC process, may amount to a maximum penalty of 10 percent of the earnings sharing earned by FortisBC (i.e., a 60 percent share to customers, as opposed to the standard 50 percent).<sup>107</sup>

150. In conclusion regarding FortisBC's proposed changes to the SQIs for the Proposed MRPs, BCSEA believes that generally the existing SQIs have been appropriate and useful in monitoring the Utilities' performance during the Current PBR Plan term. BCSEA supports the specific changes to the SQIs that FortisBC has proposed, as detailed in the preceding paragraphs. BCSEA believes it would be helpful for FBC to address "major events" in conjunction with the SAIDI and SAIFI results in the Annual Reports for the Proposed MRPs.

## **PART 8. Clean Growth Innovation Fund**

### **A. Overview**

151. BCSEA strongly supports Commission approval of FortisBC's proposed Clean Growth Innovation Fund.

152. The goals of the Innovation Fund are to "accelerate the pace of clean energy innovation, to achieve performance breakthroughs and cost reductions, and to provide cost effective, safe and reliable solutions for our customers."<sup>108</sup> The Fund would be supported by a monthly charge of \$0.40 for FEI's and \$0.30 for FBC's customers. Annually, this would be \$4.9 million for FEI and \$0.5 million for FBC.<sup>109</sup>

153. BCSEA endorses FortisBC's arguments in favour of approval of the Clean Growth Innovation Fund. This is emphasized in Sections B to H of this Part.

### **B. The Innovation Fund is needed to reduce GHG emissions while providing customer benefits and maintaining the long-term viability of the utilities**

154. All levels of government have set climate objectives that require innovation of the type to be supported by the Fund.<sup>110</sup>

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<sup>107</sup> FortisBC Final Argument, para.503, footnotes omitted.

<sup>108</sup> Exhibit B-1, p.C-128, pdf p.263, cited in part in FortisBC Final Argument, para.523.

<sup>109</sup> Exhibit B-1, p.C-128, pdf p.263.

<sup>110</sup> FortisBC Final Argument, para.508.

155. “Both the federal and provincial governments are relying on innovation to meet their climate objectives. For example, at the federal level, over a quarter of the GHG reductions (79 Mt) required to achieve Canada’s 2030 targets must be achieved with some combination of innovation and additional provincial policies.”<sup>111</sup>
156. “Achieving the Province’s target requires FortisBC to quickly advance innovation and develop new sources of renewable gas under supportive regulatory and policy constructs developed by the BCUC and the Province.”<sup>112</sup>
157. “Recognizing the need for innovation funding to spur the energy innovation necessary to achieve these goals, organizations, including the Pembina Institute, the University of Victoria, Fort Capital Partners and Foresight, have expressed strong support for FortisBC’s Innovation Fund.”<sup>113</sup>
158. “Experience from other jurisdictions establishes that similar innovation funding provides direct benefits to customers.”<sup>114</sup>
159. “FortisBC expects that the Innovation Fund will achieve benefits similar to those experienced by ratepayer-funded innovation funds in other jurisdictions, not based on the similarity of projects, but rather on the similarity of the funding and governance models and the universal need for innovation.”<sup>115</sup>
160. “The Innovation Fund is needed in recognition that regulators and utilities, in addition to governments, have a responsibility to advance clean growth. Over the past decade, the regulatory trend is toward increased customer funding for new innovative technologies in the natural gas and electricity industries.”<sup>116</sup>
161. “The BCUC also has a role in supporting and facilitating the transition to a lower carbon economy through its consideration of how regulated utilities align with policy direction.”<sup>117</sup>
162. “The proposed Innovation Fund is expected to result in [benefits to customers], including a return on investment and improved energy choices. Benefits achieved in

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<sup>111</sup> FortisBC Final Argument, para. 509.

<sup>112</sup> FortisBC Final Argument, para. 510.

<sup>113</sup> FortisBC Final Argument, para. 511.

<sup>114</sup> FortisBC Final Argument, para. 512.

<sup>115</sup> FortisBC Final Argument, para. 516.

<sup>116</sup> FortisBC Final Argument, para. 517.

<sup>117</sup> FortisBC Final Argument, para. 518.

other jurisdictions establish that investments in innovation are warranted and have yielded benefits to customers that exceed funding levels.”<sup>118</sup>

163. “With the Innovation Fund, FortisBC also intends to positively impact cost, safety and reliability by pursuing initiatives that will: Improve and reduce the cost of pipeline inspections; address gas supply disruptions using demand response measures in addition to supply side measures; and improve electric system reliability using storage and distribution generation technologies.”<sup>119</sup>
164. “These goals directly benefit FortisBC customers and British Columbians in general. They do not directly benefit the utility shareholder. It is in the best interest of customers, the Utilities and society for the Utilities to pursue projects which address strategic and emerging issues, serve customer needs, and maintain the long term health of the Utilities. In this regard, FortisBC’s interests are aligned with its customers. Customers, who consume the Companies’ energy products and services on a daily basis, receive the direct benefits of innovation.”<sup>120</sup>
165. “The Innovation Fund is also needed to complement, and address crucial gaps in, FortisBC’s existing innovation related activities.”<sup>121</sup>
166. “Currently, the DSM Innovative Technologies program is restricted from allocating funds for initiatives designed to reduce GHG emissions, and investment is limited to the building and industry sectors. By contrast, the Innovation Fund will focus on activities that cover the entire utility value chain, are outside of demand side management, and relate to pre-commercial and commercial activities.”<sup>122</sup>
167. “To capture efficiencies in managing both funds, FortisBC has established a governance committee structure... which covers both the Innovation Fund and the DSM Innovative Technologies funding.”<sup>123</sup>
168. “[T]o address gaps in FortisBC’s existing innovation related activities, the Innovation Fund will focus on GHG reduction activities that: cover the entire energy

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<sup>118</sup> FortisBC Final Argument, para.522.

<sup>119</sup> FortisBC Final Argument, para.523.

<sup>120</sup> FortisBC Final Argument, para.524, underline added.

<sup>121</sup> FortisBC Final Argument, para.525.

<sup>122</sup> FortisBC Final Argument, para.526.

<sup>123</sup> FortisBC Final Argument, para.527.

utility value chain; are outside of DSM; relate to pre-commercial and commercial activities; and are supported by predictable funding levels.”<sup>124</sup>

### **C. Ratepayer funded innovation is reasonable and appropriate**

169. “The Main Innovation Activities that will be supported using the Innovation Fund are appropriately funded by utility customers and align with Concentric’s recommendations. Concentric states that “[u]tility customer funding is most appropriate where the benefits largely accrue to the utility customers and where they are in a unique position to test new technologies and business models.”<sup>125</sup>

170. “...FortisBC expects that customers will directly benefit from Innovation Fund supported initiatives. For example, commercial innovations, such as the increased use of natural gas for transportation and electric fleet vehicles, have the immediate potential to reduce overall emissions. FortisBC customers will directly benefit from innovations in these areas.”<sup>126</sup>

### **D. A robust governance structure will maintain prudent distribution of the Innovation Fund**

171. “FortisBC has proposed a robust governance structure for the Innovation Fund to ensure that funds are prudently distributed to pursue innovations with strong customer benefit.”<sup>127</sup>

172. “The External Advisory Council Composed of external stakeholders that will provide insight and feedback on Innovation Fund projects. FortisBC intends to canvass intervener groups for representation in the External Advisory Council.”<sup>128</sup>

173. “[P]roposals will be evaluated and funding will be allocated following a three-stage process: ...Project Identification, ...Project Selection, ... Execution.”<sup>129</sup>

174. “FortisBC will use the following five selection criteria when selecting innovative proposals for funding from the Clean Growth Innovation Fund: Amount of co-funding secured (from applicant and third parties); Estimated CO<sub>2</sub>e reduction in British Columbia; Estimated non-CO<sub>2</sub>e emission reduction (NO<sub>x</sub>, SO<sub>x</sub>) in British Columbia;

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<sup>124</sup> FortisBC Final Argument, para.529.

