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August 27, 2026

B.C. Sustainable Energy Association
P.O. Box 44107
Victoria RPO Gorge, BC
V9A 7K1

Attention: Thomas Hackney

Dear Thomas Hackney:

Re: FortisBC Energy Inc. (FEI)
2026 Review of Mains Extension and Connection Policies (Application)
Response to the British Columbia Sustainable Energy Association (BCSEA)
Information Request (IR) No. 1

On May 15, 2026, FEI filed the Application referenced above. In accordance with the regulatory timetable established in British Columbia Utilities Commission Order G-122-26 for the review of the Application, FEI respectfully submits the attached response to BCSEA IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Sarah Walsh

Attachments

cc (email only): Registrar
Registered Interveners

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1.0 Reference: [Exhibit B-1](#)

1.1 Please confirm, or otherwise explain, that “Energy Choice” is not one of the Rate Design Principles in the current Application.

Response:

Confirmed. As discussed in Section 4.1.2 of the Application, the MX Test reflects established rate design principles, (i.e., the eight rate design principles identified by Dr. James Bonbright). These principles have consistently been recognized by the BCUC as forming an appropriate foundation to guide its evaluation of cost allocation and rate design proposals.

1.2 Does FEI assume that if the Rate Impact Analysis shows a subsidy by new customers to existing customers, or vice versa, then the Mains Extension test parameters should necessarily be adjusted?

Response:

FEI would consider the RIA results together with the magnitude and persistence of the indicated impact, the effect of any adjustment on new and existing customers, and the other relevant considerations addressed in the Application.

The results of the most recent RIA continue to show, consistent with the two previous RIAs, that the addition of new customers to the gas distribution system has continued to reduce delivery rates for existing customers. The persistence of this result indicates that new customers continue to bear a disproportionate share of the costs of new connections. Given this broader trend, FEI considers the proposals contained in the Application support the fair and equitable treatment of new and existing customers.

Please refer to the response to BCUC IR1 11.1 for additional discussion on how FEI considers the RIA results.

1.3 Please discuss FEI's consideration of objectives in addition to minimizing cross-subsidization between new and existing customers: i.e., FEI's consideration of potential objectives such as simplicity, predictability, customer understanding, encouraging efficient development, and consistency with governmental energy policy.

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1 **Response:**

2 The purpose of the MX Test and Connections Policies is to achieve fairness between new and
3 existing customers. As the MX Test is a form of rate design, FEI has assessed its proposals in
4 consideration of Dr. Bonbright's eight rate design principles. As discussed in the Application, the
5 relevance and weight given to the principles varies with the circumstances and context of each
6 rate design application. In the case of this Application, FEI considers that Principles 2 (fair
7 apportionment of costs), 4 (customer understanding and acceptance), 5 (practical and cost-
8 effective to implement) and 8 (avoidance of undue discrimination) are most relevant.

9 The objectives referenced by BCSEA in the question are all Bonbright rate design principles with
10 the exception of "consistency with governmental energy policy". While not a Bonbright rate design
11 principle, FEI's proposals in the Application are consistent with government energy policy.

12 ***Simplicity, Customer Understanding, Predictability and Stability***

13 Simplicity and customer understanding are important objectives that support two Bonbright
14 principles: customer understanding and acceptance (Principle 4); and practical, cost-effective
15 implementation (Principle 5).

16 As explained in Section 4.1 of the Application, the MX Test is straightforward for FEI to administer
17 because FEI routinely performs DCF calculations. From the customer's perspective, the
18 underlying DCF analysis is expressed through the simpler concept of the PI, using transparent
19 cost and revenue inputs. Customers can therefore understand whether a project meets the
20 applicable PI threshold, whether a CIAC is required, and the amount of any required contribution
21 without engaging directly with the underlying DCF calculation.

22 Similarly, for infill connections, the cost of the required service line is compared with the SLCA to
23 determine whether a CIAC is required. The current policies therefore provide both conceptual
24 simplicity for customers and administrative simplicity for FEI. FEI's proposal to remove the final
25 step of the SLCA calculation further enhances simplicity and improves the predictability of results.

26 FEI also considers predictability and stability to be important characteristics of the MX and
27 Connection Policies because they support customer understanding and acceptance. As
28 explained in Sections 2 and 4.1 of the Application, the MX Test and SLCA have been used since
29 the 1990s. Their purposes and central elements have remained consistent, with periodic
30 refinements to particular inputs and parameters. This continuity provides a stable and predictable
31 framework for customers and developers, particularly developers that bring forward successive
32 projects.

