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

Attention: Sara Hardgrave, Acting Commission Secretary

Dear Ms. Hardgrave

Re: FortisBC Energy Inc.
Application for Acceptance of Demand-Side Management Expenditures for 2023
Final Argument of FortisBC Energy Inc.

In accordance with the regulatory timetable set for the above referenced proceeding, we enclose for filing the Final Argument of FortisBC Energy Inc. dated November 1, 2022.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by]

Christopher Bystrom
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CRB/NR
Encl.

BRITISH COLUMBIA UTILITIES COMMISSION

FORTISBC ENERGY INC.

APPLICATION FOR ACCEPTANCE OF DEMAND SIDE MANAGEMENT EXPENDITURES FOR 2023

FINAL ARGUMENT

OF

FORTISBC ENERGY INC.

NOVEMBER 1, 2022

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PART ONE: INTRODUCTION AND OVERVIEW

1. FortisBC Energy Inc. (FEI) filed its Application for Acceptance of Demand-Side Management Expenditures for 2023 (Application), on July 5, 2022. As set out in the Application, FEI is requesting acceptance from the British Columbia Utilities Commission (BCUC) pursuant to section 44.2 of the *Utilities Commission Act* (UCA) of its demand-side management (DSM) expenditures schedule for 2023 (2023 DSM Plan).

2. FEI's 2023 DSM plan is a transitional, one-year plan in light of the new provincial policy direction in the CleanBC Roadmap to 2030 (Roadmap). The Roadmap refers to: (1) support for building-envelope improvements, gas heat pumps, and hybrid dual-fuel heating systems; (2) space and water heating equipment sold in B.C. to be at least 100 percent efficient after 2030; and (3) updated regulations to support market readiness for future codes and standards. Given that the Roadmap is anticipated to result in changes to the *Demand-Side Measures Regulation* (DSM Regulation), a one-year DSM Plan for 2023 is a prudent interim approach to allow time for the Roadmap-related provincial legislative and regulatory process to proceed.[1]

3. The 2023 DSM Plan is a transitional plan in two important ways:

- First, to maintain consistency for customers until there is more certainty with regards to future changes to the DSM Regulation, the 2023 DSM Plan continues the cost-effective programs and incentive levels previously accepted in FEI's 2019-2022 DSM Plan, with some additions and modifications. Substantially changing FEI's residential programs for this one-year plan could result in market confusion and considerable ramp-up effort for what could be a limited time in market. Further, significant opportunities still exist in the market to achieve gas savings and greenhouse gas (GHG) emission reductions through customer adoption of these measures.[2]

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1 Exhibit B-1, Application, p. 5.

2 Exhibit B-1, Application, p. 5 and 32; Exhibit B-2, BCUC IR1 2.1 and BCUC IR1 3.4.

- Second, given the clear direction in the Roadmap towards advanced DSM, which includes deep retrofits, gas heat pumps, and dual-fuel hybrid heating systems,[3] the 2023 DSM Plan includes activities that support a transition to advanced DSM measures, particularly through investments in the Innovative Technologies Program Area.[4]

4. While only a one year plan, the 2023 DSM Plan is important for positioning FEI to respond to changing provincial policy regarding GHG emissions. As indicated in the Roadmap, the Province is moving towards a compliance-based model to managing GHG emissions, where FEI will be subject to "a GHG emissions cap that will require gas utilities to undertake activities and invest in technologies to further lower GHG emissions from the fossil natural gas used to heat homes and buildings and power some of our industries."[5] As reflected in FEI's 2022 Long-Term Gas Resource Plan (2022 LTGRP) and FEI's Clean Growth Pathway, investing in DSM programs is one of the four pillars in FEI's approach to meeting such GHG reduction targets.[6] The continuation of DSM programs in the 2023 DSM Plan, and increased investment in advanced DSM, particularly through innovative technologies, is needed for FEI to continue on the path to reducing its GHG emissions in compliance with government policy.

5. In total, the 2023 DSM Plan includes $141.077 million in expenditures, resulting in an estimated 1,601,386 GJ in energy savings.[7] Each of FEI's DSM program areas and individual DSM programs, including cost-effectiveness test results, are described in the FEI 2023 DSM Expenditures Plan Report in Appendix A of the Application. The 2023 DSM Plan proposes increased DSM spending by approximately $35 million (33 percent) over accepted 2022 DSM Plan levels, which is primarily driven by the policy shift toward advanced DSM activities noted above.[8] FEI's 2023 DSM Plan is consistent with British Columbia's energy objectives and FEI's 2022 LTGRP,

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[3] "Advanced DSM" refers to new or emerging DSM 19 measures, including deep retrofits, gas heat pumps and dual-fuel hybrid heating systems. (Exhibit B-2, BCUC IR1 2.1.)

[4] Exhibit B-1, Application, p. 5.

[5] CleanBC Roadmap to 2030, p. 29. Exhibit B-1, Application, p. 4.

[6] Exhibit B-1, Application, p. 4.

[7] Exhibit B-1, Application, p. 1.

[8] Exhibit B-3, BCOAPO IR1 4.3.

meets the adequacy and cost-effectiveness requirements of the DSM Regulation, and responds to government policy encouraging an increase in DSM to support GHG emission reduction targets. FEI submits that its 2023 DSM Plan is in the public interest and should be accepted as filed.

6. FEI also seeks approval of:

- Proposed changes to its existing funding transfer rules to provide flexibility in the timing of expenditures within the proposed program areas, including the Innovative Technologies Program Area;
- A new variance allowance rule on total portfolio expenditures in the final year of the DSM Plan to take into account the potential for reasonable variances from forecast;
- An increase in the amount that FEI includes in its existing rate base DSM Deferral account from $30 to $60 million, effective for 2023; and
- A rate base deferral account to capture the regulatory costs associated with the review of this Application.

7. A Draft Order is attached as Appendix C to the Application.

8. The remainder of this Final Argument is organized around the following points:

- FEI's 2023 DSM Plan is in the public interest, as it is consistent with British Columbia's energy objectives and FEI's 2022 LTGRP, meets the cost-effectiveness requirements of the DSM Regulation, and is in the interests of FEI's current and future customers.
- FEI's proposed changes to the transfer and carryover funding rules are reasonable and will provide FEI with the flexibility to manage its DSM portfolio more effectively and carry out the accepted DSM plan, while accounting for reasonable variances from forecast.

- As FEI's DSM expenditures have exceeded $60 million for the past three years and are forecast to exceed $100 million in 2022 and 2023, an increase to the amount included in the rate base DSM Deferral account to $60 million is reasonable and appropriate.

