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

Attention: Ms. Marija Tresoglavic, Acting Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. Application for Approval of the System Extension Fund on a Permanent Basis ~ Project No. 1599112

We enclose for filing in the above proceeding the Reply Submissions of FortisBC Energy Inc., dated October 27, 2020.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

Matthew Ghikas
Personal Law Corporation

MTG/jj
Enclosures

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF

THE UTILITIES COMMISSION ACT

RSBC 1996, CHAPTER 473

and

FORTISBC ENERGY INC.

APPLICATION FOR APPROVAL OF THE SYSTEM EXTENSION FUND ON A PERMANENT BASIS

Final Submissions of FortisBC Energy Inc.

October 27, 2020

FASKEN MARTINEAU DuMOULIN LLP
Matthew Ghikas
Legal counsel for FortisBC Energy Inc.

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A. INTRODUCTION

1. Among the interveners, BCOAPO sees the value in the System Extension Fund ("SEF") program. CEC also supports continuing the SEF, despite the fact that its own constituents are ineligible. Only BCSEA opposes the SEF in principle.

2. These Reply Submissions answer the key issues raised by interveners, avoiding repeating FEI's Final Submissions.[1] Specifically:

- In response to BCSEA, the SEF is achieving its purpose and should be continued. (Section B)

- There is evidence and a compelling policy rationale to support the proposed 95 percent funding level. (Section C)

B. THE SEF PROGRAM ACHIEVES ITS OBJECTIVES

3. BCOAPO[2] and the CEC[3] support continuing the SEF; their focus is on the funding percentage, which FEI addresses in Section C below. BCSEA opposes the SEF in principle, maintaining that "the evidence does not establish that continuation of the SEF would (a) reduce net greenhouse gas emissions in BC, (b) benefit overall customers through increased throughput, or (c) provide material economic and social benefits to remote communities."[4] BCSEA's argument misses the mark for several reasons.

(a) The Objective is Equitable Treatment of Customers

4. First and foremost, BCSEA's argument is overlooking that the fundamental objective of the SEF is "to promote equity as between new customers in the more developed portions of the Company's service area and customers that are located in areas further from existing mains."[5] FEI has articulated in its Final Submissions[6] how this objective aligned with the

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1 FEI has refrained from a line-by-line response, such that its silence should not be construed as agreement.
2 BCOAPO Submissions, p. 2.
3 CEC Submissions, para. 1.
4 BCSEA Submissions, para. 6.
5 Ex. B-3, BCUC IR1 1.1.
6 See para. 17.

feedback from the 2015 MX proceeding. Promoting equitable treatment across the FEI service territory, in turn, makes natural gas a viable energy choice for some British Columbians who might otherwise face an insurmountable cost barrier in the form of a significant Contribution in Aid of Construction ("CIAC").

5. BCOAPO and CEC both recognize the core objective. BCOAPO frames it well: "It is, in their [clients'] view, untenable that our society would allow monopolistic utilities providing energy – an essential service – to the public in a manner that does not facilitate reasonable access to their service, especially when doing so comes at little cost to the Utility's non-participating ratepayers."[7]

(b) SEF Reduces a Barrier to a Household Choosing Natural Gas to Reduce its GHGs

6. BCSEA's first basis for opposing the SEF is that it would not "reduce net greenhouse gas emissions in BC". Leaving aside the fact that the core objective is promoting equity across FEI's service territory, there are two additional answers to this argument:

- First, BCSEA implicitly seems to be drawing from the "British Columbia's energy objectives" in the *Clean Energy Act*, which are inapplicable to connections and rate design.

- Second, BCSEA's argument, taken to its logical conclusion, would preclude all postage stamping of natural gas rates. In fact, it would preclude any rate construct that allows someone to take natural gas service at all, except in cases where the customer would otherwise be using a higher-GHG emitting fuel source (e.g., oil). The evidence is clear that provincial policy supports natural gas as an energy option for reasons including affordability, equality of investment and job creation opportunities.[8] The evidence is clear that the SEF is aligned with those policy imperatives. FEI has a number of initiatives that target, and achieve, GHG reduction.

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7 BCOAPO Submissions, p. 3.

