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January 30, 2019

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 Energy Inc. (FEI)**

**Application for Approval of a Change to the System Extension Fund Pilot Program (the Application)**

**FEI Reply to Stakeholder Comments**

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FEI applied on October 15, 2018 for approval of a change to the System Extension Fund (SEF) pilot program funding rules to allow the SEF to fund 100 percent of the Contribution in Aid of Construction (CIAC) to a maximum of \$10 thousand per customer (Application).

The British Columbia Utilities Commission (BCUC) invited comments on the Application in its letter of December 13, 2018. The British Columbia Public Interest Advocacy Centre representing British Columbia Old Age Pensioners Organization *et al.* (BCOAPO) was the only party to file any comments. FEI provides the following comments in response to BCOAPO.

### **One Million Dollar Fund Already Approved as Being in the Public Interest**

Many of BCOAPO's comments tend to reargue the merits of the SEF as previously approved by the BCUC. As FEI submitted in the 2015 proceeding which approved the pilot fund, the SEF helps eligible customers defray the upfront CIAC required in order to proceed with a main extension. The public interest rationale is to provide customers who are further away from the system or are in less densely populated areas with more equitable access to natural gas service. Conversion customers (i.e., those switching from one fuel to another in a pre-existing home) are most likely to access the SEF. Given that new customers residing in lower density areas will likely have a higher CIAC than those in urban areas, the SEF will

promote the equitable treatment of new customers in lower density areas and new customers in urban areas.

When it approved the SEF pilot program, the BCUC determined that the fund would give communities access to alternative energy options, benefit ratepayers due to increased throughput, would allow some customers to connect that otherwise would not, and would not impose an excessive burden on FEI ratepayers.<sup>1</sup>

Contrary to BCOAPO's argument (at page 8) regarding FEI's incentives, FEI's Application is aimed at increasing the use of the SEF, not increasing rate base. The BCUC already approved the \$1 million SEF amount, stating: "*The System Extension Fund is capped at \$1.0 million per year, to be recovered through natural gas delivery rates of non-bypass customers and included in rate base each year as an offset to contributions in aid of construction.*"<sup>2</sup> FEI is not proposing to increase this amount, but proposing a change so that the fund can be fully used for its intended purpose, which the BCUC has already approved as being in the public interest.

Using the approved SEF amount to fund more of the CIAC will mean that more customers will be assisted by the program, and that all customers attaching to an affected main will pay the same amount to connect. This will result in more equitable access to the natural gas system, enhance the potential for additional customer attachments, and improve the economics of affected mains.

### **Aligning the SEF Pilot with the Contributory Model Would Likely Reduce Participation**

BCOAPO's suggestion (at page 3) that it would be better to align the SEF pilot with the contributory model would likely reduce participation in the program.

Under the current funding rules, participants in the SEF program pay the CIAC, and then all other "on main" homeowners may connect by paying the standard \$15 Application Fee (i.e., with no CIAC). Based on the \$15 connection fee, FEI can reasonably forecast that approximately 40 to 60 percent of neighboring "on main" homeowners will connect to the new main within the first five years of it being installed. The forecast revenues from these connections reduce the CIAC amount required by the participant under the main extension test (MX Test). Thus, while the SEF participant does not benefit from contributions from future "on main" homeowners, the CIAC paid by the participant is reduced due to the increased revenues forecast over the contributory period.

If, as BCOAPO suggests, the CIAC paid by SEF program participants were aligned with the contributory model, "on main" homeowners who wished to connect would have to pay their share of the CIAC, rather than just the standard \$15 Application Fee. Increasing the cost of connection by hundreds or thousands of dollars will deter many neighbours from connecting to the gas system. FEI would, therefore, need to forecast fewer customer additions and less revenue over the 5-year contributory period in the MX Test. This would increase the amount

<sup>1</sup> BCUC Decision on FEI's 2015 System Extension Application, page 51. Online: [https://www.bcuc.com/Documents/Proceedings/2016/DOC\\_47597\\_09-16-2016\\_FEI\\_2015-System-Extension\\_Decision.pdf](https://www.bcuc.com/Documents/Proceedings/2016/DOC_47597_09-16-2016_FEI_2015-System-Extension_Decision.pdf).

<sup>2</sup> BCUC Decision on FEI's 2015 System Extension Application, page 50.

of the CIAC required of the SEF participant, since there is less forecast revenue on the main to offset the cost of the main. As a result, all potential customers are presented with higher costs to connect to the system, thereby reducing the likelihood that anyone will choose to proceed with a connection.

For these reasons, it would not be beneficial to align the SEF pilot with the contributory model.

### **Pilots are Subject to Change Based on Experience with the Program**

With the SEF funding 100 percent of the CIAC (up to the \$10 thousand maximum proposed), FEI's proposal would result in all potential customers paying an equal amount to connect to the main. BCOAPO's position (at page 4) is that this would be unfair to previous participants who paid 50 percent of the CIAC. However, SEF program participants to date have participated under the BCUC-approved funding rules, and so have been treated fairly. The SEF program was approved as a pilot, which by its nature is subject to change based on experienced gained during the pilot. FEI stated in the 2015 System Extension Application proceeding<sup>3</sup> that it would request changes to the SEF during the pilot period if there was an opportunity to improve its performance. Even if the SEF were not a pilot, the BCUC has the jurisdiction to approve changes to FEI's programs.

There is also no basis for the BCOAPO's speculation (at page 4) that changing the pilot may dampen the public's willingness in the future to participate in partially funded programs in hopes of more funding later. It is unclear what other programs BCOAPO is referring to, and it is highly unlikely that this would ever occur, especially given the low number of participants compared to FEI's total customer base. In any case, this is not a relevant consideration – the BCUC should be focused on determining whether the proposal will improve the SEF program.

