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September 24, 2020

British Columbia Public Interest Advocacy Centre  
Suite 803 470 Granville Street  
Vancouver, B.C.  
V6C 1V5

Attention: Ms. Leigha Worth, Executive Director

Dear Ms. Worth:

**Re: FortisBC Energy Inc. (FEI)**

**Project No. 1599112**

**System Extension Fund (SEF) Pilot Program Compliance Filing and Application for Approval of the SEF on a Permanent Basis (the Application)**

**Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, Together Against Poverty Society, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO) Information Request (IR) No. 1**

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On June 29, 2020, FEI filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-198-20 setting out the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCOAPO IR No. 1. The IR responses reflect the evidentiary update filed concurrently with these responses.

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

Sincerely,

**FORTISBC ENERGY INC.**

***Original signed:***

Diane Roy

Attachments

cc (email only): Commission Secretary  
Registered Parties



FortisBC Energy Inc. (FEI or the Company) System Extension Fund (SEF) Pilot Program Compliance Filing and Application for Approval of the SEF on Permanent Basis (Application)	Submission Date: September 24, 2020
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1   **1.0   Reference:   Exhibit B-1, page 5 and Exhibit A-3, BCUC IR1 3.0 series, BCUC IR1**  
2                               **6.0 Preamble, 6.1 and 6.1.1:**

3                    On page 5 of the Application, FEI states:

4                               There are two aspects of the SEF pilot program results which FEI believes can  
5                               be improved. First, even though many homeowners qualified for the SEF, a large  
6                               number still declined to proceed with their connection due to cost. Second, as a  
7                               result of homeowners declining to proceed with their main extension, not all of  
8                               the available \$1 million funding for the SEF pilot program has been used or  
9                               disbursed to eligible customers, even though the financial assistance has been  
10                              available...The primary reason given by homeowners who declined to proceed  
11                              was that even with financial assistance from the SEF toward reducing their  
12                              required contribution, the remaining required CIAC was still too expensive.  
13                              [Emphasis Added]

14                    1.1   Does FEI have any insight in respect of whether potential SEF participants who  
15                               chose not to participate in the SEF program because the “required CIAC was still  
16                               too expensive” declined due to (i) connection being not financially feasible (i.e.,  
17                               they were unable to afford even a reduced CIAC contribution under the SEF  
18                               program) or (ii) the program was financially feasible but they chose not to  
19                               participate i.e., though it was affordable, what was on offer was not good enough  
20                               to induce them to participate? Please provide any details available.

21  
22   **Response:**

23   FEI does not have visibility into whether potential SEF participants who chose not to participate  
24   in the SEF program did so because it was not financially feasible for them to pay the CIAC cost  
25   even with the SEF program contribution (versus being able to afford the cost but were not able  
26   to rationalize or justify the cost because the SEF program contribution was not enough to induce  
27   them to participate).

28   However all potential SEF participants who chose not to participate in the SEF program stated  
29   they declined due to the cost to connect to the gas system being too high. Please refer to BCUC  
30   IR1 6.1 and 1 6.1.1 for more details on the costs faced by homeowners who declined the SEF  
31   offer.

32   The central purpose of the SEF is to create greater equity among all potential customers  
33   wishing to connect to natural gas, rather than being a program to address an individual  
34   customer’s financial circumstances. The SEF program promotes equity by helping to reduce  
35   the cost for those potential customers who are required to pay a CIAC to connect to gas, as  
36   opposed to most residential customers who are able to access gas without paying any



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1 contribution. Please refer to the response to CEC IR1 5.1 for a discussion on the rate setting  
2 principles supporting this approach.

3  
4

5

6 1.2 Does FEI believe that, other things equal, a residence connected to a natural gas  
7 distribution system is more desirable and has a higher market value than one  
8 that is not connected to the system?

9

10 **Response:**

11 FEI's perspective is that natural gas service is a desirable characteristic in a residence because  
12 it provides additional energy and appliance options, which some customers would consider are  
13 of value and benefit. Customer feedback supports this view. Thus, FEI expects that access to  
14 different forms of energy is a consideration for many prospective homebuyers. However, it is  
15 difficult to ascertain whether, or the extent to which, this translates into a higher market value.  
16 The market value of a home is influenced by many factors, including market conditions and the  
17 values, attitudes and beliefs of individual homebuyers. Potential homebuyers consider many  
18 attributes when purchasing a home and prioritize based on individual circumstances.

19

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22 1.3 Did the issue of it being a positive attribute for a home to be connected to the  
23 system – hence a benefit capitalized in the increased value of the home to the  
24 benefit of the owner – ever arise in communications to or from potential SEF  
25 participants? If so, please provide details; if not, why wouldn't FEI mention this  
26 as a "selling point" for the program in order to increase participation?

27

28 **Response:**

29 As discussed in the response to BCOAPO IR1 1.2, the form of energy a residence has access  
30 to may be one of many other factors or features homebuyers will consider and prioritize when in  
31 the market for a home purchase, but it would be very difficult to determine whether it translates  
32 into increased market value. A potential customer who contacts FEI about connecting to the  
33 natural gas system is likely to proceed if the total cost (including any required customer  
34 contributions for a main extension and offsetting SEF funding) meets their requirements. FEI  
35 responds to potential customer questions with factual information and believes it is appropriate  
36 and more consistent with fair marketing practices to avoid implying a positive impact on the  
37 value of their home based on speculation.