8 See FEI Final Submissions, para. 24.

(c) The SEF Attachments Will Continue to Generate Revenue for Decades

7. BCSEA says that the SEF should be discontinued because it is not "benefit[ting] overall customers through increased throughput."[9] Any rate design initiative intended to promote equitable treatment will benefit some customers more than others. Rate design is an exercise of balancing competing rate design objectives, and the SEF is striking an appropriate balance.

8. The BCUC explicitly recognized, in approving the pilot, that the SEF may involve some cost to existing customers. It required only that the impact be reasonable:

> The Panel approves FEI's proposal for a system extension fund as a pilot program commencing in 2017 through December 31, 2020. The Panel finds that establishing the proposed SEF on a pilot basis is in the public interest provided that the costs borne by overall ratepayers are reasonable.[10]
>
> ….
>
> The Panel finds that establishing the proposed SEF on a pilot basis is in the public interest provided that the costs borne by overall ratepayers are reasonable. The Panel reviewed the alternatives to the $1 million proposed SEF amount and finds that $1 million per year is reasonably sufficient and do not impose excessive cost burden to the overall FEI ratepayers.[11]

9. The BCUC's analytical approach when approving the SEF pilot has been reinforced by the BCUC's commentary in the recent FEI *Revelstoke Propane Portfolio Cost Amalgamation Application* decision.[12] In that decision, the BCUC emphasized that one cannot focus on cost allocation to the exclusion of other rate design criteria, such as promoting equitable treatment:

> The Panel has given full consideration to the Application and the relevance of Bonbright's principles regarding public utility rates. In the Panel's view, the arguments presented do not suggest that FEI's proposal would be inconsistent with those principles. FEI's proposal is considered in keeping with these principles by equalizing rates fairly across its service territory. FEI's proposal brings about a balanced allocation of costs, improves price stability and reduces

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9 BCSEA Submission, para. 6.

10 FEI 2015 System Extension Application, Decision and Order G-147-16, p. (ii). https://www.bcuc.com/Documents/Proceedings/2016/DOC_47597_09-16-2016_FEI_2015-System-Extension_Decision.pdf

11 FEI 2015 System Extension Application, Decision and Order G-147-16, p. 51.

12 Order G-245-20: https://www.ordersdecisions.bcuc.com/bcuc/orders/en/486267/1/document.do

the burden on Revelstoke customers by means of a proposal which minimizes negative effects and allows for alternatives in the future.

The Panel accepts that FEI's proposal may suggest discrimination, given the effect on natural gas users' costs. However, the Panel judges this effect by its degree and how overall fairness in the apportionment of costs fits within the public interest framework. In consequence, the Panel does not find that FEI's proposal is unduly discriminatory or that the principles or price signals are critically compromised.[13] [Emphasis added.]

10. The BCUC elaborated:

The BCUC has recognised the application of postage stamp rates as both just and reasonable in several instances throughout the province, and as an appropriate means of allocating costs to various customer groups. In the present case such an application is not seen as inconsistent with the Bonbright principles. FEI's proposal is considered in keeping with these principles by its seeking to equalize rates fairly across its service territory. It achieves a balanced allocation of costs, promotes price stability and reduces burdens on a significant customer group by means of a proposal which minimizes negative effects and leaves open options for alternatives in the future.

The Panel considers public interest need not be measured by whether a service delivers a benefit or detriment to a numerically larger group, but can also be judged as to how it furthers principled and fair treatment and promotes the ideals of supportive communities. The Panel considers that, in light of the evidence and arguments received, the proposed cost amalgamation provides not only economic benefit to Revelstoke customers but provides wider benefits which are consistent with being in the public interest.[14] [Emphasis added.]