- Approval of a deferral account for the recovery of regulatory costs is consistent with past practice and is accepted regulatory practice.

PART TWO: FEI'S 2023 DSM PLAN IS IN THE PUBLIC INTEREST

9. FEI submits that a consideration of the relevant factors shows that its 2023 DSM Plan is in the public interest and should be accepted. Section 44.2 of the UCA states that, in considering whether to accept an expenditure schedule filed by a public utility other than British Columbia Hydro & Power Authority (BC Hydro), the BCUC must consider:

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

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

c) the extent to which the schedule is consistent with the applicable requirements under sections 6 and 19 of the *Clean Energy Act*,[9]

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

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

10. FEI discusses below how each of these considerations supports the conclusion that the 2023 DSM Plan is in the public interest.

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[9] Sections 6 and 9 of the *Clean Energy Act* relate to electricity self-sufficiency and BC Hydro domestic long-term sales contracts, respectively, and are not applicable to FEI or this Application.

A. 2023 DSM PLAN IS SUPPORTED BY CONSIDERATION OF BRITISH COLUMBIA'S ENERGY OBJECTIVES

11. A consideration of British Columbia's energy objectives, as set out in section 2 of the *Clean Energy Act*, supports acceptance of the 2023 DSM Plan. Specifically, the 2023 DSM Plan aligns with five British Columbia energy objectives, as described in Table 3-3 of the Application, as reproduced below.

Table 3-3: BC's Energy Objectives Met by FEI DSM Activity

Energy Objective	FEI DSM Portfolio
(b) to take demand-side measures and to conserve energy, including the objective of the authority reducing its expected increase in demand for electricity by the year 2020 by at least 66%;	FEI's DSM proposals are designed to implement cost-effective (as defined by the DSM Regulation) demand-side measures. See Section 3.5 of this Application.
(d) to use and foster the development in British Columbia of innovative technologies that support energy conservation and efficiency and the use of clean or renewable resources;	FEI's 2023 DSM Plan includes provision for Innovative Technology projects. See Appendix A, Section 8.
(g) to reduce BC greenhouse gas emissions (i) by 2012 and for each subsequent calendar year to at least 6% less than the level of those emissions in 2007, (ii) by 2016 and for each subsequent calendar year to at least 18% less than the level of those emissions in 2007, (iii) by 2020 and for each subsequent calendar year to at least 33% less than the level of those emissions in 2007, (iv) by 2050 and for each subsequent calendar year to at least 80% less than the level of those emissions in 2007, and (v) by such other amounts as determined under the Greenhouse Gas Reduction Targets Act;	FEI's DSM programs will result in substantial natural gas savings and commensurate reductions in greenhouse gas emissions of 82,632 annual tonnes CO2e.

Energy Objective	FEI DSM Portfolio
(i) to encourage communities to reduce greenhouse gas emissions and use energy efficiently;	All of FEI's DSM programs encourage communities to reduce greenhouse gas emissions and use energy efficiently. Local government and institutional strategic energy planning, and Community Education and Outreach, are enabled through Supporting Initiatives. See Appendix A Section 7 and 9. Provisions for, and further development of, the BC Energy Step Code are included within Program areas and the Community Energy Specialists program. See Section 3 and Appendix A, Sections 3, 4, 6, and 9.
(k) to encourage economic development and the creation and retention of jobs;	FEI's DSM Programs have a broad impact on the provincial economy as measured through employment impacts. See Appendix D, Section 7.3.

B. 2023 DSM PLAN IS BASED ON FEI'S MOST RECENT LONG-TERM RESOURCE PLAN AND FEI HAS REASONABLY EXPLAINED THE DIFFERENCE BETWEEN THE TWO PLANS

12. FEI developed the 2023 DSM Plan considering the inputs and results from the 2022 LTGRP filed on May 9, 2022, which is FEI's most recent long-term resource plan. The 2023 DSM Plan and the 2022 LTGRP are also fundamentally aligned in that they are both informed by the 2021 Conservation Potential Review (CPR).[10]

13. The 2023 DSM Plan is in line with the "High DSM setting" selected in the 2022 LTGRP Plan. In the 2022 LTGRP, FEI selected the High DSM setting based on the availability of cost-effective demand-side measures, the objectives of FEI's Clean Growth Pathway, and the need for FEI to reduce GHG emissions in alignment with the Roadmap. The High DSM setting maximizes the energy savings potential, and therefore, the potential to reduce GHG emissions by accelerating building retrofits, high performance new construction and energy efficiency in commercial and industrial processes. The choice of the High DSM setting is consistent with the feedback from the Resource Planning Advisory Group (RPAG), Energy Efficiency and Conservation Advisory Committee (EECAG) and other stakeholder engagement sessions for FEI to undertake high levels

[10] Exhibit B-1, Application, p. 9.

of DSM.[11] The 2023 DSM Plan continues FEI's trajectory of increasing investments in DSM that has taken place since the 2017 LTGRP and exemplifies FEI's long-term commitment to obtaining energy savings in line with the High DSM setting in the 2022 LTGRP.[12]

14. A key difference between the 2023 DSM Plan and the 2022 LTGRP is that the 2023 DSM Plan addresses policy and technology advancements that have evolved since the 2021 CPR and the 2022 LTGRP analysis were completed. The 2022 LTGRP noted that additional information on advanced DSM measures, including deep retrofits, gas heat pumps and dual-fuel hybrid heating systems technologies, were not modelled in the 2021 CPR. The Roadmap, published after the 2022 LTGRP's DSM analysis was completed, has also signaled a policy shift away from many traditional gas equipment DSM measures and towards advanced DSM activities. The 2023 DSM Plan therefore incorporates a faster transition toward advanced DSM measures through higher expenditures for pilot projects and related innovative technologies associated with advanced DSM measures.[13]

15. More generally, FEI expects there to be differences in expenditures and savings between forecasts in the 2023 DSM Plan and the estimates in the 2022 LTGRP DSM analysis. This is because the LTGRP only provides a theoretical model for the long-term DSM programming outlook. Based on market potential results from the CPR, the model represents a theoretical estimate of DSM uptake in relation to the ratio between incentive levels and incremental costs. In contrast, the 2023 DSM Plan further refines the market potential into a near-term program potential, taking into account the shorter-term implications of market conditions and policy environment changes that are considered in DSM program development.[14]

16. The alignment between the 2023 DSM Plan and the 2022 LTGRP, as well as areas where the DSM Plan is advancing beyond the LTGRP, is summarized as follows:[15]

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11 Exhibit B-1, Application, p. 9.