<sup>125</sup> FortisBC Final Argument, para.530.

<sup>126</sup> FortisBC Final Argument, para.533.

<sup>127</sup> FortisBC Final Argument, para.534.

<sup>128</sup> FortisBC Final Argument, para.534.

<sup>129</sup> FortisBC Final Argument, para.535.

Estimation of energy cost reductions for customers; [and] Relevant experience of the applicant project team.”<sup>130</sup>

175. “FortisBC expects to incur minimal incremental expenses to operate the governance bodies.”<sup>131</sup>

176. “This governance model aligns with approaches taken by other successful funds, including innovation funds administered by Ofgem and the Gas Research Institute.”<sup>132</sup>

#### **E. FortisBC will report regularly to the BCUC and customers on the Innovation Fund**

177. “FortisBC will provide annual updates regarding Innovation Fund project progress. FortisBC proposes to report at the Annual Review on all approved and active Innovation Fund projects on the following elements...”<sup>133</sup>

178. “Using information presented in the annual reports, the BCUC and ratepayers will be able to evaluate the success of an initiative by looking at whether projects are completed on time, on budget, and within scope, as well as by assessing the criteria specific to each initiative.”<sup>134</sup>

#### **F. The proposed rate rider is a reasonable funding mechanism**

179. “A basic charge rate rider is the preferred approach. FortisBC has proposed to fund the Innovation Fund through a basic charge rate rider that would apply equally to customers across the gas network (\$0.40/month) and the FBC electric service territory (\$0.30/month). This approach follows cost causation principles and is fair and reasonable, as Innovation Fund spending will span the entire utility value chain and will provide cost-effective energy solutions to all customers. FortisBC reasonably expects that all customers will benefit from the work funded by the Innovation Fund. Consequently, the mechanism by which FortisBC proposes to fund the Innovation Fun is fair and reasonable.”<sup>135</sup>

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<sup>130</sup> FortisBC Final Argument, para.536.

<sup>131</sup> FortisBC Final Argument, para.537.

<sup>132</sup> FortisBC Final Argument, para.538.

<sup>133</sup> FortisBC Final Argument, para.540.

<sup>134</sup> FortisBC Final Argument, para.541.

<sup>135</sup> FortisBC Final Argument, para.542.

180. “Embedding the Innovation Fund Rate Rider within the basic charge is consistent with how other rate riders are presented on the bills of customers. The details of the rate rider will be clearly identifiable in each Rate Schedule, and bill messages or other forms of communication may be used to call attention to the rider if necessary. This approach provides for clear and transparent communication without incurring the added costs associated with providing a separate line item on the bill and causing unnecessary confusion for customers.”<sup>136</sup>
181. “The fixed rate rider also represents a small impact to all customers. The one-time incremental percentage rate impacts of the Innovation Fund rate riders are approximately 0.5 percent for FEI and 0.25 percent for FBC.”<sup>137</sup>
182. “An annual approval mechanism is not feasible... [A] once-a-year approval process is likely to result in underspending and missed opportunities.”<sup>138</sup>
183. “[T]he BCUC will have the ability to review innovation projects that have received funding from the Innovation Fund, including the overview, expected benefits, the amount of co-funding secured, and project milestones, at the Annual Review...”<sup>139</sup>

### **G. The Innovation Fund and rate rider are just and reasonable**

184. BCSEA submits that the Innovation Fund and rate rider are just and reasonable under sections 59 and 60 of the *Utilities Commission Act*.
185. With reference to section 59(1)(a) and 59(5) of UCA, the Innovation Fund and rate rider are just and reasonable. They provide direct benefit to customers, increase cost effectiveness, safety and reliability, demonstrate new technologies to customers, and mitigate the risk of future rate increases. The rate rider recovers only the cost of the investments. The investments based on sound principles and robust governance. Unused funds will be returned to customers.<sup>140</sup>
186. With reference to section 59(1)(b) and 59(4)(b), the Innovation Fund and rate rider are not unduly discriminatory or unduly preferential. Each customer pays the same contribution to the Innovation Fund as all customers will benefit from the

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<sup>136</sup> FortisBC Final Argument, para.543.

<sup>137</sup> FortisBC Final Argument, para.545.

<sup>138</sup> FortisBC Final Argument, para.546.

<sup>139</sup> FortisBC Final Argument, para.547.

<sup>140</sup> FortisBC Final Argument, para.548.

results. The rate rider will remain stable and predictable throughout the proposed MRP term.<sup>141</sup>

187. With reference to section 60(b)(1)(iii), FortisBC's proposed Innovation Fund and rate rider encourages FortisBC to increase efficiency, reduce costs and enhance performance, by allowing FortisBC to invest in research and development opportunities that will increase efficiency, reduce costs and enhance performance for the benefit of FortisBC's customers.<sup>142</sup>

188. With reference to section 60(1)(b.1), the proposed rate rider is an acceptable type of rate to recover the costs of the proposed Innovation Fund.<sup>143</sup>

#### **H. FortisBC's responses to BCSEA IRs are persuasive**

189. BCSEA made a number of information requests to FortisBC about the Clean Energy Innovation Fund and rate rider. BCSEA is satisfied with the responses and believes they support Commission approval of the Fund and rate rider. These responses are highlighted in the following paragraphs.

190. FortisBC's role in helping British Columbians move to a low carbon, renewable energy future aligns with the interests of FortisBC's shareholders<sup>144</sup> and FortisBC's ratepayers.<sup>145</sup>

191. FortisBC sees its role regarding a low carbon, renewable energy future as being of a permanent nature.<sup>146</sup>

192. FortisBC presented its role regarding a low carbon, renewable energy future to the provincial government and sees many of its suggestions reflected in the CleanBC Plan.<sup>147</sup>

193. "Regardless of the BCUC's decision, FortisBC will continue to seek innovative ways to fulfill its role and responsibilities to help British Columbians move towards a lower carbon future, as it has for over ten years since the Province's original climate plan was introduced. However, a denial of the Innovation Fund would be a failure to

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<sup>141</sup> FortisBC Final Argument, para.548.

<sup>142</sup> FortisBC Final Argument, para.548.

<sup>143</sup> FortisBC Final Argument, para.548.

<sup>144</sup> Exhibit B-6, BCSEA IR 1.21.1.

<sup>145</sup> Exhibit B-6, BCSEA IR 1.21.2.

<sup>146</sup> Exhibit B-6, BCSEA IR 1.21.3.

<sup>147</sup> Exhibit B-6, BCSEA IR 1.21.4.

address the essential need to invest to accelerate innovation and adoption of new technologies to meet policy objectives.”<sup>148</sup>

194. The proposed size of the Innovation Fund was determined by a bottom up totaling of the internal funding requests FortisBC received for innovation activities.<sup>149</sup>

In BCSEA’s view, this is a reasonable approach.