Similarly, there is no basis for BCOAPO's comment (at page 5) that some non-participants may be waiting for the SEF to be improved before participating. Potential participants could not have been aware of FEI's proposed change until FEI filed the Application in late 2018. Even if some non-participants are waiting for the program to be improved, this indicates that they are unwilling to participate based on the existing funding rules, which is the key issue that FEI is seeking to address.

### **Fully Funding the CIAC would Overcome Financial Barriers to Participation**

In reply to BCOAPO's position (at pages 4-5 and 7) that participants should be required to demonstrate a financial need (i.e., low income), the public interest rationale for the SEF was targeted at all eligible customers, regardless of income. The eligibility requirements of the SEF as approved by the BCUC, therefore, do not include demonstration of financial need.

The evidence shows that some prospective customers are not willing to pay 50 percent of the CIAC to connect to the system. FEI's proposal to fund 100 percent of the CIAC would

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<sup>3</sup> See FEI's response to BCUC IR 1.15.3.

remove this financial barrier and, therefore, allow more customers to connect that otherwise would not, which would realize the intended benefits of the program.

Although the SEF does not specifically target low income customers, the Fund has the potential to benefit people with low incomes. Access to natural gas is seen by some stakeholders to be one way to manage heating costs. With access to the SEF, the CIAC contribution (if required) is reduced. With greater access to natural gas service, the customer may also see the potential for a lower utility bill.

### **Fully Funding the CIAC would Increase Participation in and Benefits of the Program**

Contrary to BCOAPO's discussion at pages 5 and 6 of its letter, FEI's proposal will increase participation in the SEF, resulting in increased benefits of the program.

Because the SEF pilot program was limited to \$1 million, FEI recognized the possibility that not all subscribers could be assisted in a given year. For this reason, FEI prioritizes applications with a higher Profitability Index (PI) under the MX Test. As the PI score is inversely related to the CIAC, lower CIAC projects are prioritized for funding first. For this reason, higher CIAC projects would not displace lower CIAC projects as BCOAPO suggests.

Based on FEI's proposed change to the funding rules, participation in the SEF pilot program would have been greater in both 2017 and 2018:

- In 2017, FEI had 218 participants who received a total contribution of \$265,950. If FEI's proposed 100 percent contribution had been in effect in 2017, the SEF would have awarded a total of \$489,850<sup>4</sup> to those who participated and there would have been \$510,150 available to those who rejected the 50 percent offer. Applying the proposed 100 percent funding rule to the homeowners who rejected the offer returns an average SEF contribution of \$6,835 for this group. Based on these numbers, under the proposed update, the SEF could have assisted approximately 75 ( $\$510,150 / \$6,835$ ) additional participants.
- In 2018, FEI had 167 participants who received a total contribution of \$392,715. If FEI's proposed 100 percent contribution had been in effect in 2018, the program would not have awarded \$785,430 to the 167 participating homeowners, as suggested by the BCOAPO. Since the maximum funding limit remains \$10 thousand per participant, not all previous participants would have seen their contributions doubled as indicated in BCOAPO's discussion. Some would have been limited by the \$10 thousand maximum. Taking this into account, the SEF would have awarded \$694,485 and there would be \$305,515 left in the SEF after paying the contribution to these participants. Applying the proposed 100 percent funding rule to the homeowners who rejected the offer returns an average SEF contribution of \$6,965 for this group. Based on these numbers, under the proposed update, the SEF could have assisted approximately 44 ( $\$305,515 / \$6,965$ ) additional participants.

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<sup>4</sup> Since the maximum funding limit remains \$10 thousand per participant, not all previous participants would have seen their contributions doubled as indicated in BCOAPO's discussion. Some would have been limited by the \$10 thousand maximum.

It is important to note that all other “on main” residents, in addition to each SEF participant, would have been able to attach to the system for a \$15 connection charge, increasing the likelihood of connection.

FEI proposal would, therefore, allow more residents to attach to the system that otherwise would not. This would fulfill the purpose of the SEF, and increase the benefits from the program.

### **Increasing the Maximum Funding Amount would Not Address the Identified Issue**

BCOAPO states (at page 7) that increasing the maximum funding above \$10 thousand would also reduce the financial barrier for potential participants. However, 80 to 85 percent of CIACs do not exceed \$10 thousand and the average funding rejected is approximately \$4,400. Therefore, making the maximum higher would not improve the vast majority of the offers that customers have declined to date.

Further to Order G-147-16, FEI will continue to monitor the program and will come forward with proposals for change, including to the maximum funding amount, if FEI believes they are warranted.

### **Increasing the Contribution to 100 Percent is in the Public Interest**

FEI’s proposal to adjust the SEF funding rules to allow funding of 100 percent of the CIAC (up to a maximum of \$10 thousand per customer) is in the public interest:

- Paying 100 percent of the CIAC most effectively overcomes the financial barrier presented by a CIAC and will increase participation in the program. Increased participation will more fully utilize the SEF for its intended purpose and increase the benefits of the program.
- With the SEF paying 100 percent of the CIAC, all potential customers who may connect to the new main extension are provided equal support and access to natural gas. The first customer connecting to the main is not forced to pay more than their neighbours.
- By paying 100 percent of the CIAC, it is more likely that additional homeowners will choose to connect to the natural gas system within the first five years. FEI can more reasonably forecast future customer additions to any new main, which would be reflected in the MX Test, reducing the CIAC, and ensuring more equitable and fair access to natural gas for customers.

FEI, therefore, requests that the Application be approved as filed.

If further information is required, please contact Jason Wolfe, Director, Energy Solutions at 604-592-7516.

Sincerely,

**FORTISBC ENERGY INC.**

***Original signed:***

Doug Slater

cc (email only): BCOAPO