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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-163-12**

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

and

An Application by FortisBC Inc. and FortisBC Energy Inc.
For Approval to Implement an On-Bill Financing Two-Year Pilot Program
in the South Okanagan Area Effective November 1, 2012

BEFORE: L.F. Kelsey, Commissioner October 30, 2012

O R D E R

WHEREAS:

- A. The *Clean Energy Act*, section 17.1, requires prescribed public utilities to offer financing to eligible persons for improving the energy efficiency of a building, or part of a building. FortisBC Inc. (FBC), FortisBC Energy Inc. (FEI) and British Columbia Hydro and Power Authority (BC Hydro), are prescribed public utilities for the purposes of section 17.1 of the *Clean Energy Act*;
- B. Section 17.1 (3) of the *Clean Energy Act* states that a prescribed public utility may establish, in accordance with the prescribed requirements, if any, the criteria, terms and conditions on which offers under the program are to be made;
- C. On July 24, 2012, the Improvement Financing Regulation was issued and subsequently amended on September 13, 2012 (Regulation), providing further requirements and prescriptions for the financing program to be established by a prescribed public utility. The Regulation specified the scope and certain terms and conditions of the home improvement financing FortisBC Inc. and FortisBC Energy Inc. (collectively, FortisBC) must offer to eligible persons in the Regional District of Okanagan-Similkameen, British Columbia for a two-year period beginning November 1, 2012;
- D. On October 1, 2012, BC Hydro filed the Power Smart Home Loan Pilot Program Application pursuant to the *Clean Energy Act*, section 17.1(9) and sections 58 to 61 of the *Utilities Commission Act*;
- E. On October 5, 2012, FortisBC applied for approval, pursuant to the *Clean Energy Act*, section 17.1(9) and sections 58 to 61 of the *Utilities Commission Act*, of:
 - 1) amendments to FBC General Terms and Conditions and Rate Schedules;
 - 2) approval of three new non-rate base deferral accounts attracting Allowance for Funds Used During Construction (AFUDC) for FBC;

- 3) amendments to FEI's General Terms and Conditions; and
 - 4) approval of two new non-rate base deferral accounts, attracting AFUDC, and amendment to one existing Energy Efficiency and Conservation (EEC) deferral account for FEI.
- F. The FortisBC pilot program differs from BC Hydro's pilot program in terms of scope and utility financing arrangements;
- G. On October 15, 2012, the British Columbia Utilities Commission (Commission) issued Information Requests to FortisBC and a request to stakeholders for comments on the Application. The Commission requested that stakeholders specifically consider the elements of the program that are prescribed by the *Act* and the Regulation and those which are subject to the discretion of FortisBC;
- H. Comments were received from the British Columbia Pensioners' and Seniors' Organization and Mr. Alan Wait;
- I. The Commission has considered the evidence and submissions of the parties; and
- J. The Commission considers that the FortisBC On-Bill Financing Two-Year Pilot Program complies with the section 17.1(2) of the *Clean Energy Act* and the Regulation. The Commission considers that differences between the FortisBC and BC Hydro pilot programs are advantageous in providing an opportunity for an enriched assessment of the pilot programs.

NOW THEREFORE the Commission orders as follows:

1. The On-Bill Financing Pilot Program, as applied for by FortisBC, is approved effective November 1, 2012, for a two-year period, ending November 1, 2014.
2. The accounting treatment requested in the Application, related to deferral accounts, is not granted.
3. FBC is approved to establish two new non-rate base deferral accounts:
 - (i) DSM Deferral Account: a new non-rate base DSM deferral account attracting AFUDC, to capture, on a net-of-tax basis: the OBF Pilot Program costs including any regulatory application costs, the interest rate buy-down adjustment to be recovered from all customers, and loan defaults and bad debts not captured by the Loan Loss Reserve Fund. Effective January 1, 2015, this account is approved to be transferred into rate base with an amortization period of 10 years beginning on January 1, 2015, for recovery from all customers; and