12 Exhibit B-1, Application, pp. 9-10.

13 Exhibit B-1, Application, pp. 10-11.

14 Exhibit B-3, BCOAPO IR1 4.1.

15 Exhibit B-1, Application, p. 10.

- The energy savings between the 2022 LTGRP and DSM Plan are closely aligned. The energy savings achieved in the 2022 LTGRP High DSM setting are 1.7 million incremental GJs while the DSM Plan energy savings are 1.6 million incremental GJs;

- The 2022 LTGRP recommended pursuing the high DSM expenditure setting to reach energy savings and related GHG emission reduction targets as a key pillar in the Clean Growth Pathway. The 2023 expenditures in the 2022 LTGRP High DSM setting are $235 million. While the 2023 DSM Plan total expenditures are lower at $141 million, the 2023 spending does represent a step change from 2022 planned DSM expenditures of $106 million, indicating a transition toward this increased level of DSM activity;

- The 2023 DSM Plan total expenditure is less than the 2022 LTGRP High DSM setting in 2023 for the following reasons:

  - The 2022 LTGRP analysis is a long-term outlook on DSM potential, using 2019 as a base year for its analysis. It does not consider program design that incorporates ramp up requirements for new measures and programs or potential ramp down of old measures.

  - The 2022 High DSM setting assumed incentives covering up to 100 percent of incremental costs, or maximum market potential, in order to speed market transition and accelerate retrofits for energy and emission reductions, whereas for this transitional one-year 2023 period the DSM Plan focused more on optimizing the costs of energy savings and maintains an average incentive level which is closer to the historical benchmark of 50 percent of incremental cost for high efficiency equipment; and

  - The Roadmap, published after the 2022 LTGRP's DSM analysis was completed, has signaled a policy shift away from supporting many traditional gas equipment DSM measures and toward advanced DSM activities. The DSM Plan incorporates a faster transition toward more advanced gas DSM measures through higher expenditures for pilot projects and related innovative technologies associated with advanced DSM measures than was incorporated in the CPR and the 2022 LTGRP DSM analysis.

17. Finally, the 2023 DSM Plan is consistent with the 2022 LTGRP long-term plan for implementing DSM activities, which is that FEI will continue a portfolio of DSM initiatives that is cost-effective and adequate pursuant to the DSM Regulation, consisting of residential, commercial, industrial, low income, innovative technologies, conservation education and outreach as well as enabling DSM activities. The 2022 LTGRP contemplates that FEI will implement this long-term plan via successive DSM plans which take into account the prevailing market, regulatory, and end-use technology conditions. Within this framework, FEI's proposed DSM expenditure schedule and attached 2023 DSM Plan are consistent with the 2022 LTGRP. The 2023 DSM Plan reflects a cost effective and adequate portfolio that includes the initiatives presented in the 2022 LTGRP and reflects an increase in expenditures over prior years, ramping up towards the High DSM setting in future DSM expenditure plans.[16]

C. 2023 DSM PLAN IS COST EFFECTIVE PURSUANT TO THE DSM REGULATION

18. FEI's approach to determining the cost-effectiveness of its DSM programs as described in the Application is aligned with the DSM Regulation and consistent with past practice as previously approved by the BCUC. Specifically, under the DSM Regulation, the blended total resource cost (TRC) and modified TRC (MTRC)[17] test are the governing cost-effectiveness tests.[18] The BCUC has consistently determined cost effectiveness at the portfolio level for the DSM expenditure schedules filed by FEI,[19] FBC,[20] BC Hydro[21] and Pacific Northern Gas.[22]

19. The 2023 DSM Plan is cost-effective using the blended TRC and MTRC test, as set out in the DSM Regulation. In accordance with the DSM Regulation, a cost-effective portfolio of natural

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16 Exhibit B-1, Application, p. 11.

17 A detailed explanation of the MTRC is included in Section 5.1.3 of the Application (Exhibit B-1).

18 Exhibit B-1, Application, pp. 20-22.

19 On page 11 of its Decision and Order G-10-19, dated January 17, 2019, the BCUC states: "Consistent with prior BCUC decisions regarding FEI's DSM expenditures and in agreement with FEI and all interveners, the Panel concludes that it is appropriate to evaluate the benefit/cost ratios at the overall portfolio level."

20 BCUC Decision and Order No. G-47-19, FortisBC Inc. 2019-2022 Demand Side Management Expenditures Application, p. 7.

21 BCUC Decision and Order No. G-187-21, BC Hydro Fiscal 2022 Revenue Requirements Application, p. 85.

22 BCUC Decision and Order G-121-19, PNG Energy Conservation and Innovation Program Funding Application, p. 17.

gas energy efficiency measures may include up to 40 percent of total expenditures that are cost-effective when considering the MTRC test. FEI is forecasting to have 33 percent of its DSM expenditures using the MTRC. When considering cost-effectiveness using both the MTRC and the TRC, the blended portfolio cost-effectiveness is 1.4. As the blended portfolio cost-effectiveness is greater than one, the portfolio is cost-effective.[23]

20. In the subsections below, FEI discusses two key areas explored in the IRs related to cost effectiveness: (a) the appropriate value for BC Hydro's long run marginal cost (LRMC); and (b) the applicability of the Utilities Cost Test (UCT), including incentive levels.

(a) Appropriate Value for BC Hydro's LRMC of Acquiring Electricity Generated from Clean or Renewable Resources in British Columbia

21. The DSM Regulation includes the use of a zero-emission energy supply alternative (ZEEA) in determining the avoided cost of energy for DSM in the standard TRC calculation for low-income programs and the mTRC calculation. The ZEEA is defined in the DSM Regulation as the value that the BCUC is satisfied represents BC Hydro's LRMC of acquiring electricity generated from clean or renewable resources in British Columbia. The ZEEA value that FEI used is $106/MWh, which is from BC Hydro's Waneta 2017 Transaction Application to the BCUC that established BC Hydro's LRMC at $106/MWh in fiscal 2018. This value is consistent with the value used to calculate the MTRC for FEI's DSM 2021 Annual Report.[24]

22. FEI submits the $54/MWh used by BC Hydro in its F2020-F2021 and F2022 Revenue Requirement Applications (RRA) is not appropriate for use as an LRMC value. In those applications, BC Hydro was clear that the $54/MWh is not its estimated LRMC, but simply the low end of a preliminary range of the cost of new wind resources, including delivery to the Lower Mainland, which is between $54 and $80/MWh. BC Hydro also confirmed that it was committed to updating its LRMC in its Integrated Resource Plan (IRP). Based on FEI's review of the BCUC's Decisions on BC Hydro's F2020-F2021 RRA (p. 144) and F2022 RRA (pp. 84-85), the BCUC did not accept the $54 as a true LRMC value, but rather, considered the low end of the range of wind

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23 Exhibit B-1, Application, pp. 23-24; Exhibit B-3, BCOAPO IR1 9.1.