195. “[In FortisBC’s view, the] size of the Fund’s annual revenues will be sufficient to make a meaningful contribution to the advancement of low carbon, renewable energy. In most cases, FortisBC expects that its funding will be augmented by additional funding from government, non-government organizations, other utilities and/or businesses.”<sup>150</sup>

196. “FortisBC developed its ‘Main Innovation Activities’ independently of the IEA’s Innovation Tracking Framework. However, FortisBC has already included, and is considering other, innovation activities that align with the innovation gaps as identified by the IEA...”<sup>151</sup>

197. “Some innovations supported by the Innovation Fund will be based on commercially available products and services and therefore ‘real-world’ implementations may happen during the MRP term. The majority of innovative initiatives funded will be pre-commercial, however.”<sup>152</sup>

198. “Assuming the Clean Growth Innovation Fund is approved as requested, the prioritization of the activities will be finalized by the governance entities shown in Figure C6-8 in the Application. However, given the challenging nature of the renewable gas goal set out by the CleanBC Plan, Blending Hydrogen and Renewable Natural Gas are likely to be high priorities.”<sup>153</sup>

199. “[The list of measures in Appendix C6-4] represents the innovative activity areas that FortisBC intends to fund in the next few years. These activity areas are likely to change in priority over time, and it is likely that other areas may be uncovered during the term of the MRPs and as the economy transitions towards lower carbon.”<sup>154</sup>

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<sup>148</sup> Exhibit B-6, BCSEA IR 1.21.5.

<sup>149</sup> Exhibit B-6, BCSEA IR 1.22.1.

<sup>150</sup> Exhibit B-6, BCSEA IR 1.22.2.

<sup>151</sup> Exhibit B-6, BCSEA IR 1.23.1.

<sup>152</sup> Exhibit B-6, BCSEA IR 1.23.2.

<sup>153</sup> Exhibit B-6, BCSEA IR 1.23.3.

<sup>154</sup> Exhibit B-6, BCSEA IR 1.23.5.

200. “The timeframe for commercially viable renewable natural gas from wood waste feedstocks is unknown at this time. FortisBC intends to continue to monitor and support relevant technologies through the Innovation Fund in order to accelerate commercialization.”<sup>155</sup>
201. “The Clean Energy Innovation Fund has been proposed to accelerate the pace of clean energy innovation, achieve performance breakthroughs and cost reductions, and provide cost effective, safe and reliable energy solutions for customers. To the extent that the Clean Energy Innovation Fund is successful in advancing renewable natural gas technology and innovation, it could have a positive impact on the targeted incentive for contracted Renewable Gas (RG) supply by increasing RG availability and/or by reducing the cost of known RG sources that are not currently financially feasible.”<sup>156</sup>
202. “The [Carbon Capture] technology is designed for use in commercial applications with commercial boilers. Customers who would be good candidates for this technology could include schools, hospitals, hotels, high-rise buildings, and some manufacturing facilities. The company that FEI has been working with has developed prototypes for residential use but it is not ready for wider testing at this time. FEI will continue to monitor this for potential residential deployment at a future date.”<sup>157</sup>
203. “The pursuit of innovation in technology that will reduce fugitive [methane] emissions from operations is supportive of achieving any legislated requirements and is not duplicative. Moreover, innovation and the adoption of new technologies is a key aspect of achieving cost effective emissions reductions in meeting legislated targets.”<sup>158</sup>
204. “Yes, project proposals from outside parties will be considered. FortisBC expects to collaborate with outside parties for all initiatives supported by the Innovation Fund. These parties could include any combination of academic institutions, industry organizations, companies, non-governmental and governmental organizations.”<sup>159</sup>
205. “FortisBC is planning to track and report the Innovation Fund’s expenditures by the following categories: 1. Administration of the Innovation Fund, 2. Innovation Fund

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<sup>155</sup> Exhibit B-6, BCSEA IR 1.23.6.

<sup>156</sup> Exhibit B-6, BCSEA IR 1.23.7.

<sup>157</sup> Exhibit B-6, BCSEA IR 1.23.8.

<sup>158</sup> Exhibit B-6, BCSEA IR 1.23.9.

<sup>159</sup> Exhibit B-6, BCSEA IR 1.24.1.

initiative expenditures.... FortisBC anticipates the reporting needs for the Innovation Fund will evolve over time and will make adjustments as required considering any feedback received or requirements set by the BCUC.”<sup>160</sup>

206. “The fund will be “new money” with the exception of the existing NGIF funding of \$400 thousand. As noted in the Application, if FEI is successful in its Innovation Funding request, it will lower its overall O&M request to account for this spending.”<sup>161</sup>

207. Asked how it will ensure that the Fund’s resources are spent effectively and efficiently, FortisBC responded in part:

“The Working Group will be accountable for deciding which innovative projects will be funded, in compliance with the strategic direction established by the Executive Steering Committee, and considering the feedback provided by the External Advisory Council.

FortisBC will establish clear objectives for each initiative supported by the Innovation Fund. Success will be evaluated by looking at the completion of objectives in terms of completing projects on time, on budget and within scope. These results will be reported at the Annual Review during each year of the MRP term.

The Working Group will work to ensure cost-effectiveness of expenditures for the overall Innovation Fund portfolio by selecting a suite of projects it believes is mostly likely to result in commercial products and services that will meet the objectives of the Innovation Fund. Due to the time required for commercialization of new products and services to come to fruition, it may be some time until cost-effectiveness is achieved.”<sup>162</sup>

208. In conclusion regarding FortisBC’s responses to BCSEA’s information requests, BCSEA submits that the proposed Clean Energy Innovation Fund and rate rider have been appropriately designed and well thought out. Based on this evidence and the rest of the relevant evidence on the record, BCSEA believes the Commission should have reasonable confidence that if the Innovation Fund is approved it will be successful in achieving the stated objectives.

## **PART 9. Targeted Incentives**

### **A. Overview**

209. BCSEA supports the concept of targeted incentives for cleaner energy, lower GHG emissions, and customer energy management initiatives within the context of

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<sup>160</sup> Exhibit B-6, BCSEA IR 1.24.4.

<sup>161</sup> Exhibit B-6, BCSEA IR 1.24.5.

<sup>162</sup> Exhibit B-6, BCSEA IR 1.24.6.

the Proposed MRPs. BCSEA has scrutinized the specific incentives that are proposed, as well as the performance formulas.

210. The organization of this Part follows the subheadings in Part Nine of FortisBC's Final Argument.

## **B. Targeted Incentives supplement traditional PBR**

211. BCSEA agrees with FortisBC that Targeted Incentives are an innovative regulatory mechanism that complements traditional PBR incentive mechanisms.<sup>163</sup> Targeted Incentives have been used in other jurisdictions in order to address "new aspects of utility performance, such as customer engagement (including tools to empower customers to better manage their bills), environmental impacts, and clean energy policy goals."<sup>164</sup>

212. Further, BCSEA supports in principle FortisBC's proposal to add to the Proposed MRPs a targeted incentive approach to the traditional index-based capital and operating costs approach. BCSEA concurs that this will "expand the focus beyond a mere cost reduction perspective to promoting innovation and preparing the utilities for the 'Utility of the Future.'"<sup>165</sup>

213. BCSEA agrees with FortisBC that achievement of the Targeted performance levels would be performance above and beyond conventional service and would create positive value for customers. The targets are stretch goals that will require significant effort to achieve. As FortisBC states, "the Targeted Incentives have been designed to create outcomes above what is normally expected in the regular course of business."<sup>166</sup>

214. BCSEA believes that the proposed Targeted Incentives concept embodies appropriate incentives and opportunities for Commission review. Where pursuit of targets will be funded out of indexed-O&M or FEI's Growth capital, FortisBC will have an incentive to manage overall costs to within inflation. Where the pursuit of targets is funded out of costs that are forecast annually (including "Investments in a Clean

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<sup>163</sup> FortisBC Final Argument, paras.551, 552.

<sup>164</sup> Exhibit B-1-1, Appendix C8, Utility Performance Incentive Mechanisms, A Handbook for Regulators, March 9, 2015, cited by FortisBC Final Argument, para.551.

<sup>165</sup> Exhibit B-1, p.C-155, pdf p.290.