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1.4 FEI has interpreted the fact that less than the total fund available, \$1M annually, was taken up by potential customers in their service area indicates that the deal should be sweetened by increasing the CIAC subsidy up to 95% with a maximum of \$10K to subsidize any home that wants to connect: would it not equally be possible that the original program parameters were fine but it turned out that \$1M per year was too much to allocate to the program? Please explain why FEI believes that the former interpretation is the appropriate interpretation.

**Response:**

Please refer to the response to CEC IR1 7.4.

1.5 Did FEI consider a proportionate CIAC subsidy when a specific percentage of SEF assistance would depend on the actual amount of the required CIAC (e.g. if the total CIAC is under \$4,000, the subsidy would be 50%, whereas if the total CIAC is under 6,000, the subsidy would be 70% etc.)?

1.5.1 If yes, explain why FEI ruled out this approach?

1.5.2 If no, please explain why not.

**Response:**

Please refer to the responses to BCUC IR1 7.2 and 7.4 for a discussion on the various approaches FEI considered to improve the overall success of the SEF program. The specific approach described in the question was not among the approaches considered for the reasons discussed in the response to BCUC IR1 7.2.



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1   **2.0   Reference:   Exhibit B-1, page 5 and Table 2**

2           The referenced page states:

3                   In Summary, FEI believes that the SEF has provided value to customers by  
4                   reducing the financial barrier for homeowners facing high costs to connect to the  
5                   natural gas system and thereby creating greater equity among potential and new  
6                   customers in higher and lower density areas of FEI's service territory while also  
7                   contributing to the benefit of all FEI customers resulting from increased  
8                   throughput. [Emphasis added.]

9           2.1   Does the increased throughput generally also provide a financial benefit to the  
10           shareholder also? If not, please explain why not.

11  
12   **Response:**

13   No, the shareholder does not financially benefit from increased throughput or the associated  
14   revenue. The shareholder has an opportunity to earn a return on its equity investment in the  
15   capital required for the assets to connect a new customer to the system (main extension  
16   installation). Increased throughput results in increased revenue which can put downward  
17   pressure on rates for customers.

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21           2.2   Please confirm that, neither under the pilot program nor under the instant  
22           proposal, does the shareholder provide any financial support to the SEF  
23           program. If unable to so confirm, please explain.

24

25   **Response:**

26   The SEF funding is recovered in customer rates.

27   FEI's shareholder, in combination with issuers of FEI's debt, provide the capital to add new  
28   customers.<sup>1</sup> In the case where a contribution (CIAC) from a new customer is lower due to the  
29   application of the SEF, FEI's shareholder (and debtors) must provide the offsetting capital to  
30   connect the customer. The capital provided by FEI's shareholder (and debtors) are included in  
31   rate base and attract the approved rate of return. While this is not direct financial support for the  
32   SEF, it is the mechanism by which customers are connected to FEI's natural gas system.

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<sup>1</sup> FEI's shareholder provides 38.5 percent of the capital to add new customers.

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1           2.3     Can FEI confirm that the portion of the capital expenditures funded by the SEF  
 2                   does not get rolled into rate base and does not attract any RoE or debt financing  
 3                   charges?  
 4

5     **Response:**

6     Please refer to the response to BCOAPO IR1 2.2.  
 7  
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9  
 10           2.4     For each year shown in Table 2, please provide the lowest, highest, mean,  
 11                   standard deviation, and median CIAC contributed by a participant and the lowest,  
 12                   highest, mean, standard deviation, and median SEF enjoyed by a participant.  
 13

14     **Response:**

15     The following table provides the summary for 2017 to 2019:  
 16

**Table 1: CIAC Contributed by SEF Participants**

Year	Lowest (\$)	Highest (\$)	Mean (\$)	Median (\$)
2017	143	14,499	1,253	373
2018	71	22,112	2,490	1,621
2019	127	62,829	2,374	1,098

17  
 18     Note: In Table 1 the CIAC Contributed by the SEF Participants refers to the residual portion of  
 19     the CIAC paid for by the participants after the SEF funding assistance has been accounted for.  
 20

**Table 2: SEF Funding Provided to Participants**

Year	Lowest (\$)	Highest (\$)	Mean (\$)	Median (\$)
2017	143	10,000	1,226	373
2018	71	10,000	2,352	1,621
2019	127	10,000	2,010	1,098

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1   **3.0   Reference:   Exhibit A-3, BCUC IR1.2.1, Postage Stamp Rates**

2           3.1    Please provide FEI's understanding as to the concept of postage stamp rates:

3                   Does FEI consider that equal mains extension/service connection charges for all  
4                   customers in its service area constitute postage stamp rates, or is the postage  
5                   stamp rate concept limited to equal delivery rates and fixed monthly charges?

6                   Or, would FEI define the term differently?  
7

8    **Response:**

9    The concept of a postage stamp rate, otherwise known as a common or harmonized rate,  
10   generally refers to a rate that is set without regard to differences in cost of service due to  
11   location, similar to a single "postage stamp" price for delivery of mail to any location. With the  
12   exception of FEI's Fort Nelson Service Area, FEI charges the same delivery rates throughout its  
13   service territory, despite differing costs of service – a common approach in the utility industry.

14   The concept of a postage stamp rate could be applied to any rate. For example, it would be  
15   possible to have a postage stamp extension or service connection charge, according to which  
16   all customers, regardless of location, would be charged the same amount for a connection.  
17   Under that model, someone requesting a relatively low cost connection would pay more than  
18   would be suggested by the true cost, while a higher cost connection would be provided at below  
19   the true cost.

20   FEI's SEF mitigates some of the difference in costs due to location and is, therefore, consistent  
21   with the principle of postage rates that underlies FEI's approved delivery rates, although it does  
22   not result in a postage stamp rate per se.

23