24 Exhibit B-1, Application, pp. 23-24.

resources as a conservative value, and was satisfied on that basis to find that BC Hydro's DSM expenditure schedules were cost-effective. The $54/MWh was therefore neither presented by BC Hydro nor approved by the BCUC as BC Hydro's actual LRMC. As such, $54/MWh is not a reasonable alternative for the LRMC. If anything, the entire range (rather than just the low end) of the cost of new wind resources, between $54 and $80/MWh, would be more indicative of the LRMC.[25]

23. FEI submits that the use of an LRMC of $65/MWh, which BC Hydro has proposed in its IRP, is also problematic because the IRP is still being reviewed and FEI does not expect that the BCUC will issue a Decision on BC Hydro's IRP in time for consideration in this proceeding. The DSM Regulation states that the ZEEA shall be a value that the BCUC is satisfied represents the LRMC of BC Hydro. FEI considers that the BCUC would be understandably reluctant to determine that it was satisfied that BC Hydro's LRMC was $65/MWh in this proceeding, as this is a topic currently being reviewed by the Panel considering BC Hydro's IRP.[26]

24. Given the above, FEI concludes that the best LRMC for the purposes of this Application remains the last LRMC value accepted by the BCUC, which was the value used by FEI from BC Hydro's Waneta 2017 Transaction Application.

25. However, FEI's total portfolio (as well as all program areas) would remain cost-effective using BC Hydro's proposed LRMC of $65/MWh.[27] Therefore, the BCUC can be assured that FEI's portfolio will be cost effective whether it uses either the previously accepted LRMC of $106/MWh or BC Hydro's proposed LRMC of $65/MWh.[28]

(b) UCT Results and Incentive Levels

26. Under the DSM Regulation, the BCUC may also consider the results of the UCT. As noted in the preamble to the BCUC IR 4 series, the BCUC has previously stated that it may consider the

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[25] Exhibit B-2, BCUC IR1 3.4.

[26] Exhibit B-2, BCUC IR1 3.4.

[27] Exhibit B-2, BCUC IR1 3.1.

[28] Exhibit B-2, BCUC IR1 3.4. FEI's total portfolio would also be cost effective using the midpoint of the range of $54 and $80/MWh, which would be $67, that was used by BC Hydro in its previous two RRAs.

UCT results, but "will not require that programs requiring the mTRC test pass the UCT" due to a number of factors including: (1) unquantified benefits; (2) hard to measure savings; (3) the provision of broad opportunities for customers to participate; (4) addressing lost opportunities; and (5) retaining a significant level of customer and trades engagement.

27. While the Home Renovation Rebate (HRR) Program and New Home Program do not pass the UCT, they have the relevant characteristics that show that they remain the most cost effective means of incenting customers to change their investment or consumption behaviours, and cannot be replaced by other programs. Regarding the HRR Program, FEI explained as follows:[29]

> First, the [HRR] program supports unquantified benefits, such as helping to achieve the GHG reduction targets in the CleanBC Roadmap, by providing a robust offering of incentives for different upgrade types, including building envelope and mechanical systems to achieve energy savings and GHG reductions in existing buildings.
>
> Second, the [HRR] program has hard to measure savings, specifically from the development of qualified contractor networks for insulation and fenestration contractors, and the required best practice for installation training. It is difficult to quantify the potentially greater savings associated with quality installation of building envelope upgrades in the absence of a baseline for the negative energy impacts due to improper installation, and subsequent influence on space heating system underperformance.
>
> Third, the HRR has broad opportunities for customers to participate, as residential customers account for approximately 91 percent of FEI's over 1 million customers. The program is also offered in partnership with FBC, BC Hydro and BC's Ministry of Energy, Mines and Low Carbon Innovation (EMLI) to ensure participation is accessible and consistent for residential customers in existing homes across BC. Additionally, by creating multiple opportunities for customers to participate, the program increases access to energy efficiency for residential customers.
>
> Fourth, the program addresses lost opportunities for achieving energy savings by enabling the prioritization of energy efficiency retrofits over decorative renovations which, in respect to customer choice and resource allocation, may not have otherwise come to fruition. Furthermore, the additional lost opportunity of quality installation is addressed through the prescriptive requirements of the program, ensuring mechanical systems are achieving optimal energy savings and equipment life.

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29 Exhibit B-2, BCUC IR1 4.2.

> Finally, the HRR provides an avenue for meaningful trades engagement on industry capacity building, best practices, and quality installation initiatives that drive the development of qualified contractor networks across industries. This in turn supports future market readiness for high performance homes. Continued engagement with trades through the HRR will be critical for growing contractor capacity to develop future DSM measures outlined in CleanBC's Roadmap, including hybrid heating, gas heat pumps and deep retrofits.

28. Both the HRR Program and New Home Program are key programs for FEI's residential customers and contain FEI's most popular energy savings measures.[30] Without these programs, significant opportunities for gas savings and GHG reductions in the home renovation and new home markets would be lost.

29. A factor in the UCT results is the level of incentives offered by FEI as part of its DSM programs. FEI submits that its incentives are reasonable and appropriate:

- First, FEI's incentive levels are consistent with those used in the 2019-2022 DSM Plan which was accepted by the BCUC.[31]
- Second, the 2023 DSM Plan focuses on optimizing the costs of energy savings and maintains an average incentive level close to the historical benchmark of 50 percent of incremental cost for high efficiency equipment.[32]
- Third, FEI appropriately and reasonably determines its incentive levels considering multiple factors, including:
  - Optimizing the adoption of the measure and potential energy savings;
  - Assessing the overall cost-effectiveness of programs, which may encompass multiple measures;
  - Engaging with key stakeholders such as contractors, customers, and interest groups to understand barriers and decision-making criteria; and

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30 Exhibit B-2, BCUC IR1 3.1.

31 Exhibit B-2, BCUC IR1 3.4 and 6.2.

32 Exhibit B-1, Application, p. 10.

- Leveraging program expertise to ensure offers are comparable, accessible and consistent over time.