<sup>166</sup> Exhibit B-10, BCUC IR 1.96.1

Growth Future”), the BCUC will have an opportunity to review any proposed spending.<sup>167</sup>

### **C. Commission has jurisdiction to approve Targeted Incentives**

215. BCSEA submits that the Targeted Incentives component of the Proposed MRP complies with the ‘just and reasonable rates’ requirements of the *Utilities Commission Act*. BCSEA agrees with FortisBC’s statement as follows:

“It is just and reasonable for the BCUC to approve a ratemaking plan that includes such incentives as they encourage FEI and FBC to enhance their performance, will benefit customers, and are aligned with the public interest.”<sup>168</sup>

### **D. Reward-only aspect is reasonable**

216. The targeted incentives are proposed as reward-only incentives. That is, the utility would not receive a financial penalty for failing to meet a Target. FortisBC explains:

“This design feature encourages FortisBC to expend effort towards achieving the targets within its O&M and capital funding constraints. Otherwise, a penalty for failing to achieve a targeted incentive could amount to a double penalty where the utility expends resources in pursuit of the incentive, but does not achieve it. As stated by the Western Interstate Energy Board, organizing targeted incentives as reward-only “encourages utilities to be more innovative, and may result in more collaborative and less adversarial processes”.<sup>169</sup>

217. BCSEA is satisfied that it is appropriate for the Targeted Incentives to be reward-only. The utility should not be penalized for making progress toward a Target without achieving it.

### **E. Benefits to customers and the size of Targeted Incentives**

218. FortisBC provides a table listing the proposed Targeted Incentives along with comments on the corresponding benefits to customers and the difficulties of achieving the Target.<sup>170</sup>

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<sup>167</sup> Exhibit B-6, BCSEA 1.9.1; Exhibit B-10, BCUC 1.96.9; Exhibit B-1, p.C-111, pdf p.246.

<sup>168</sup> Exhibit B-10, BCUC 1.96.1.

<sup>169</sup> Exhibit B-1, p.C-158, pdf p.293, underline added, footnote omitted.

<sup>170</sup> Exhibit B-10, BCUC 1.96.7.

219. FortisBC says the size of the proposed incentive reward for each Targeted Incentive should be “sufficient to provide a meaningful incentive while being balanced and reasonable.”<sup>171</sup> BCSEA agrees with this objective.
220. FortisBC says that in determining the size of the incentive rewards it considered three factors:
- The benefits flowing to end users, ratepayers, and society;
  - The difficulty in achieving the target; and
  - A minimum threshold required to make pursuit of the incentive material.<sup>172</sup>
221. BCSEA agrees that these are appropriate factors.
222. While the Application shows the Targeted Incentives in equivalent basis points of ROE, FortisBC provided approximate dollar estimates in response to information requests. For FEI, a 5 basis point incentive would be approximately \$0.865 million. For FEI, a 10 basis point incentive would be approximately \$1.730 million. For FBC, a 5 basis point incentive would be \$0.268 million. The actual dollar amounts would depend on equity thickness and actual rate base.<sup>173</sup>
223. For FEI, the total available incentive in 2020 (if FEI met each of the five targets) would be approximately \$6.055. For FEI, the total available incentive for 2020-2024 would be approximately \$31.511 million. BCSEA considers these to be reasonable maximums, as the difficulty of the Targets makes it unlikely that FortisBC will achieve all of them.
224. FortisBC defends the use of an ROE adder (expressed in basis points) to define the Incentive. It says: “The proposed ROE adder methodology for Targeted Incentives is transparent, simple, and provides a reward that is relative to the size of the utility.”<sup>174</sup> BCSEA agrees.
225. FortisBC maintains that while the Incentives are expressed as an ROE adder, they are not related to FortisBC’s allowed ROE. FortisBC states:
- “FortisBC could have expressed the ROE adder incentives in dollar amounts or proposed other forms of incentives (such as increased

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<sup>171</sup> FortisBC Final Argument, para.582.

<sup>172</sup> FortisBC Final Argument, para.582.

<sup>173</sup> Exhibit B-6, BCSEA IR 10.1.

<sup>174</sup> Exhibit B-10, BCUC IR 1.96.7, cited in FortisBC Final Argument, para.585. And see: Exhibit B-15, BCSEA IR 2.30.2.

capitalization of related expenses) that could have had the same effect on the Companies' earnings. The point is to reward FortisBC for achieving particular outcomes."<sup>175</sup>

226. While BCSEA agrees that theoretically the Incentive could be expressed in dollar amounts instead of basis points on ROE, BCSEA is not convinced that the size of the Incentive, whether expressed in BPS or dollar amounts, is unrelated to FortisBC's allowed ROE. However, that is an issue for an ROE proceeding, in BCSEA's view.

#### **F. Accounting treatment of incentives**

227. In the Application, FortisBC describes the accounting treatment of the incentives as follows:

"As in the Current PBR Plans, the incentives calculated under the Proposed MRP Earnings Sharing Mechanism described in Section C8.2 will be projected in the Annual Review materials each year and the customers' portion will be refunded or charged to customers in the subsequent year. FortisBC will make a final determination of the actual earnings amount for sharing after the year end, with any differences between the projected and actual amount included in the calculation of the earnings sharing for the following year.

The targeted incentives as set out in Section C.8.3 above (with the exception of the PSI) will be calculated on a final and full-year basis and therefore will be included in the Annual Review materials two years subsequent (for example, 2020 performance will be known in 2021 and will be evaluated for incentives in the Annual Review for 2022 rates).

FortisBC proposes the establishment of the MRP Incentive deferral accounts in Section C5 of the Application to record these incentives.

Finally, FortisBC proposes to record FBC's Power Supply variances net of the PSI, as described 3 in Section C4.3."<sup>176</sup>

228. Because there would be a two-year lag in incorporating earned incentives into the revenue requirement, BCSEA asked for an explanation of how the incentives for the last two years of the MRP period (i.e., 2023 and 2024) would be dealt with. BCSEA is satisfied with FortisBC's response, as follows:

"The incentives (with the exception of the PSI) are calculated and included in rates two years after the targets are made. Therefore, the 2023 and 2024 incentives, should they be earned, will be included in rates in 2025 and 2026, respectively.

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<sup>175</sup> FortisBC Final Argument, para.585, footnote omitted.

<sup>176</sup> Exhibit B-1, pp.C-167 to C-168, pdf pp.302-303.

First, the incentive will not be calculated until it is known whether the target was met. The Companies want to be certain that the targets are met before any incentives are calculated. The measure of whether 2023 targets were met will not be known until the 2023 actuals are compiled, which typically takes place between January and March in the subsequent year (2024 in this case). Since at the time that 2023 actual results are known, rates for 2024 would have already been set, the next chance to include the 2023 earned incentive in rates would be in the application for 2025 rates. The same procedure would take place for 2024 incentives earned.

The PSI is proposed to be recorded as part of FBC's Power Supply variances, as described in Section 4.3 of the Application.<sup>177</sup>

### **G. Growth in Renewable Gas Targeted Incentive**

229. FortisBC seeks approval of a Growth in Renewable Gas Targeted Incentive, for FEI, at 10 BPS.

230. BCSEA supports Renewable Gas where it reduces GHG emissions by substituting a carbon-neutral fuel for conventional (fossil fuel) natural gas.