33 ***Efficient Development***

34 Efficient development is not an objective of the MX Test, and FEI notes that the Bonbright principle
35 (Principle 3) contemplates "price signals that encourage efficient use and discourage inefficient
36 use". As discussed in the response to BCUC IR1 3.1, Bonbright Principle 3 is not applicable in
37 the context of the MX Test, as the test is determining whether and how much a customer needs
38 to contribute to connect to the system, not how much energy a customer might use once

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connected to the system. Efficient use of the system is generally addressed through adjustments to the fixed and variable components of customers' rates.

While not the primary purpose of the MX Test, the MX Test may support efficient development in the sense that it provides transparent information regarding the connection costs associated with a proposed project. A project with higher connection costs or lower forecast revenues may require a larger CIAC, allowing the developer or customer to consider the project design or scope.

Consistency with Governmental Energy Policy

Government policy contemplates a continued role for the gas distribution system.¹ While advancing broader governmental energy policy is not a core objective of the MX Test, the MX Test nonetheless aligns with government policy on GHG reductions and Step Codes in the following ways:

- potential customers must satisfy applicable GHG-related laws and regulations before the MX and Connection Policies become relevant; and
- by incorporating inputs that are reflective of changing consumption information and the forecast number of attachments over time.

Apart from the MX Test, FEI also responds to broader objectives relating to energy efficiency, renewable and lower-carbon gases and GHG reductions through dedicated regulatory proceedings and programs, including FEI's DSM plans, LTGRPs, and renewable and lower-carbon gas initiatives.

- 1.4 With reference to FEI's statement that a 40-year Discounted Cash Flow term reflects the weighted average service life of the assets associated with new connections [page 41], please discuss the factors that might warrant a reduction in the 40-year DCF term. Please address factors such as customer electrification, municipal restrictions on gas use, appliance turnover, carbon policy, and changing building codes.

Response:

While FEI has not identified any current factor, including the factors listed in the question, that provides a sufficiently reliable basis for a reduction in the 40-year DCF term, a reduction could be warranted if reliable evidence demonstrated that the period over which the assets associated with

¹ Government of British Columbia, Powering our Future: BC's Clean Energy Strategy, p. 19., "Liquid and gas fuels will remain essential for the foreseeable future, especially in areas like long haul transportation, certain industrial processes, and in remote communities not connected to the electricity grid. BC's gas system will also continue to play an important role for many years to come in order to maintain system resiliency, meet peak energy demand, and provide home heating in colder climates."

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new connections are expected to remain in service and generate revenues has materially shortened. For example, a future depreciation study that supports shorter expected service lives for mains, services and meters could warrant an adjustment to the DCF term. Further, FEI uses a shorter customer- or project-specific revenue horizon where reliable information indicates that a particular industrial customer will remain on the system for less than 40 years.

Please also refer to the response to BCUC IR1 6.2.1, where FEI describes how the effects of energy policy implemented through laws, regulations or other applicable requirements are reflected in the existing MX Test inputs. Potential future changes in policy or consumer behaviour that have not yet materialized are not reflected in the MX Test because their form, timing and effects cannot be reliably predicted.

FEI addresses below the factors identified in the question, including how each is reflected in the MX Test and whether each provides a basis for shortening the DCF term.

- Municipal restrictions and changing building codes:** Builders and developers must comply with applicable legal requirements, including municipal adoption of higher levels of the Energy Step Code and the Zero Carbon Step Code or a restriction on connections. These requirements can affect whether gas appliances can be included in a development project and, consequently, whether a developer even approaches FEI to run the MX Test. Where a connection is requested, the permitted appliance configuration and associated consumption values are reflected in the MX Test (i.e., if connections are allowed but the building code dictates certain types of appliance configurations, the MX Test will reflect it). Therefore, these requirements do not provide a basis for shortening the DCF term for connections that proceed.
- Customer electrification and appliance turnover:** With respect to appliance turnover or customers converting to electric appliances, FEI is not aware of any government regulation that has been implemented that will require the replacement of gas appliances with electric appliances. While customers may replace existing gas appliances with new gas appliances, electric appliances, or add gas appliances over the life of a building, appliance turnover does not necessarily mean that the customer will disconnect from the gas system or that the connection assets will cease generating revenues. As such, the MX Test does not currently forecast future appliance changes because the timing and nature of those changes is not reflected in actual use data and cannot be reliably predicted. Further, to the extent that such policies are implemented or market trends emerge that affect gas consumption, these impacts will become embedded in the MX Test inputs, including through updated appliance consumption rates provided in the REUS study.
- Carbon policy:** Government policies are implemented through applicable legal requirements and their effects are accordingly reflected in the MX Test inputs at the time that a connection is evaluated and where applicable. While FEI cannot predict the form, timing or effects of any such future requirements, FEI is able to account for newly implemented policies through periodic review of the RIA and adjustments to the MX Test and Connection Policies over time. However, adjusting the DCF term based on policy