- Fourth, FEI has explained the rationale for its incentive levels, including those that are higher than incremental cost, and submits that they are reasonable. FEI has considered the appropriate factors when determining its incentive levels, which will optimize participation to drive market transformation, achieve energy savings and GHG emissions reductions, and ensure overall programs are cost-effective, equitable and accessible to all customers.[33]

- Fifth, FEI's split between incentive and non-incentive costs is consistent with industry practices. FEI leverages industry benchmarking on both incentives and non-incentives. A recent study was conducted by the consulting company E Source looking into expenditure metrics of a variety of North American DSM programs. The study found that the average split of incentive and non-incentive expenditures for those utilities surveyed were 60 and 40 percent respectively. FEI's proposed incentive and non-incentive ratio in the 2023 DSM Plan of 72 percent and 28 percent, respectively, is above this benchmark.[34]

30. FEI submits that its 2023 DSM Plan should be determined to be cost effective in accordance with the DSM Regulation.

D. 2023 DSM PLAN IS IN THE INTERESTS OF PERSONS IN BC WHO RECEIVE OR MAY RECEIVE SERVICE FROM FEI

31. FEI's 2023 DSM Plan is in the interests of customers and potential customers, as it will result in numerous benefits including cost-effectively encouraging energy efficiency and conservation, reducing GHG emissions, benefiting the economy, and reducing the natural gas bills of customers that avail themselves of DSM measures. FEI describes some of the key benefits of the 2023 DSM Plan in further detail below.

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33 Exhibit B-2, BCUC IR1 6.1 and 6.2; Exhibit B-4, BCSEA IR1 7.2.

34 Exhibit B-3, BCOAPO IR1 6.6.

32. First, in line with evolving government policy, FEI's 2023 DSM Plan supports GHG emissions reductions, through both the market transformation of higher efficiency natural gas equipment and investment in the acceleration of advanced DSM adoption. The 2023 DSM Plan will result in an estimated 82,632 t CO2e/yr, or a total of 744,762 t CO2e, of GHG emissions reductions, as shown in Table 3 of the Application.[35] Furthermore, the 2023 DSM Plan will help transition FEI towards advanced DSM programming, such as deep energy retrofits, gas heat pumps, and dual-fuel hybrid heating systems, which can result in significant natural gas savings and related emission reductions. In particular, FEI has increased expenditures under the Innovative Technology Program Area to conduct research and pilot projects to address information gaps.[36] This will position FEI to be able to launch full-scale, advanced-DSM programs in future years. FEI's ability to respond to the shift in policy towards advanced DSM is crucial for FEI's ability to achieve GHG reductions and meet the cap on FEI's GHG emissions described in the Roadmap, and therefore, is in the interests of customers.[37]

33. Second, the 2023 DSM Plan will result in an estimated 1,601,386 GJ/year, or a total of 14,433,377 GJs, in gas savings, as shown in Table 3 of the Application.[38] This will benefit customers directly, through reduced bills. FEI expects that, on average, a participating residential customer will save 4 percent on their bill, while participating commercial customers will save 18 percent.[39]

34. Third, based on FEI's in-depth consultation process, the 2023 DSM Plan includes a fair representation of stakeholder and customer interests.[40] FEI's DSM planning process includes consultation at nearly every step, and the 2023 DSM Plan has been shaped by nearly 60 consultation engagement sessions from program up to portfolio level. FEI consulted with various parties, including communities, customers, contractors, manufacturers, Indigenous groups,

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[35] Exhibit B-1, Application, p. 6.

[36] Exhibit B-1, Application, Appendix A: DSM Plan, pp. 55-58; Exhibit B-4, BCSEA IR1 13.1.

[37] Exhibit B-1, Application, Section 3.1; Exhibit B-3, BCOAPO IR1 8.1.

[38] Exhibit B-1, Application, p. 6.

[39] Exhibit B-5, CEC IR1 10.1.

[40] Exhibit B-1, Application, p. 16; Exhibit B-3, BCOAPO IR1 5.4.1.

energy advisors, interest groups, partners, program implementers, post secondary institutions, and the EECAG. The forms of consultation included workshops, webinars, surveys, and individual outreach. FEI also provided confidential draft versions of the 2023 DSM Plan to EECAG members for review and input.[41]

35. A consistent piece of feedback received from the consultations was general endorsement for how DSM is managed and operated by FEI. Satisfaction appeared to be high for FEI in this area and none of the consultations suggested that any significant change in approach was required.[42]

36. FEI's consultation with stakeholders resulted in changes, such as the following:[43]

- The addition of high-performance windows and doors under the Home Renovation Program.
- Increased forecast of participation for residential condensing water heaters.
- The addition of hybrid Rooftop Units (RTUs) to the Prescriptive program.
- The expansion of the Strategic Energy Management (SEM) Industrial program. A stream of the program is now proposed to be administered in collaboration with FBC and focus on natural gas and electricity savings in the shared service area.
- Increased support for Indigenous communities through the Community Energy Specialist program.

37. Directional feedback from the consultations, which FEI took into account in the development of the 2023 DSM Plan, included the following:[44]

- Continue to support Energy Advisors;
- More education, training and resources for customers, contractors and consultants;

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41 Exhibit B-1, Application, p. 15. No material changes were made from the provisional draft 2023 DSM Expenditures Plan Report which was provided to the EECAG in June 2022 and the 2023 DSM Plan filed as Appendix A in the Application in July 2022 (Exhibit B-4, BCSEA IR1 6.1.).

42 Exhibit B-1, Application, p. 15.

43 Exhibit B-3, BCOAPO IR1 5.3.

44 Exhibit B-1, Application, pp. 15-16.

- Broaden the collaboration within the value chain;
- Energy concierge and financing support needed for deep energy retrofits;
- Support hybrid systems and gas heat pump adoption;
- Expand eligible measure set; and
- Expand Indigenous specific support.

38. Given this consultation process, FEI believes that the 2023 DSM Plan includes a fair representation of stakeholder and customer interests.[45]

39. Fourth, consistent with the above, nineteen diverse stakeholders shown in the table below have filed substantial letters of support for FEI's 2023 DSM Plan:[46]

Table 1: Entities that have Filed Letters of Support for 2023 DSM Plan

Aboriginal Housing Management Association	BC First Nations Energy and Mining Council	BC Non-Profit Housing Association	British Columbia Hotel Association
Canadian Association of Consulting Energy Advisors	Canadian Home Builders Association	City of Kamloops	City of Kelowna
City of Nelson	City of Penticton	City of Vancouver	Fraser Basin Council
Green Construction Research & Training Centre	Greenstep Solutions	Hearth, Patio & Barbecue Association of Canada	Musqueam Housing Department
Regional District of Okanagan-Similkameen	Thompson Okanagan Tourism Association	Tsleil-Waututh Nation	

40. Each of the above entities has explained the basis of their support and how acceptance of FEI's 2023 DSM Plan will help them achieve their goals. FEI submits that these letters demonstrate that there is wide and substantial support for the 2023 DSM Plan.