11. Regardless, BCSEA's conclusion regarding the impacts on existing customers is distorted by the very short Rate Impact Assessment ("RIA") assessment period. The RIA shows that the revenues flowing from SEF attachments during the pilot have already almost covered the costs, despite the mains having only been in the ground for an average of a year-and-a-half. While the initial attachment cost is a one-time cost, the revenues (i.e., throughput benefits) continue to accrue throughout the decades-long lives of the main extensions. The main extensions, once in place, will also pick-up additional load from any subsequent customers who attach in later years.[15] In the 2015 MX Decision, the BCUC observed that even a five-year assessment period -

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13 Revelstoke Decision, p. 11.
14 Revelstoke Decision, p. 26.
15 Ex. B-6, CEC IR1 1.1.

i.e., almost three times longer than the RIA period for the pilot - for evaluating customer attachments to a new main extension was conservative.[16]

(d) The SEF Does Improve Rural Access to a Valuable Energy Option

12. BCSEA seeks to require proof of specific economic development in rural communities attributable to the SEF in order to justify continuing the program. It would be challenging, as a matter of evidence, ever to attribute specific economic development in a rural area solely to the SEF since economic prosperity is likely to be associated with a number of factors. Not surprisingly, the BCUC considering the SEF pilot looked instead to improved access as having inherent value. For instance, it stated: "The Panel acknowledges FEI's efforts to provide certain communities, including rural communities, an opportunity to connect to the natural gas system."[17] The BCUC's approach is more consistent with the objective of the SEF, which is to promote equitable access. It is also more consistent with the BCUC's recent Revelstoke decision, quoted above, which offered that public interest "can also be judged as to how it furthers principled and fair treatment and promotes the ideals of supportive communities."

(e) The "Need" is to Promote Equitable Treatment

13. BCSEA argues that there is "no demonstrated need" for the SEF because: "Even outside the Vancouver area, thousands of new single-family residential customers are connecting to the FEI system despite the few hundred who connect with support from the SEF."[18] The "need" is to promote equitable treatment. When the objective of the SEF is to promote greater equity, the fact that some households are still willing to take service at a higher cost because of need or other priorities would be a poor justification to end the program.

14. BCSEA highlights FEI's acknowledgement that it does not have any insight into how many new customers who received funding from the SEF would have connected in absence of the program.[19] BCSEA is asking FEI to prove a negative, which is not possible. There is ample

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[16] FEI 2015 System Extension Application, Decision and Order G-147-16, p. 37: "…the five-year time horizon incorporates conservatism in the MX Test for circumstances where a build-out longer than five years is foreseeable...".

[17] FEI 2015 System Extension Application, Decision and Order G-147-16, p. 50.

[18] BCSEA Submissions, para. 15.

[19] BCSEA Submissions, para. 14.

evidence from which to draw the reasonable inference that a CIAC represents a barrier. FEI provided, for instance, the distribution of homeowners who declined the SEF. There is a sizeable number of people who decline to participate, (i.e., decline to take service) when the CIAC is considerable. One can reasonably expect that, the greater the cost to connect to the gas system, the more people will be discouraged from accessing their desired energy type.

(f) The SEF Meets the Statutory Test for Rate Constructs

15. BCSEA asserts that a permanent SEF would be unduly discriminatory under sections 59 to 61 of the UCA because, according to BCSEA, the results of the RIA "do not show that the SEF actually provides a long-term net benefit to FEI customers."[20] FEI has already addressed above the fact that the revenues flowing from SEF attachments during the pilot have already almost covered the fixed costs, despite the mains having only been in the ground an average of a year-and-a-half.

16. BCSEA's argument also represents a significant over-simplification of rate design principles, which the BCUC has already rejected in the Revelstoke decision. Cost of service is an important basis for rate-setting, but it operates in conjunction with other well-recognized rate design principles. In reality, every individual customer has a different cost of service, despite being grouped into classes that pay a single rate. BCSEA's logic would suggest that postage stamping is impermissible and that any rate class revenue-to-cost ratio other than 1:1 is unduly discriminatory. Postage stamped rates are routinely accepted as non-discriminatory, as are revenue-to-cost ratios other than 1:1 that result from applying other valid ratemaking principles.

(g) Reply to Other CEC Commentary

17. Although the CEC supports the SEF, it made some comments on the topic that merit a brief reply.

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[20] BCSEA Submissions, para. 16.

Response to CEC Comments Regarding Postage Stamping

18. The CEC, while supporting the SEF, did suggest that "FEI has overstated the relationship [with postage stamping] to some degree. The postage stamping of delivery rates implies that once a customer, or future customer, is connected to the system they will pay the same rates for the services provided."[21] FEI submits that the analogy is apt, since terms of interconnection, like delivery rates, are a "rate" under the UCA. They are the subject of a BCUC-approved tariff that must adhere to the "just and reasonable" and "not unduly discriminatory" standards.

