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September 26, 2017

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

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

Dear Mr. Wruck:

Re: FortisBC Inc. (FBC)
Project No. 3698896
2016 Long Term Electric Resource Plan (LTERP) and Long Term Demand Side Management Plan (LT DSM Plan)
FBC Response Regarding Mr. Shadrack's Query on Carbon Tax Assumptions

On November 30, 2016, FBC filed the LTERP and LT DSM Plan, referenced above. On September 8, 2017, FBC proposed an amended regulatory timetable for the remainder of the review of the LTERP and LT DSM Plan in light of the Errata that FBC expected to submit to the British Columbia Utilities Commission (Commission) on or before September 15, 2017. On September 12, 2017, Mr. Shadrack submitted a reply letter regarding the amended review timetable proposed by FBC. In that letter Mr. Shadrack also asked FBC whether any of its assumptions have changed in light of the September 11, 2017, B.C. budget that proposes to increase the carbon tax by \$5 per tonne as of April 1, 2018. On September 13, 2017, the Commission issued Order G-139-17, establishing a further Regulatory Timetable for this proceeding. FBC was required to submit its Errata by September 15, 2017, which it did, and interveners have been given until September 29, 2017 to provide their comments on further process.

FBC provides this letter in response to Mr. Shadrack's question regarding B.C.'s carbon tax in his letter of September 12, 2017. FBC considers Mr. Shadrack's request of FBC in this regard to be out of scope given the current stage of the regulatory process. It is unrelated to any matters raised by the Errata FBC filed on September 15, 2017. FBC should not be expected to respond to developments in energy policy that have arisen since the general evidentiary record was closed. FBC submits that further process arising from the Errata, if

any is deemed necessary, should be limited to matters arising from the Errata itself.

To be of assistance to interveners, FBC is nonetheless prepared to provide the following response to Mr. Shadrack's specific inquiry regarding the carbon tax, but reserves the right to object to other requests for information that are unrelated to the Errata itself.

The assumptions, including those for the B.C. carbon tax, included in the LTERP were based on information FBC had available at the time it developed the LTERP. As per Section 2.5.3 of the LTERP, FBC's carbon tax assumptions were based on the following information:

In September 2016, the Canadian federal government announced that it is planning to require the provinces to have a price of at least \$10 per tonne of carbon dioxide equivalent emissions starting in 2018. The price would rise by \$10 per tonne a year for the next four years, reaching \$50 a tonne by 2022.

FBC has developed its carbon price scenarios based on this information. FBC has assumed the current level of \$30 per tonne (in nominal terms) as the base case until 2020 after which time it increases by \$10 per tonne per year until it reaches \$50 per tonne (in nominal terms) by 2022. After this time, the base case holds the carbon price constant in real terms, assuming that the carbon tax is increased to keep up with inflation over time. FBC has also included a high case based on the assumption of annual increases of \$10 per tonne and a more moderate case assuming annual increases of half of this or \$5 per tonne.

The recently announced B.C. budget proposes increases in the B.C. carbon tax of \$5 per tonne per year for the next four years, beginning April 1, 2018, until the carbon tax rate is equal to \$50 per tonne in 2021. FBC has assumed this is a nominal increase rather than an inflation-adjusted (real) increase. If the increase is maintained each year, as proposed in the undated budget, the carbon tax will increase to \$50 per tonne per year one year earlier than FBC's base case assumption in the LTERP of \$50 per tonne by 2022. The current B.C. budget does not give any indication that increases to the carbon tax will continue to occur once it has reached the \$50 per tonne target set by the federal government. In any case, FBC did provide some scenarios in Section 2.5.3 of the LTERP which included annual carbon tax increases throughout the 20-year planning horizon.

The carbon tax is an input into FBC's cost assumptions for gas-fired generation resource options, which is then input into its portfolio analysis to determine the preferred portfolio. FBC also assumed that carbon pricing in the Western Electricity Coordinating Council (WECC) region matched the carbon pricing in B.C. and is applied to any Mid-C market purchases selected in the portfolio analysis. If it is continued to be assumed that the B.C. carbon tax does not increase further once it reaches the federal government target of \$50 per tonne, then there are no material changes to the FBC portfolio costs or its preferred portfolio. In the preferred portfolio, gas-fired generation (an SCGT plant) is not required until 2033. The slight difference in carbon pricing between the B.C. budget assumptions and the FBC LTERP assumptions prior to 2022 do not materially impact the cost of market purchases. The estimated difference on the cost of market purchases is approximately 3 percent for the years 2018-2021, and there is no change in other years once a carbon cost of \$50 per tonne is reached.

Any effects from the B.C. budget carbon tax increases in 2018 on provincial economic growth and FBC's load requirements will take time to materialize and are best left to be addressed in the next long term electric resource plan when all the assumptions will be updated based on the information available at that time.

If further information is required, please contact Joyce Martin at 250-368-0319.

Sincerely,

FORTISBC INC.

Original signed:

Diane Roy

cc (email only): Registered Parties