41. FEI submits that its proposed 2023 DSM Plan is in the interests of customers and should be accepted as filed.

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[45] Exhibit B-1, Application, p. 16.

[46] Exhibits E-1 to E-19.

PART THREE: PROPOSED TRANSFER FUNDING RULES ARE REASONABLE AND WILL FACILITATE EFFECTIVE MANAGEMENT OF FEI'S DSM PORTFOLIO

42. As described in Section 7.1 of the Application, FEI is requesting the following changes to the existing transfer funding rules:

- With respect to inter-program funding transfers:
  - removal of the requirement for approval of transferred funds *into* a program area,
  - removal of the requirement for approval of transfers above 25 percent *prior* to the expenditures being made, and
  - that the Innovative Technologies Program Area be included within the transfer funding rules.
- An additional allowed percentage variance to the total portfolio expenditures in the final year of the DSM Plan.

43. In the sections below, FEI explains why these changes are applicable to the one-year 2023 DSM Plan, and then speaks in detail to the rationale for each of the proposed changes.

A. The Proposed Changes are Applicable to a One-Year Plan

44. As part of Order G-283-22, the BCUC requested that FEI address in its argument its reasons for applying for these approvals in the context of an application for acceptance of an DSM expenditure schedule for only one year. FEI addresses this question with the following three points.

45. First, FEI's three proposed changes to the existing inter-program transfer funding rules all apply in the context of a one-year plan and will be an important means of effectively managing the 2023 DSM Plan. As with all plans, the 2023 DSM Plan is subject to change in response to changes in market conditions, customer responses to programs, input from stakeholders

including program partners, and changes in government policy.[47] The proposed changes to inter-program funding transfers will provide flexibility for FEI to manage the 2023 DSM Plan, including transfers into and out of the Innovative Technologies Program Area. The inclusion of the Innovative Technologies Program Area in the transfer funding rules is a particularly important change for the 2023 DSM Plan, as innovative technologies is an increasingly important area as FEI transitions to advanced DSM.

46. Second, the proposed allowable percentage variance for the final year of a DSM expenditure schedule is applicable to the 2023 DSM Plan, as the final year of the 2023 DSM Plan would be 2023. To clarify, FEI had considered that, for a one-year plan DSM Plan, the single year of the plan would also be the final year; FEI proposes language to clarify this in Part Three, Section C below. The potential for variances from forecast is equally applicable to a one-year plan, as it is to the final year of a multi-year plan. In other years of a multi-year DSM plan, FEI can manage annual variances from forecast by carrying over variances from one year to the next, as permitted by the carry-over rules.[48] However, in the final year of the DSM Plan, including the one year of a single-year plan, FEI does not have any ability to make carry overs of variances to the following year. Given the lack of any ability to carry over amounts from year-to-year in a one-year plan, FEI's request for an allowable percentage variance is important for the 2023 DSM Plan.

47. Third, FEI's proposed changes to the inter-program transfer rules are consistent with those applied for by FBC, and FEI proposes that they would be applied to future plans, subject to any further BCUC direction.

48. FEI addresses each of these proposals in further detail below.

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47 Exhibit B-1, Application, p. 28.

48 Exhibit B-1, Appendix B, Natural Gas Demand Side Management Programs 2021 Annual Report, p. 10: Carryover refers to any approved Program Area expenditure amount that was not spent in a given year (after accounting for funding transfers) and can therefore be spent in the following year within the approved DSM Plan timeframe. These amounts are 'rolled over' to the next years' annual approved spending limit. The ability to roll funds over from one year to the next also provides flexibility for FEI to manage uncertainties and external factors that can impact program development and delivery – in this case by making unspent expenditure amounts in one year available to benefit customers in the next year. The Decision [and Order G-10-19] approved FEI's request to carryover unspent Program Area amounts during the 2019-2022 DSM Plan.

B. FLEXIBILITY FOR INTER-PROGRAM FUNDING TRANSFERS

49. FEI is requesting three changes to the rules for funding transfers amongst programs within a year to overcome some of the challenges of working within the transfer rules, while maintaining the necessary boundaries to ensure that the DSM portfolio still aligns with the approved portfolio deemed to be in the public interest. Specifically, FEI requests the following transfer rule:[49]

> *In cases where a proposed transfer out of an approved program area is greater than twenty five percent of that program area's accepted expenditures for the year in question, BCUC acceptance is required.*

50. The current inter-program funding rules were set out in BCUC Decision and Order G-44-12 as follows:[50]

> …the Commission approves the movement of funding to a maximum of 25 percent from one approved Program Area to another approved Program Area without prior approval of the Commission. In cases where a proposed transfer into an approved Program Area is greater than 25 percent of that approved Program Area, prior Commission approval is required. Finally, the transfer of funds to new programs, not approved in this Application, or to Innovative Technologies […] require prior Commission approval.

51. FEI's first proposed change and rationale is as follows:[51]

- **Remove the requirement for approval of transferred funds into a program area:** FEI is proposing that only the transfer of funds greater than 25 percent out of a program area should be required. This change ensures that the limits on the amount any one program area can lose funding are still in place but eliminates the limits on how much one program area can gain. FEI submits that the greater concern in executing the portfolio is ensuring that no program area is reduced significantly to the benefit of another program area. FEI would still report on transfers into and out of program areas in its annual reporting to the BCUC.

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[49] Exhibit B-1, Application, pp. 28-29.

[50] Decision and Order G-44-12, pp. 173.

[51] Exhibit B-1, Application, p. 29.