Reconciliation of Customer Numbers

19. The CEC: "the CEC accepts that a significantly greater proportion of customers in the area outside of Vancouver are required to pay CIAC than there is within the Vancouver area, and that there is a greater financial barrier to using natural gas outside of Vancouver than there is within the Vancouver area, at least using CIAC as the financial metric."[22] In passing, however, the CEC observes that: "The CEC has not been able to rationalize the difference of 112 customers; the 794 presented in Table 1 versus the 682 discussed in the CEC IR noted earlier in these submissions."[23] For clarity, the data presented in Table 1 reflects SEF <u>applications</u> made during the pilot period. The data provided in the response to CEC IR1 2.2 represents main extensions that were <u>installed and in service</u> during the same period. The regional disparity is evident, regardless of the data used.

The Objective of the SEF Should Remain the Same

20. The CEC says that the ability to generate benefits for all ratepayers from the SEF is important and could reasonably be included as one of the program objectives.[24] FEI submits that, as with all areas of rate design, there is a balancing of competing considerations. Rate design principles include ease of implementation and simplicity. In 2015, FEI had been optimistic that it could develop an approach that prioritized participation based on potential future demand. The pilot revealed the challenges associated with this approach. FEI submits

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[21] CEC Submissions, para. 21.
[22] CEC Submissions, para. 42.
[23] CEC Submissions, para. 41.
[24] CEC Submissions, para. 17.

that the SEF objective should remain the same: promoting equity. Maintaining the current objective does not diminish the fact that revenues from sales help to ensure that the program remains fair to existing ratepayers.

FEI Is Not Opposed to a Commercial Pilot

21. The CEC submits that FEI should develop a pilot program to offer CIAC reductions to prospective commercial customers.[25] FEI has indicated that it is amenable to a commercial pilot program, although it has no immediate plans to do so. FEI also noted that for FEI to implement a separate commercial SEF program it would need to have separate funding and rules in order to be feasible.[26] The SEF, which the CEC supports, should be made permanent before a commercial pilot SEF program is considered.

C. THE PROPOSED FUNDING LEVEL PERCENTAGE IS APPROPRIATE

22. In terms of program design, intervener submissions focus on the funding level percentage. The CEC "would not object to the Commission approving the 95% funding as proposed by FEI", but has also raised the potential to phase-in the increase over two years to avoid over-subscription.[27] BCOAPO "supports the continuation of some form of the SEF on a permanent basis" but advocates for "at least to start, a more moderate approach".[28] BCSEA, unlike the other interveners, wants to keep the funding level at 50 percent. FEI submits that the proposed 95 percent funding level is appropriate, particularly when considered in conjunction with the other unchanged program parameters like the $10,000 per customer limit, the overall funding envelope and the "true-up" mechanism. The BCUC should approve the proposed funding level percentage without a phase-in, thereby immediately enhancing the program value.

(a) Reply to BCOAPO Submissions

23. BCOAPO dismisses customer feedback that a large CIAC is a barrier as "hearsay" that "a Court could potentially find self-serving". It states: "…there is no solid evidence upon which we

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25 CEC Submissions, para. 27.
26 Ex. B-6, CEC IR1 8.1.
27 CEC Submissions, paras. 2 and 3.
28 BCOAPO Submissions, p. 2.

can find the homeowners who rejected the SEF under the Pilot's 50% subsidy levels were actually not willing or able to pay at least as much as the homeowners who accepted it during the Pilot."[29] There are several answers to this argument:

- The BCUC regularly considers evidence of customer feedback filed by the applicant, including when the utility is reporting on consultation and engagement.[30]

- In this case, the customer feedback that cost was a barrier to taking service was backed-up by their actions: they declined service despite having been offered an SEF contribution.[31]

- BCOAPO is, in part, focussed on ability to pay. The SEF program objective is to promote more equitable treatment among households across FEI's service territory, which is a recognized rate design principle. It is not intended to target lower income households (that objective would be invalid in any event[32]).