231. FortisBC describes Renewable Gas as follows:

"Renewable gas (RG) is an increasingly important carbon neutral energy product that is a critically important tool in ensuring the role of gas infrastructure in a lower-carbon energy future. RG can be obtained from a wide variety of sources: landfills, curbside organics, wastewater treatment plants, and agriculture, food manufacturing and wood wastes. Renewable hydrogen, either from waste streams of hydrogen or from electrolysis using renewable electricity is also considered by FEI to be RG. RG includes RNG, the supply of which FEI has been successful in growing since the inception of the RNG program in 2010. FEI's projected RNG production volume for 2018 was 342,300 GJs."<sup>178</sup>

232. BCSEA agrees with FortisBC that the provincial government in its CleanBC Plan highlighted the importance of Renewable Gas and established the goal of a minimum requirement for 15 percent of renewable content in natural gas by 2030.<sup>179</sup> This goal is a crucial component of the CleanBC Plan, and achieving it will be very challenging, in BCSEA's view. As FortisBC says, "if the Province did not advance renewable gas, it would not meet its climate targets."<sup>180</sup> FortisBC needs to step up its implementation of Renewable Gas during the 2020-2024 test period. FortisBC states:

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<sup>177</sup> Exhibit B-6, BCSEA IR 1.10.3.

<sup>178</sup> Exhibit B-1, p.C-160, pdf p.295, footnotes omitted.

<sup>179</sup> Exhibit B-1, p.C-160, pdf p.295.

<sup>180</sup> Exhibit B-9, MoveUp IR 1.1.3, cited by FortisBC Final Argument, para.521.

“As interest in RG continues to grow over the next number of years, FEI will face increased competition for RG supply in Canada and in the Pacific Northwest. FEI will need to sharpen its focus on fully developing innovative RG technology, securing RG supply, and increasing the amount of feedstock available to manufacture RG.”<sup>181</sup>

233. The purpose of the Renewable Gas Targeted Incentive is to encourage FEI to focus on developing and expanding Renewable Gas supply. The proposed targets for the Growth in Renewable Gas Incentive are set out in Table C8-2, reproduced here:<sup>182</sup>

**Table C8-2: Annual Renewable Gas Volume Target (PJs)**

	2020	2021	2022	2023	2024	MRP Target
RG Target	1.0	1.5	2.0	4.0	6.0	14.5

234. The proposed Renewable Gas Target is very ambitious. It represents an approximate 20-fold increase in FEI contracted renewable gas volumes, from ~0.3 PJ in 2018 to 6.0 PJ in 2024.<sup>183</sup> This is seen in the following table providing a projection of Renewable Gas (RG) volume over the MRP period for projects which are in service or are expected, but not yet approved.<sup>184</sup>

(PJ's)	2020	2021	2022	2023	2024
Expected Supply	0.47	0.67	0.67	0.67	0.67
RG Target	1.00	1.50	2.00	4.00	6.00

235. Asked whether the Annual Renewable Gas Volume Target is realistically achievable,<sup>185</sup> FortisBC pointed to the following passage that BCSEA interprets as a non-committal, albeit accurate, response:

“FEI has identified additional RG projects, which if successful, have the potential to increase volumes by 0.5 to 1.0 PJs annually over the MRP period. FEI is also pursuing out-of-province and off-system options which may also increase annual volumes, but remain uncertain.

In addition, FEI is investigating the feasibility and potential of wood-waste derived renewable natural gas and hydrogen. Given the very early stage

<sup>181</sup> Exhibit B-1, p.C-160, pdf p.295, underline added.

<sup>182</sup> Exhibit B-1, p.C-160, pdf p.295. To clarify, the MRP Target of 14.5 PJ is a cumulative total rather than an annual figure: Exhibit B-6, BCSEA IR 11.2.

<sup>183</sup> Exhibit B-10, BCUC IR 1.96.7, pdf p.704.

<sup>184</sup> Exhibit B-10, BCUC IR 1.97.3.

<sup>185</sup> Exhibit B-6, BCSEA IR 11.1.

of these two technology pathways, it remains uncertain if, or how much, RG supply will materialize from these sources.

If approved, the Clean Growth Innovation Fund will allow the development of piloting and demonstration projects in various areas, including hydrogen injection, production of wood-based biomethane, and other renewable gas technologies which seek to lower emissions.”<sup>186</sup>

236. BCSEA asked whether FortisBC’s ramp-up of Renewable Gas is limited by competition for fibre supply with BC Hydro and the sellers of biomass generation to BC Hydro. BCSEA accepts FortisBC explanation that its Renewable Gas supply is primarily “organic derived,”<sup>187</sup> not derived from wood fibre. FortisBC states:

“No. FEI’s Renewable Natural Gas (RNG) supply opportunities are based primarily on organic derived RNG, which does include a portion of approximately 50 percent from RNG generated outside of BC. FEI understands that there are some concerns in the industry that electricity generation from wood fibre may not be economical in the future as BC Hydro shifts toward using its growing hydroelectric generation supply – namely, Site C. This would imply that a significant amount of fibre could be used for RNG generation.”<sup>188</sup>

237. In addition to the general urgency to displace fossil-fuel natural gas with Renewable Gas to meet BC’s GHG reduction objectives, there is a practical factor in favour of FEI quickly accelerating its uptake of Renewable Gas in the test period. As FortisBC puts it, “it is expected that RG produced in advance of the implementation of the federal Clean Fuel Standard will offset against mandatory emission reductions and potentially avoid higher cost compliance pathways.”<sup>189</sup>

238. FortisBC explains:

“The Clean Fuel Standard (CFS) will require that regulated entities reduce the carbon intensity of fuels they deliver to consumers. While the draft regulations have not yet been published, we anticipate that the amount of emissions reductions targeted in the gaseous stream of the CFS will be between 5 and 7 Mt across Canada. This translates to roughly a 2 to 3 percent reduction in the carbon intensity (CI) of natural gas delivered by local distribution companies. In order to reduce the carbon intensity, renewable gases will likely play an important role. In discussions with Environment and Climate Change Canada (ECCC), FEI understands that all renewable gas production will be considered as eligible to reduce the

<sup>186</sup> Exhibit B-10, BCUC IR 1.97.3.

<sup>187</sup> “FEI uses the term “organic-derived RNG” to describe RNG produced from anaerobic digestion. This includes RNG from agricultural waste, sewage, municipal organics, institutional waste (such as food-processing or restaurant waste) and landfills. For clarity, the term does not include RNG directly derived from wood fibre.” Exhibit B-15, BCSEA IR 2.33.1.

<sup>188</sup> Exhibit B-6, BCSEA IR 11.3, underline added.

<sup>189</sup> Exhibit B-1, p.C-160, pdf p.295.

carbon intensity of gas regardless of the year it was introduced. After the CFS is implemented, FEI anticipates that there will be a more competitive marketplace and therefore higher costs for renewable gases. Acquiring renewable gas before the CFS is implemented should therefore avoid higher cost options to be compliant with the CFS.”<sup>190</sup>

239. In summary on this point, BCSEA supports approval of the Growth in Renewable Gas Targeted Incentive both in principle and in terms of the proposed Targets and the number of BPS.

**H. Growth in Natural Gas for Transportation Targeted Incentive**

240. FortisBC seeks approval of a Growth in Natural Gas for Transportation Targeted Incentive, for FEI, at 10 BPS.

241. BCSEA takes a cautious approach to FEI’s Natural Gas for Transportation program. The use of fossil fuels for transportation accounts for a substantial component of BC’s GHG emissions. The best approach is to reduce transportation energy use and to adopt zero-carbon transportation fuels such as clean renewable electricity, Renewable Natural Gas, and clean hydrogen where these are available. BCSEA supports Natural Gas for Transportation program where it involves RNG or where conventional natural gas is an immediate substitute for higher-carbon-intensity fuels such as diesel and oil.