52. FEI is seeking this change to: (1) simplify the requirements for approval of changes to DSM program area funding; (2) allow greater flexibility for FEI in responding to market changes that are difficult to forecast in advance; and (3) to ensure that FEI can focus on delivering DSM programs to customers without interruption.[52]

53. Each year, FEI spends significant time and resources determining strategies to manage increased expenditures due to higher customer demand in a program area given the current transfer rules.[53] The proposed change to the funding transfer rules would simplify FEI's forecasting process and allow more focus on the delivery of programs to customers. Consistent with its current practice, FEI intends to continue to only transfer funds out of a program area if those funds are not needed in that program area due to lower than forecast activity and those funds could be appropriately used in another program area in that year.[54] The proposed change ensures that no program area will have its funding <u>reduced</u> by greater than 25 percent without BCUC approval. FEI will be able to react to and meet increased activity in a program area quickly and easily, while still ensuring that no other program area will have its funding reduced drastically as a result.[55]

54. FEI's second proposed change is as follows:[56]

- **Remove the requirement of prior approval:** FEI will endeavor to file for approval as soon as it is aware that a transfer above 25 percent is required; however, often it is not known for certain until it is about to occur or already occurring. Additionally, it is difficult to forecast the exact amount of the transfer above 25 percent ahead of its occurrence, and time is required to draft and submit an application to the BCUC.

55. Put simply, the transfer rules allow FEI to shift spending between program areas to adjust for where activity is lower or greater than forecast, all while staying within the overall accepted expenditure level of the DSM Plan. As indicated above, the rationale for this proposed change is

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52 Exhibit B-2, BCUC IR1 15.1.

53 Exhibit B-2, BCUC IR1 15.1.

54 Exhibit B-2, BCUC IR1 15.2.

55 Exhibit B-2, BCUC IR1 15.1.

56 Exhibit B-1, Application, p. 29.

that it can be difficult to forecast with certainty when or if the 25 percent limit will be exceeded. This makes it challenging for FEI to apply for *and receive approval* of an increase in funding, without having to pause programs to the detriment of customer participation and savings potential. Under its proposal, FEI will still be required to file with the BCUC for acceptance of the transfer, but will be able to continue with its DSM programs, so that customers are not adversely impacted due to delays in receiving acceptance of the expenditures. This is consistent with section 44.2 of the *Utilities Commission Act*, which permits utilities to apply for expenditures that have already been spent (expenditures that the utility "has made or anticipates making").

56. Further, as noted above, FEI will only transfer funds out of a program area if those funds are not needed in that program area due to lower than forecast activity in that year.[57] Because FEI's ability to transfer more than 25 percent out of a program area hinges on whether the activity level in all other programs areas is sufficiently below forecast, potential customers eligible for those programs will not be impacted.

57. By allowing FEI to carry-out its planned DSM programs without disruption to customers, while still maintaining BCUC oversight over FEI's DSM expenditures, FEI submits that this change is reasonable and will not materially impact the public interest. In particular, FEI expects that the amount of variation from forecast will be limited as the utility has relied on its best forecasts and the plan is limited to one year. Ultimately, while FEI considered other mechanisms for the funding transfer process, it determined that the proposed changes will provide the best flexibility for FEI while still ensuring adequate oversight of FEI's DSM spending.[58]

58. FEI's third proposed change is:

- **Including Innovative Technologies Program Area in the Transfer Rules:** In order to respond to changes in the market with the same flexibility it has with other program areas, FEI is seeking the inclusion of the Innovative Technologies Program Area in the funding transfer rules. In particular, this change would allow FEI to transfer expenditures up to 25 percent of the

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[57] Exhibit B-2, BCUC IR1 15.2.

[58] Exhibit B-2, BCUC IR1 15.3.

> program area budget into the Innovative Technologies Program Area without BCUC approval.[59]

59. Including the Innovative Technologies Program Area within the Funding Transfer Rules will allow FEI the same flexibility it currently has for the rest of its program areas to respond to changes in the market within 25 percent of the overall approved budget.

60. The rationale for the current restriction on transfers into and out of the Innovative Technologies Program Area no longer applies:[60]

- There are no programs or technologies within this program area that are being reviewed in separate regulatory processes as was the case for FEI's 2012 and 2013 DSM expenditure request; and

- The programs within the Innovative Technologies Program Area do not contain expenditures for programs or technologies that are FortisBC Alternative Energy Services (FAES) projects. Indeed, there are no expenditures in the 2023 DSM Plan with FAES involvement.

61. Funding flexibility is particularly important within the Innovative Technologies Program Area given the rapid pace of development and transition towards advanced DSM initiatives. Thus, FEI is seeking this change to be able to nimbly adjust to support new opportunities as they emerge.[61] Given that there is no longer any reason to restrict transfers into or out of this program area, FEI submits that its requested change should be accepted.

C. TOTAL PORTFOLIO VARIANCE ALLOWANCE TO ACCOUNT FOR REASONABLE VARIANCES FROM FORECAST

62. As clarified in Part Three, Section A above, to account for reasonable variances from forecast, FEI is seeking approval of an allowed variance from the accepted DSM expenditure amount for the 2023 DSM Plan and, generally, for one year DSM Plans or the final year of DSM

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[59] Exhibit B-1, Application, p. 29.

[60] Exhibit B-1, Application, p. 30.

[61] Exhibit B-1, Application, p. 30.

Plans. FEI is requesting the following variance allowance rule, with the underlined words added for clarity:[62]

> *FEI is permitted to exceed total accepted expenditures in <u>a one-year plan or</u> the final year of a DSM expenditure schedule by no more than five percent without prior approval from the BCUC.*

63. With this rule, FEI is proposing that in a one-year plan or the final year of a multi-year DSM Plan, actual DSM expenditures may only exceed accepted DSM expenditures (excluding any carryover amounts from prior years) by no more than five percent without prior approval from the BCUC. For the 2023 DSM Plan, this means that FEI has additional flexibility to overspend 2023 accepted expenditures by $7.1 million.[63] Specifically, in the event that FEI exceeds the accepted expenditures by the full 5 percent, the average residential customer would have a bill impact of approximately 70 cents for 2024.[64]

64. The rationale for this proposal is that it is difficult for FEI to accurately forecast its DSM expenditures to the level of precision where FEI will spend exactly 100 percent of its DSM plan and no more or less. This is because actual DSM Plan expenditures are determined by many factors outside FEI's control, including changes in market conditions and customer responses to programs. Therefore, a variance allowance of 5 percent provides the necessary flexibility at the end of the year to respond to any conditions outside of FEI's control that might require additional spending above approved.[65]

65. FEI derived its proposed 5 percent overspend figure from the average variance in forecasting that FEI and FBC have experienced over the past four years. (The forecasting of FBC is relevant as the same teams that forecast FBC expenditures also forecast FEI expenditures.) While the maximum forecasting variance for DSM programs has been 8 percent over the past four years, 5 percent is a reasonable average. FEI submits that the 5 percent overspend figure

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[62] Exhibit B-1, Application, p. 30.

[63] Exhibit B-1, Application, p. 30.