- Given that most residential customers do not need to pay a CIAC for a main extension, FEI must necessarily reduce the CIAC of the program participants by a significant margin in order to get to a more equitable outcome. Increasing the program participation, which also contributes to equitable treatment, means that FEI must capture more of the homeowners with higher than average cost CIACs. It is challenging to capture customers if a household facing a high CIAC before the SEF still faces a very significant CIAC after the SEF contribution is applied. For example, applying a 70% reduction to a $9,000 CIAC would still present a $2,700 barrier. At that cost, many participants will still reject the offer.

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29 BCOAPO Submissions, p. 5.

30 In fact, the CPCN Guidelines make reporting on stakeholder engagement mandatory.

31 FEI observes that, on BCOAPO's logic regarding "hearsay", the BCUC would also need to dismiss the views of BCOAPO's own constituents as expressed by counsel in submissions.

32 The BCUC has held that it has no jurisdiction to implement special rates for low-income customers, for instance.

24. BCOAPO, as an alternative to a lower percentage funding level, proposes an "incremental" approach of its own design, whereby the percentage is scaled/stepped.[33] BCOAPO is critical of FEI for not modeling that approach.[34] FEI considered a number of models, as FEI summarized starting at paragraph 46 of its Final Submissions. There is a good reason why this was not one of them.

25. First, a simple stepped percentage approach of the nature articulated by BCOAPO in its information request would not work because it would produce counter-intuitive results. To illustrate:

> Assume a scale that involved parties facing a CIAC of \$4,000 or less receiving 50% from the SEF; between \$4,001 and \$6,000 receive 70% from the SEF (and so on). In this example, someone facing a CIAC of \$3,999 would, after the SEF, be left with a CIAC of (\$3,999 x (1-.50)) = \$1,999.50. Someone facing a CIAC of \$4,001 would, perversely, be left with a CIAC of (\$4,001 x (1-.70)) = \$1,200.30.

This illustration shows that, in order for a scaled approach to work, it is necessary to use an approach akin to progressive taxation, with each incrementally higher tranche of CIAC being covered by the SEF to a greater extent.

26. Second, the complexity inherent in a "progressive tax" model is self-evident. Any homeowner would be hard-pressed to perform that calculation, and a customer service representative would have more difficulty explaining it to the customer. "Easy to Understand" is one of the Guiding Principles from the 2015 System Extension Application: "This Guiding Principle is straightforward: any changes to system extension policies need to be easily understood, easy to administer by FEI, and stable over time for customers." The Bonbright principles similarly include simplicity and understandability. The level of complexity inherent in a "progressive tax" model is unwarranted for a relatively small program. FEI's proposed approach is, by contrast, both effective and easy to understand.

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33 BCOAPO Submissions, p. 6.

34 BCOAPO Submissions, pp. 5, 6.

27. BCOAPO "rejects any suggestion that the fact that there were available SEF funds unspent every year of the Pilot justifies offering a 95% subsidy to qualifying homeowners seeking to connect to the FEI system simply to spend as many dollars as possible in each year's available funding".[35] This submission misunderstands FEI's point. The outcome of the pilot shows that there are many households outside of Vancouver that want natural gas service, but for whom the 50 percent contribution level is insufficient to overcome the financial barrier. It is appropriate to assess whether the barrier can be reduced to facilitate greater access to natural gas outside of Vancouver, while still ensuring that existing customers are treated fairly. The BCUC identified the $1 million funding envelope as not unduly burdening existing customers. In these circumstances, it is reasonable to assess the extent to which demand can be met with that overall funding envelope.

(b) Reply to CEC Submissions

28. The CEC's argument for a gradual transition seems to be rooted to some extent in a speculative concern that the FEI might ask to increase the funding envelope beyond $1 million if demand materializes at the 95 percent funding level:

> The CEC is concerned that the increase to 95% could potentially unnecessarily lead to requests that exceed the $1 million cap, and increased pressure to increase the spending cap for the residential SEF program. The CEC would not support such an increase in the absence of an equivalent program for commercial customers.[36]

FEI respectfully submits that the CEC is getting ahead of itself; the BCUC should determine this Application based on its own merit, and not based on a hypothetical scenario.