242. FortisBC describes specific benefits of the NGT program as follows:

“NGT customers benefit directly from reduced emissions, operating costs, and carbon taxes and all ratepayers benefit from additional carbon credits sales for LNG used for transportation. Over the period between 2015 and 2018, sales of carbon credits generated \$9.75 million in benefit for all ratepayers.”<sup>191</sup>

243. The purpose of the NGT Targeted Incentive is to encourage FEI to focus on developing and expanding the NGT market.<sup>192</sup> The proposed targets for the Growth in Renewable Gas Incentive are set out in Table C8-3, reproduced here:<sup>193</sup>

**Table C8-3: Annual Natural Gas for Transportation Consumption Targets (PJ’s)**

	2020	2021	2022	2023	2024	MRP Target
NGT Target	3.0	4.0	5.0	6.0	7.0	25.0

<sup>190</sup> Exhibit B-6, BCSEA, IR 11.4.

<sup>191</sup> Exhibit B-1, p.C-161, pdf p.296.

<sup>192</sup> FEI’s NGT program does not target passenger vehicles.

<sup>193</sup> Exhibit B-1, p.C-161, pdf p.296.

244. FortisBC explains that:

“Achievement of the total annual targets, will justify a “successful” rating for this component of the scorecard. Achievement of the MRP Target will add any missed annual targets to the 2024 incentive calculation.”<sup>194</sup>

245. The NGT targets are ambitious. They represent a 3.5-fold increase in NGT consumption from 2018 to 2024 (~2.0 PJ in 2018 to 7.0 PJ in 2024).<sup>195</sup>

246. Asked whether the annual NGT Targets are realistically achievable, FortisBC acknowledged that the targets are a stretch:

“The NGT targets will be a stretch to achieve during the MRP term due to a number of factors. In many cases, growing NGT volumes involves convincing customers to switch from diesel, an energy source they have experience with, to natural gas as their transportation fuel for their fleets. This requires the customer to gain enough confidence to move from the petroleum fuel that they have always used, in some cases for decades, to a different, gaseous fuel. Accordingly, change management requirements for an NGT customer to make the switch are significant, and the sales cycles are long.

Additionally, oil prices continue to be lower than historical cost curves. This reduces the savings associated with switching to NGT, making the business case more challenging. At the same time, there is increased competition from battery-electric technology in the transportation and freight sector as commercially available battery-electric medium and heavy-duty vehicles are expected to hit the market before 2024.

Finally, the Greenhouse Gas Reduction (Clean Energy) Regulation, which enables customer vehicle capital incentives, education and training, codes and standards development, and maintenance facility upgrades, etc., is set to expire in 2022 and its future is unknown.

Given all of these factors, increasing volumes of NGT and achieving these targets will be challenging.”<sup>196</sup>

247. BCSEA notes FortisBC’s statement that the NGT program will face competition from commercially available battery-electric medium and heavy-duty vehicles<sup>197</sup> that are expected to hit the market before 2024, which is the last year of the proposed 2020-2024 test period. BCSEA certainly favours battery-electric medium and heavy-duty vehicles over conventional natural gas vehicles in the corresponding categories. However, BCSEA’s view is that the NGT Targeted Incentive should be approved for the test period and that the potential for any interference between the NGT program

<sup>194</sup> Exhibit B-1, p.C-161, pdf p.296.

<sup>195</sup> Exhibit B-10, BCUC IR 1.96.7, pdf p.704.

<sup>196</sup> Exhibit B-6, BCSEA IR 12.1, underline added.

<sup>197</sup> FEI elaborates in Exhibit B-15, BCSEA IR 2.39.1.

and the adoption of battery-electric medium and heavy-duty vehicles should be monitored during the Annual Reviews.

### I. GHG Emissions Reductions -- Customer, Targeted Incentive

248. FortisBC seeks approval of a GHG Emissions Reduction (Customer) Targeted Incentive, for FEI, at 5 BPS.

249. FortisBC says that in the 2014-2018 period it converted approximately 2,300 customers per year from higher-carbon heating oil or propane to natural gas.<sup>198</sup>

FortisBC states:

“Historically, incentive program participation for space heating conversions are comprised of approximately 97 percent from heating oil and the remainder from other fuel types such as propane and wood. FEI anticipates a similar incentive and participation in the future. The program is for the conversion of existing buildings and not available for new construction.”<sup>199</sup>

250. FortisBC proposes a target of 2,700 natural gas conversions<sup>200</sup> per year, which reflects an increase over the five-year average. It says:

“The five-year average includes record levels of gross customer additions and conversion activity, which is expected to ease in 2019 and through the Proposed MRP period making the achievement of 2,700 conversions increasingly difficult.”<sup>201</sup>

251. The proposed targets for the Natural Gas Conversion Incentive Target are as follows:<sup>202</sup>

**Table C8-5: Natural Gas Conversion Target**

	2020	2021	2022	2023	2024	MRP Target
Conversion Target	2,700	2,700	2,700	2,700	2,700	13,500

252. Asked whether the annual Natural Gas Conversion Targets are realistically achievable, FortisBC said that the targets are a stretch:

<sup>198</sup> Exhibit B-1, p.C-161, pdf p.296.

<sup>199</sup> Exhibit B-16, BCSEA IR 2.40.2.

<sup>200</sup> Conversions does not include builders choosing to install natural gas equipment in new residential construction: Exhibit B-15, BCSEA IR2.40.1.

<sup>201</sup> Exhibit B-1, p.C-162, pdf p.297.

<sup>202</sup> Exhibit B-1, p.C-162, pdf p.297.

- “The annual natural gas conversion target of 2,700 customers will be a stretch to achieve during the MRP term. The operating environment for FEI continues to become more complex with multiple factors making the adoption of natural gas increasingly challenging...”<sup>203</sup>
253. FortisBC went on to acknowledge that FEI’s Natural Gas Conversion program faces competition from provincial and municipal programs incenting residents to convert to an air source heat pump:
- “For example, competing programs in the market will have an impact on customer conversions through the MRP term. Recently the province launched its EfficiencyBC program which includes incentives also targeting the conversion market. The program includes incentives for residents to convert their home heating appliance to an air source heat pump. Further, the provincial incentive program is being topped up by a number of municipalities to generate greater interest and deliver a more lucrative program offering for homeowners.”<sup>204</sup>
254. In BCSEA’s view, residential electric air source heat pumps are materially preferable to natural gas furnaces in the market for conversion from heating oil and propane. BCSEA would be concerned if FEI’s NG Conversion program inhibited conversions from high-carbon fuels directly to clean electric heat pumps. That said, conversion from heating oil or propane to natural gas does reduce GHG emissions to a certain extent.
255. On balance, BCSEA does not oppose approval of the Natural Gas Conversion Targeted Incentive. However, if the proposal is approved would BCSEA would ask that FEI report to the Annual Reviews on any impacts on residential conversions to heat pumps.

## **J. GHG Annual Emissions Intensity Reduction, Targeted Incentive**

256. FortisBC seeks approval of a GHG Emissions Reduction (Internal) Targeted Incentive, for FEI, at 5 BPS.
257. BCSEA strongly supports FEI’s actions to reduce its own GHG emissions.
258. FortisBC says that since 2009, FEI has reduced overall GHG emissions by 15 percent through activities including:
- “Electrification of LNG operations;

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<sup>203</sup> Exhibit B-6, BCSEA IR 13.1.

<sup>204</sup> Exhibit B-6, BCSEA IR 13.1, underline added.

- Leak detection and repair at compressor stations;
- Developing a fugitive emissions management plan for LNG;
- Supporting BC One Call and “Call Before You Dig” to reduce the number of third party line hits and reduce the amount of potential escaped gas from punctured pipe;
- Conducting pipe surveys; and
- Inline inspection of transmission pipeline.”<sup>205</sup>

259. The proposed Target in this category is based on GHG emissions intensity (tCO<sub>2</sub>e/PJ) rather than total GHG emissions. FortisBC provided the following table:

**Table C8-6: GHG Emissions Intensity (2013 to 2017)<sup>193</sup>**

Year	GHG Emissions from Operations (tCO <sub>2</sub> e*)	Actual Energy Demand (PJ) <sup>194</sup>	Emissions Intensity (tCO <sub>2</sub> e/PJ)
2013	141,947	200	711
2014	140,507	195	721
2015	120,997	186	651
2016	126,613	197	643
2017	142,534	221	645

\* tonnes of CO<sub>2</sub>e

260. FortisBC says the table shows a five-year average emissions intensity of 674 tCO<sub>2</sub>e/PJ experienced between 2013 to 2017.