[64] This assumes 90 GJ of consumption per year: Exhibit B-2, BCUC IR1 16.1.

[65] Exhibit B-1, Application, p. 30.

will allow FEI to continue to provide programs targeting 100 percent of plan expenditures, while reflecting reasonable challenges in forecast accuracy.[66]

66. Ultimately, the funding transfer and carryover rules, and the variance allowance will all serve to provide FEI with the flexibility to manage its DSM portfolio most effectively and carry out the accepted DSM plan. FEI therefore submits that its proposed changes are reasonable and should be approved.

PART FOUR: INCREASE TO DSM DEFERRAL ACCOUNT TREATMENT REFLECTS HISTORICAL SPENDING

67. FEI is proposing to increase the amount it includes in the rate base DSM Deferral account from the currently approved $30 million to $60 million, effective for 2023.[67] This change reflects FEI's historical spending which as shown in Figure 4-1 of the Application, reproduced below, has exceeded $60 million for the past three years.[68] FEI expects at least that level of expenditures to be maintained for the foreseeable future, including expenditures exceeding $100 million in both 2022 and 2023.[69]

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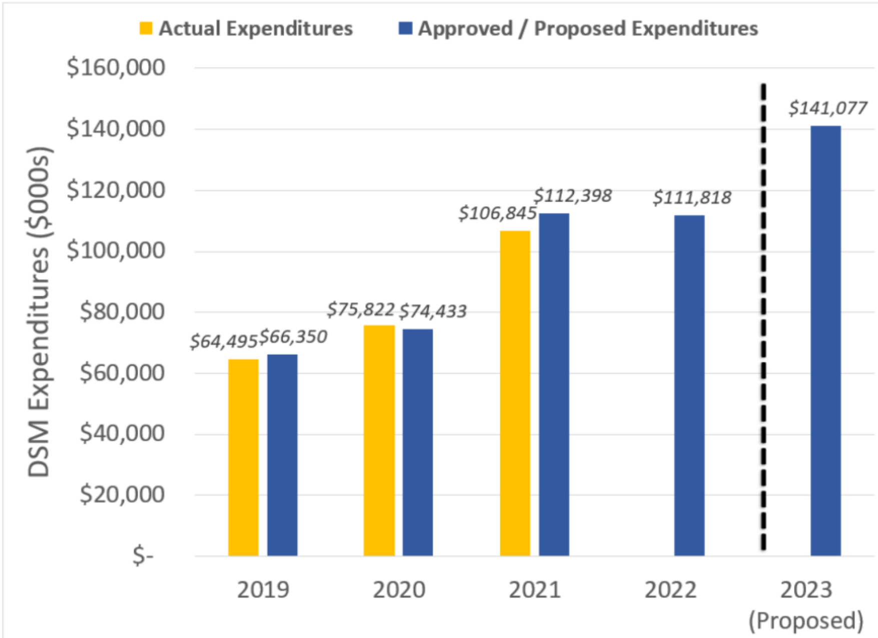
[66] Exhibit B-3, BCOAPO IR1 10.5.

[67] Exhibit B-1, Application, p. 31.

[68] Exhibit B-1, Application, Table 4-1 (p. 14).

[69] Exhibit B-1, Application, p. 31.

Figure 4-1: FEI Annual Total DSM Expenditures 2019 to 2022[9]



68. Given FEI's historical expenditures as illustrated above, FEI's requested increase to the amount recorded in the rate base account is reasonable and aligns with the rationale in prior BCUC decisions.[70] FEI will continue to account for the difference between the proposed rate base account limit of $60 million and actual/projected expenditure levels in FEI's non-rate base DSM Deferral account, attracting a weighted average cost of capital (WACC) return. By more closely aligning the amount forecast in the rate base DSM Deferral account each year with FEI's actual DSM expenditures, it will reduce the financing costs that are separately recorded in the non-rate base deferral account while ensuring that customers continue to pay only for DSM Plan expenditures that are ultimately spent.[71]

69. As part of Order G-283-22, the BCUC requested that FEI address in its argument its reasons for applying for this approval in the context of an application for acceptance of a DSM expenditure schedule for only one year. In response to this request, FEI notes that the amount included in the rate base DSM Deferral account is an annual amount and therefore applies just as much to a one-year DSM expenditure schedule as it would to a multi-year schedule. As

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70 Decision and Order G-10-19, p. 19. Online: https://www.ordersdecisions.bcuc.com/bcuc/orders/en/361056/1/document.do.

71 Exhibit B-1, Application, p. 31.

described above, given FEI's increased DSM expenditures, moving the amount from $30 million to $60 million is warranted at this time.

Part Five: DEFERRAL ACCOUNT TO CAPTURE REGULATORY COSTS IS ACCEPTED REGULATORY PRACTICE

70. Consistent with past practice,[72] FEI is also seeking approval of a rate base[73] deferral account to capture the regulatory costs associated with the review of this Application. FEI proposes to amortize the costs over one year starting in 2023 to match the time period that the DSM Plan will be in place.[74] It is accepted regulatory practice to defer the costs of regulatory applications for review and recovery following the regulatory review of the application itself.[75] Consideration of the factors set out in the BCUC's checklist for regulatory accounts, as FEI has provided in response to BCUC IR1 17.4, supports approval of the regulatory account.[76]

PART SIX: CONCLUSION

71. FEI submits that the BCUC should accept the 2023 DSM Plan pursuant to section 44.2 the UCA, and approve FEI's proposed changes to the transfer funding rules, an increase to the

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72 Exhibit B-2, BCUC IR1 17.1; see also Exhibit B-3, BCOAPO IR1 10.7 and 10.8.

73 Rate base deferral accounts are included in rate base, and therefore, are implicitly financed using the weighted average cost of capital (WACC). If FEI had proposed a non-rate base deferral account, it would have requested the account be financed with a WACC return. Therefore, there would be no difference in the proposed carrying costs between a rate base and non-rate base deferral account. (Exhibit B-2, BCUC IR1 17.1.1.)

74 Exhibit B-1, Application, p. 31.

75 Exhibit B-2, BCUC IR1 17.2.

76 Exhibit B-2, BCUC IR1 17.3.

amount included in the DSM Deferral Account and a new deferral account to capture the costs of this regulatory proceeding. A Draft Order sought is included in Appendix C.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated:	November 1, 2022	***[original signed by Chris Bystrom]***
		Christopher R. Bystrom
		Counsel for FortisBC Energy Inc.
	November 1, 2022	***[original signed by Niall Rand]***
		Niall Rand
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