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- (ii) OBF Financing Deferral Account: a new non-rate base deferral account attracting AFUDC, to capture, on a net-of-tax basis, the principal loan balances provided to participating customers of the OBF Pilot Program and the applicable interest charges and recoveries.
4. FEI is approved to amend an existing EEC deferral account and establish a new non-rate base deferral account:
- (i) EEC Deferral Account: amending the existing EEC non-rate base deferral account to capture, on a net-of-tax basis: the OBF Pilot Program costs including any regulatory application costs, the interest rate buy-down adjustment to be recovered from all customers, and loan defaults and bad debts not captured by the Loan Loss Reserve Fund;
 - (ii) OBF Financing Deferral Account: a new non-rate base deferral account attracting AFUDC, to capture, on a net-of-tax basis, the principal loan balances provided to participating customers of the OBF Pilot Program and the applicable interest charges and recoveries.
5. Approval of Tariff amendments to the General Terms and Conditions and Rate Schedules for FBC and approval of proposed amendments to the FEI General Terms and Conditions, as outlined in section 4 of the Application and Appendix G, are both granted effective November 1, 2012.
6. The Commission will accept, subject to timely filing, the amended Tariff General Terms and Conditions and Rate Schedule.

DATED at the City of Vancouver, in the Province of British Columbia, this 30th day of October 2012.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

Attachment

Application by FortisBC Inc. and FortisBC Energy Inc.
for Approval to Implement an On-Bill Financing Two-Year Pilot Program in the South Okanagan Area

REASONS FOR DECISION

On October 5, 2012, FortisBC Inc. and FortisBC Energy Inc (collectively FortisBC) applied to the British Columbia Utilities Commission (Commission) for approval of their joint pilot program to offer energy efficiency improvement financing.

BACKGROUND

An energy efficiency improvement financing program is required by section 17.1(2) of the *Clean Energy Act (Act)* and the Improvement Financing Regulation (Ministerial Orders No. M 163 and M 191). This Act and Regulation require British Columbia Hydro and Power Authority (BC Hydro), FortisBC Inc. (FBC) and FortisBC Energy Inc. (FEI) to offer financing to specific customers for energy efficiency improvements within a class of prescribed improvements from November 1, 2012 to November 1, 2014. The Regulation requires BC Hydro to offer the program in the City of Colwood and FortisBC to offer the program in the Regional District of Okanagan - Similkameen.

To fulfill the requirements of the Act and the Regulation, FortisBC have applied for approval of:

- i. amendments to FBC General Terms and Conditions and Rate Schedules;
- ii. approval of three new non-rate base deferral accounts attracting Allowance for Funds Used During Construction (AFUDC) for FBC;
- iii. amendments to FEI's General Terms and Conditions; and
- iv. approval of two new non-rate base deferral accounts, attracting AFUDC, and amendment to one existing Energy Efficiency and Conservation (EEC) deferral account for FEI.

BC Hydro has also applied for approval of a Power Smart Home Loan Pilot Program in the City of Colwood. The BC Hydro program differs from FortisBC's pilot program in terms of scope and financing arrangements.

REVIEW PROCESS

On October 15, 2012, the Commission notified all registered interveners in the FBC and FEI Revenue Requirements Proceedings of the pilot program Application. Comments were requested by October 23, 2012.

Comments were received from Mr. Alan Wait and the British Columbia Pensioners' and Seniors' Organization (BCPSO). BCPSO submit that the Commission should seek further clarification and/or rationale from FortisBC on various aspects of the pilot, including: treatment of recent home owners; whether the application fee applies to non-eligible customers; when the administration fee will apply; whether there should be a lower fee administration fee where a Land Title Certificate is provided by the customer; the purpose and possible outcomes of the right to inspect the work for up to 36 months after completion; the minimum and maximum amounts of financing available; the order of treatment for payments received; FortisBC right of approval for transfer of the agreement upon sale; and how loans will be allocated in cases of fuel switching. (Exhibit C1-1)

COMMISSION DETERMINATION

The Commission approves the On-Bill Financing Pilot Program as applied for by FortisBC, including:

- (i) amendments to FBC General Terms and Conditions and Rate Schedules; and
- (ii) amendments to FEI's General Terms and Conditions.