29. The CEC also expresses concern that "if there is consistently more demand than the $1 million available, it will ultimately develop into a backlog."[37] CEC's concern is unwarranted. FEI did provide an analysis that used historical data to conclude that the program would have exceeded $1 million annually during the pilot at the 95 percent level; however, the analysis had

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[35] BCOAPO Submissions, p. 5.
[36] CEC Submissions, para. 69.
[37] CEC Submissions, para. 79.

assumed that had ***every*** homeowner accepted the SEF offer.[38] There will inevitably be households that decline to take service even at the 95 percent funding level. FEI has provided evidence in in the responses to BCUC IR1 6.1.1 and BCUC IR1 3.4 showing considerable variation among customers in terms of the CIACs they are willing to pay. Some decline to pay as little as $100.

(c) Reply to BCSEA Submissions

30. BCSEA states that a funding level of 95 percent means that new customers are not sharing in the cost of connection. However, the data shows that the connecting customer's contribution will typically remain material in dollar-terms because the CIAC is so high to start with.[39] A household must also incur other costs to use natural gas as an energy source (e.g., appliances, retrofit/construction). A substantial SEF contribution is required to make natural gas a realistic energy option in some parts of FEI's system.

31. BCSEA asserts that "increasing the limit from 50% to 95% would provide a financial windfall to those who would have participated in the SEF with a 50% limit, with no corresponding benefit to other customers."[40] This argument overlooks the objective of the SEF - promoting greater equity throughout FEI's service territory - in favour of an approach that seeks to extract every dollar from customers that face a disproportionate barrier to natural gas service. FEI submits that the BCUC should evaluate the proposal against the primary program objective, having regard to the principles articulated in the Revelstoke decision.

32. BCSEA's last argument is that "an unspent balance remaining in the annual SEF budget is not a problem for FEI or for FEI's overall ratepayers."[41] True. It is, however, a problem from the perspective of customers that want natural gas service but face a disproportionately large CIAC. Their interests are valid too, and the BCUC's prior decisions make clear that those interests must be considered. The Revelstoke decision, discussed above, is one such decision. The rate constructs related to interconnection, including the MX Test, also recognize that the

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[38] Ex. B-3, BCUC IR1 8.3.
[39] See FEI Final Submissions, para. 36.
[40] BCSEA Submissions, para. 19.
[41] BCSEA Submissions, para. 20.

interests of potential and existing customers must be balanced.[42] The right balance in this circumstance is to provide funding at 95 percent. As FEI noted in the Final Submissions:

- The pilot demonstrated that demand exists for natural gas service, and that a SEF higher funding level would allow that demand to materialize.

- There is little reason from a ratepayer impact perspective to compromise the efficacy of the program. The BCUC, in approving the pilot program, determined that $1 million per year of available funding does not impose an excessive cost burden on FEI customers as a whole.[43] FEI's analysis demonstrates that the overall rate impact of reducing the percentage from 95 percent would be minimal, since the overall rate impact of changing the funding rule from 50 percent to 95 percent is already minimal.[44]

33. Increasing the likelihood that qualifying households will decide to connect is more consistent with the SEF program objective of promoting equitable treatment of customers across FEI's service territory than leaving the cost barrier in place with the hope of underachieving.[45]

D. CONCLUSION

34. The pilot proved out the value of the SEF, and it should be continued on a permanent basis. The evidence demonstrates that FEI's proposed funding level will enhance the effectiveness of the program and the value it brings to customers, without unduly burdening existing customers. The other program parameters, like the $10,000 per customer limit, the overall funding envelope, and the "true-up" mechanism are already sufficient safeguards for

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[42] FEI *2015 System Extension Application*, Decision and Order G-147-16, p. (i): "The applicable legal framework governing system extension policies is sections 29, 30 and 58 to 61 of the *Utilities Commission Act*. In this decision, the Panel considers whether FEI's proposals are: in the public interest; just, reasonable and not unduly discriminatory; and, provide for the consideration and fair treatment of existing <u>and potential customers</u>." [Emphasis added.]

[43] FEI *2015 System Extension Application*, Decision and Order G-147-16, p. 51.

[44] Ex. B-3, BCUC IR1 8.3.1.

[45] Ex. B-3, CEC IR1 7.4.

existing customers. A lower funding level percentage will be less effective at achieving the SEF objective of improving equitable treatment, while bringing minimal rate impact benefits.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: October 27,2020

Matthew Ghikas