261. FortisBC also says that the table shows an average annual emissions intensity reduction of 16.5 tCO<sub>2</sub>e/PJ over the period 2013 to 2017.<sup>206</sup>

262. FEI proposes to reduce GHG emissions intensity by 10 tCO<sub>2</sub>e/PJ per year over the Proposed MRP term starting from the 2017-2019 average, as indicated on the following table:<sup>207</sup>

**Table C8-7: Annual Emissions Intensity Reduction Target (tCO<sub>2</sub>e/PJ)**

	2020	2021	2022	2023	2024	MRP Target
Emissions Intensity Reduction Target <sup>195</sup>	10	20	30	40	50	>30 avg.

<sup>205</sup> Exhibit B-1, p.C-163, pdf p.298.

<sup>206</sup> Exhibit B-6, BCSEA IR 1.14.1.

<sup>207</sup> Exhibit B-1, p.C-163, pdf p.298.

263. BCSEA accepts FortisBC's explanation for selecting the 2017-2019 period as the baseline, as follows:

"A three-year average was selected in order to even out variations that may result from unseasonable weather or demand-related conditions. Further, FortisBC proposed reductions targets which are relative to the 2017-2019 average to ensure a prescribed reduction is achieved from this starting benchmark."<sup>208</sup>

264. Pertinent to the proposed annual emissions intensity reduction target (10 tCO<sub>2</sub>e/PJ) being lower than the historical annual emissions intensity reduction (16.5 tCO<sub>2</sub>e/PJ on average from 2013 to 2017), FortisBC explains that much of the observed reductions were due to measurement improvements. FortisBC states:

"The most significant factor in the decrease in Emissions Intensity as observed in Table C8-6 is attributed to improvements in the quantitation of GHG emissions from FEI assets. This includes leak detection surveys, emission factor development for residential, commercial and industrial meter sets, and system improvements on the quantitation of leaks from distribution pipelines.

Non-quantitation improvements such as asset maintenance and upgrades, reduction in third party line hits due to public safety programs (including Call Before You Dig and BC One Call), and FEI's Conservation and Energy Management program, all contribute to the year over year variations in Emissions Intensity."<sup>209</sup>

265. Notably, FortisBC says that "The improvements in the quantitation of emissions have been applied and no further incremental reduction in Emissions Intensity is anticipated related to quantitation."<sup>210</sup>

266. BCSEA accepts FEI's explanation of how it arrived at 10 tCo2e/PJ as the target for incremental Annual GHG Emissions Intensity Reduction for 2020 to 2024, as follows:

"...Accordingly, FortisBC considered the following factors in determining the target:

- FEI's experience, including a 15 percent reduction in emissions between 2009 and 2017;
- FEI reduced the emissions Intensity by approximately 16.5 tCO<sub>2</sub>e/PJ per year between 2013 through 2017, which includes

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<sup>208</sup> Exhibit B-6, BCSEA IR 1.14.6.

<sup>209</sup> Exhibit B-6, BCSEA IR 1.14.1.

<sup>210</sup> Exhibit B-6, BCSEA IR 1.14.1.

the impact of quantitation improvements. Please refer to the response to BCSEA 1.14.1;

- The remaining non-quantitation reductions were mainly accomplished by addressing the easiest emissions reduction opportunities first (i.e., high reduction per unit cost). Please refer to the response to BCSEA 1.14.1; and
- Policy direction and legislative requirements regarding GHG emissions.

The target represents a reduction of approximately 8 percent over the MRP period. FEI considers this a stretch target that will be challenging and require focus to achieve.”<sup>211</sup>

267. FortisBC says the annual Emissions Intensity Reduction Targets are challenging but realistic:

“The annual Emissions Intensity Reduction Targets are challenging, but realistic in their achievability. Meeting these targets will require a balanced approach, taking into account capital expenditures and system upgrades for end of life equipment. While FEI’s emissions have decreased by 15 percent between 2009 and 2017, a portion of this amount was due to improvements in quantitation. The remainder stemmed from emissions reductions that, in general, targeted the easiest emissions reduction opportunities. FEI is proposing a reduction of approximately 8 percent over the MRP period which, when considering the absence of quantitation impacts and the fact that fewer emissions reduction opportunities exist, represents a stretch target that will be challenging to achieve.”<sup>212</sup>

268. BCSEA accepts that the proposed annual emissions intensity reduction target (10 tCO<sub>2e</sub>/PJ) cumulative over 2020-2024 is appropriate.

269. For clarity, while Table C8-7, reproduced above, sets out the Targets in terms of reductions per year (i.e., 10 tCO<sub>2e</sub>/PJ in 2020, 20 tCO<sub>2e</sub>/PJ in 2021, etc.) another, perhaps clearer, way to express the Targets is in terms of the actual Emissions Intensity required to be achieved in each year. This is reflected in the text and table reproduced below:<sup>213</sup>

“For greater clarity, please refer to the example below where it is assumed that the actual 2017-2019 average referenced in the preamble is 600 tCO<sub>2e</sub>/PJ. The cumulative annual reduction in Table C8-7 is subtracted from the 2017-2019 average in each case to form the annual emissions intensity target as well as the MRP Target.

<sup>211</sup> Exhibit B-6, BCSEA IR 1.14.10.

<sup>212</sup> Exhibit B-6, BCSEA IR 1.14.4.

<sup>213</sup> Exhibit B-6, BCSEA IR 1.14.7.

	2020	2021	2022	2023	2024	MRP Target
Emissions Intensity Target	600 – 10 = 590	600 – 20 = 580	600 – 30 = 570	600 – 40 = 560	600 – 50 = 550	600 – 30 = 570 avg.

270. In summary on this point, BCSEA supports approval of the GHG Emissions Reduction (Internal) Targeted Incentive both in principle and in terms of the proposed Targets and the number of BPS.

**K. Digital Channel Adoption, Targeted Incentive**

271. FortisBC seeks approval of a Customer Engagement (Digital Channel Adoption) Targeted Incentive, for each of FEI and FBC, at 5 BPS each.

272. FortisBC explains “digital channels” as follows:

“[C]ustomer expectations are changing, including an increased expectation for communication channels that allow customers to engage on their own terms. To meet these expectations, FortisBC has expanded its communication channels to include telephone, automated phone options, email, mobile app and on-line account services to provide increased choices to customers. FortisBC’s digital channels [Current digital channels include email, mobile app and on-line account services] provide customers with convenient access to services and information and, while not all interactions are best suited for digital channels [Complex billing inquiries are an example of interactions that are well suited for the telephone], increasing the adoption of these channels benefits customers by providing convenient, low effort interactions.”<sup>214</sup>

273. FortisBC provides the following table showing the historical proportion of customer interactions that occur digitally versus through traditional channels.<sup>215</sup> It can be observed that for FEI the proportion has increased every year from 2014 through 2018, whereas for FBC the proportion has fluctuated from year to year.

**Table C8-8: Historic Proportion of Digital Customer Interactions**

	2014	2015	2016	2017	2018	2016-2018 Average	Average Annual Growth
FEI	21%	23%	25%	28%	36%	29%	4%
FBC	24%	28%	18%	22%	26%	22%	1%

274. FortisBC proposes the following Digital Channel Use Targets:<sup>216</sup>

<sup>214</sup> Exhibit B-1, pp.C1-63 to C1-164, pdf pp.298-299.