The Commission approves the following deferral accounts:

- (iii) creation of two deferral accounts, the FBC and the FEI OBF Financing Deferral Accounts, to capture the principal loan balances provided to participating customers of the OBF Pilot Program and the applicable interest charges and recoveries; and
- (iv) creation of one deferral account, the FBC DSM Deferral Account, and an expansion of the FEI EEC Deferral Account, to capture the OBF Pilot Program costs, including any regulatory application costs, and the interest rate buy-down adjustment and unrecoverable loan defaults and bad debt costs. Effective January 15, 2015, the FBC DSM Deferral Account will be transferred into rate base with an amortization period of ten years beginning January 1, 2015, for recovery from all customers.

The Commission finds that the OBF Pilot Program, as applied-for by FortisBC, meets the requirements of the Regulation.

Certain elements of the pilot program, including the recovery of costs related to the program and the financing arrangements, are not defined by the Regulation and were designed at the discretion of FortisBC. Regarding the recovery of costs, the Commission considers that the pilot program is a Demand Side Management (DSM) program as defined in the *Clean Energy Act*. The Commission therefore considers that the costs to run the program - administration costs, regulatory costs, interest rate buy-down, unrecoverable loan defaults and bad debt costs - should be recovered in the same manner as DSM (by adding the costs to rate base and amortizing the amount over ten years).

In its Application FortisBC requested the creation of two deferral accounts for FBC and for FEI one new deferral account and an expansion of an existing deferral account, for the costs listed in the paragraph above. The Commission does not see a need to separate these costs and thus for simplicity, approves one new deferral account for FBC and an expansion of an existing deferral account for FEI for all the costs listed.

Regarding the interest rate buy-down, FortisBC submit that loans provided under this program are "akin to investment in fixed assets or EEC or DSM programs" and so propose that the cost of financing these loans is set at their allowed return on rate base, forecast by FortisBC to be approximately 6.6% and 6.8 % for FBC and FEI respectively, for the term of the pilot program. (BCUC IR 2.1, 2.2)

This approach contrasts with BC Hydro's Power Smart Home Loan Pilot Program Application, which uses an incremental financing approach to determine the utility cost of financing loans under the pilot. BC Hydro states in its application that the interest charged on the loan amounts under its financing agreements is expected to approximately recover BC Hydro's cost of borrowing the money to fund the loan.

The Commission approves FortisBC's request to use their allowed return on rate base to determine the cost of financing loans under this pilot program. The Commission considers that this difference between how BC Hydro and FortisBC finance the pilot program loans could provide useful feedback in determining whether and how the utilities should undertake future energy efficiency improvement financing programs.

BCPSO has commented on various aspects of the pilot program design. The Commission notes that this pilot is a prescribed program under the *Act*, and considers that FortisBC should be provided a certain amount of flexibility in designing the pilot provided the requirements of the *Act* and Regulation are met. The Commission agrees with FortisBC that the pilot program meets the requirements of the *Act* and the Regulation; however, FortisBC is encouraged to consider the comments of BCPSO when evaluating the pilot.

BCPSO also argue that the Terms and Conditions should make reference to the overall cap the Regulation sets for the program. The Commission considers that tariff provisions stating that FortisBC may terminate the On-Bill Financing Pilot Program at any time and without notice provide FortisBC with sufficient flexibility to comply with the program cap. (Sheet 43D of the FBC Tariff, and Section 15A.14 of the FEI General Terms and Conditions)