<sup>215</sup> Exhibit B-1, p. C1-164, pdf p.299.

<sup>216</sup> Exhibit B-1, p. C1-164, pdf p.299.

**Table C8-9: Digital Channel Use Target**

	2020	2021	2022	2023	2024	MRP Total
FEI	40%	44%	48%	52%	56%	>48% avg.
FBC	27%	28%	29%	30%	31%	>29% avg.

275. The Targets are based on a 4% average annual growth rate for both FEI and FBC over the 2020-2024 period:

“In setting initial targets, FortisBC considered the annual volatility and the three-year average digital channel use rates. In the table below, a 4 percent (average annual growth) target is added each year to the baseline 2018 level.”<sup>217</sup>

276. Asked if the Targets are reasonably achievable, FortisBC stated:

“The annual digital channel use targets will be challenging to meet; however, they are realistically achievable. Meeting these targets each year will require innovative approaches to the promotion of these channels, consideration of improvements necessary to enhance their ease of use and a seamless integration of all channels such that customers have the ability to choose the most effective and convenient channel for their needs.”<sup>218</sup>

277. BCSEA asked what evidence FortisBC has that customer demand for the availability of digital communication channels exceeds the existing and future business as usual availability of digital communication channels. FortisBC’s answer was responsive and confirmed that demand for enhanced digital communication channels will exceed the current expectations of business as usual:

“FortisBC believes that the trend towards the growing demand for digital communication channels will continue.

FortisBC conducts market research on a regular basis to gain insight into the changing preferences of customers as well as trends in customer behavior and industry best practices and approaches. Research from 2018 indicates that customers in younger age groups (less than 35) have a stronger preference for digital channel use as compared to customers in other age groups. Over time, as this group of customers become a larger component of the customer base, FortisBC expects that the preference and expectations for digital channels will also increase overall, which should result in an increase in the use of digital channels relative to other channels.

<sup>217</sup> Exhibit B-1, p. C1-164, pdf p.299.

<sup>218</sup> Exhibit B-6, BCSEA IR 1.15.1.

Aside from this trend, there is also an opportunity to enhance the experience of customers that have not adopted or are less comfortable with digital channel use. Efforts to continue to enhance digital offerings to meet the needs of this group of customers will also drive demand for the type and availability of digital communication channels that will exceed the current expectations of business as usual.<sup>219</sup>

278. FortisBC also addressed “evolving customer expectations” as follows:

“Evolving customer expectations from a service delivery standpoint include the ability for customers to be digitally connected with the providers of their services, have greater choices and options, be empowered with information, have the ability to self-manage their energy use, as well as their overall expectations for what the experience should look and feel like. With respect to customers’ attitude and preferences towards energy solutions, customers are increasingly focused on energy efficiency, looking for sustainable energy options and are becoming more engaged in energy choices and options available to them while still expecting reliability, good customer service and reasonable prices...”<sup>220</sup>

279. FortisBC says it intends to review channel options, including the channels customers identify as preferred versus their actual channel use, with the report and identification of next steps by the end of 2020. It states:

“This type of analysis may identify potential opportunities for improvement to existing digital and self-service channels as well as customer preference for expanded channel options. For example, this may identify changes to the existing IVR [interactive voice response] system (system, menu options, etc.) that could potentially increase adoption of self serve IVR options or lead to greater satisfaction and engagement with this particular channel.”<sup>221</sup>

280. BCSEA accepts that there is substantial demand by customers to access FEI and FBC through digital channels, that this demand can be expected to grow throughout the 2020-2024 period, and that the demand will exceed business-as-usual improvements.

281. In summary, BCSEA supports approval of a Customer Engagement (Digital Channel Adoption) Targeted Incentive, for each of FEI and FBC, at 5 BPS each.

#### **L. Targeted Incentive for Growth in Electric Vehicle Transportation**

282. The original Application also included a proposed Targeted Incentive for Growth in Electric Vehicle Transportation, applicable to FBC, at 5 BPS. However, FBC is not

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<sup>219</sup> Exhibit B-6, BCSEA IR 1.15.2.

<sup>220</sup> Exhibit B-10, BCUC IR 1.3.1.

<sup>221</sup> Exhibit B-12, BCUC IR 2.239.1.

seeking approval of it at this time, as it is awaiting anticipated provincial legislation in response to the results of the Commission's Regulation of EV Charging Service Inquiry.<sup>222</sup> FBC says it is "now proposing to bring forward a target related to growth of EV transportation in an annual review, following the issuance of any new regulation pertaining to EV charging services."<sup>223</sup>

283. BCSEA supports that approach. To confirm, BCSEA strongly supports the rapid development of electric vehicles in all B.C. transportation sectors, including passenger, light commercial and heavy duty. BCSEA believes that encouraging the adoption of EVs in substitution for fossil-fuel vehicles is in the public interest and consistent with the B.C. energy objectives under the *Utilities Commission Act* and the *Clean Energy Act*.

#### **M. FBC Power Supply Incentive**

284. FBC seeks approval of the Power Supply Incentive.<sup>224</sup> FortisBC describes the PSI as follows:

"The PSI is a form of performance or incentive ratemaking, which will provide additional focus on cost efficiency by creating greater incentive for FBC to optimize FBC's single largest cost, which requires significant effort and focus to manage. Under FBC's proposed PSI, the Eligible Mitigation Benefit is the reduction in FBC's power purchase expense achieved by FBC's optimization activities. The proposed Benefit Sharing Mechanism is that the first \$7.5 million in Eligible Mitigation Benefit be allocated 100 percent to customers, with the remainder being allocated 90 percent to customers and 10 percent to FBC. In this way, the PSI ensures that the customer will continue to receive the majority of the benefits of any optimization activities, and FBC will only share in benefits above what is reasonably expected in the normal course of business."<sup>225</sup>

285. FortisBC says the proposed PSI will create positive outcomes that are beneficial for customers and in the public interest, and should therefore be approved.

286. In Table C7-1, FortisBC compares the FBC PSI proposal to the Commission's Guiding Principles for FEI's gas supply mitigation incentive.<sup>226</sup> BCSEA's view is that FBC PSI meets each of the Guiding Principles.

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<sup>222</sup> FortisBC Final Argument, para.557.

<sup>223</sup> Exhibit B-12, BCUC IR 2.240.1, cited in FortisBC Final Argument, para.557.

<sup>224</sup> Exhibit B-1-1, Appendix C7, pdf p.614, *et seq.*

<sup>225</sup> FortisBC Final Argument, para.603.

<sup>226</sup> Exhibit B-1-1, Appendix C7, Table C7-1, p.4, pdf p.618, reproduced in FortisBC Final Argument, para.614.

287. In particular, the most stringent principle may be number 8, which states: “The incentive payment should be the smallest amount required to obtain the desired core customer benefit.” FortisBC’s response, which BCSEA considers plausible and realistic, is:

“The sharing under the proposed PSI is 10 percent of savings above the first \$7.5 million of any reduction in PPE. FBC considers this to be the minimal amount required to provide an incentive to the Company to achieve value over and above what would otherwise be expected.”<sup>227</sup>

288. BCSEA supports approval of the FBC Power Supply Incentive.

## **PART 10. Supporting Studies**

289. BCSEA takes no position regarding FortisBC’s request for approval of five updated accounting studies.

## **PART 11. Conclusion**

290. BCSEA supports approval of the Proposed MRPs, subject to the specific reservations and recommendations set out above.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

February 9, 2020



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Barrister & Solicitor  
Counsel for  
B.C. Sustainable Energy Association

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<sup>227</sup> Exhibit B-1-1, Appendix C7, Table C7-1, p.4, pdf p.618, underline added.