1 developments that have not yet materialized would require speculative assumptions and
2 would be premature.

3 None of the factors identified above demonstrate that the assets associated with new connections
4 will remain in service or generate revenues for a materially shorter period. Moreover, FEI's
5 approved delivery rates reflect the currently approved service lives of its assets and are used in
6 the MX Test to forecast revenues. Shortening the DCF term while continuing to use those delivery
7 rates would therefore create a mismatch between the period over which revenues are recognized
8 in the MX Test and the depreciation assumptions reflected in those rates. Please also refer to the
9 response to BCUC IR1 6.2.

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13 1.5 Please confirm, or otherwise explain, that the choice of a 40-year term for the
14 Discounted Cash Flow analysis implies an expectation that the weighted average
15 use per customer will be approximately the same in 40 years as it is now for new
16 customers.

17
18 **Response:**

19 The 40-year term in the MX Test incorporates volume credits based on the appliances that are
20 expected to be connected in the building. The volume credits per appliance are determined
21 primarily by the REUS of current existing customers. In the case of larger customers, volume is
22 based on appliance BTUs and expected annual consumption. However, the MX Test includes a
23 range of balanced inputs, including delivery rates that are also held constant over the 40-year
24 term. All else equal, a decrease in consumption would increase delivery rates, creating an
25 increase in revenues that would counteract the decrease in use.

26 Please refer to the response to BCUC IR1 6.6 for discussion of how uncertainties inherent in the
27 economic horizon are appropriately addressed through the features of the MX Test and related
28 review processes.

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32 1.6 Is there a particular basis for FEI's proposal that the Profitability Index be reduced
33 from 0.8 to 0.6? Or is 0.6 simply a value that would reduce the (absolute) size of a
34 future Rate Impact Analysis?

35
36 **Response:**

37 The proposal to reduce the individual PI threshold from 0.8 to 0.6 is supported by the most recent
38 RIA, which demonstrates that, under the current 0.8 threshold, new customers collectively

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1 generate more revenue than the incremental costs to serve them, creating an over-recovery of
2 costs. The proposal is therefore intended to improve the allocation of connection costs between
3 new and existing customers.

4 As explained in the response to BCUC IR1 1.3.1, the proposed 0.6 threshold is a judgment-based
5 value that was intended to recalibrate, in a measured way, the MX Test so that it moves it towards
6 a more equitable balance between new and existing customers. In practice, the balance between
7 new and existing customers could be adjusted by changing multiple parameters within the MX
8 Test, with the objective of reducing the imbalance. FEI selected the individual PI threshold
9 because it directly affects the CIAC payable by projects below the threshold and can be adjusted
10 without changing the other established MX Test parameters.

11 FEI's analysis in the Application provides additional support for selecting a PI value of 0.6. All else
12 equal, applying a threshold of 0.6 to the historical MX Test results from 2017 to 2025 would have
13 maintained the aggregate PI well above 1.1 in every year. Further, as shown in Table 4-9 of the
14 Application, the proposed change would only have a minor impact on the delivery rates of existing
15 customers, a difference of 0.03 percent compared to an individual PI threshold of 0.8. Accordingly,
16 0.6 was selected as a measured adjustment that directionally improves the balance between new
17 and existing customers while maintaining protection for existing customers.

18 Based on the results of the next RIA, which FEI proposes to complete seven years after the
19 BCUC's decision on this Application, FEI will determine whether additional adjustments to the MX
20 Test and Connection Policies should be proposed.

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24 1.7 Please provide a quantitative analysis for Profitability Index thresholds of 0.6, 0.65,
25 0.70, 0.75, 0.8, 0.85, 0.9, 0.95, 1.0, 1.05 and 1.1 in terms of how each threshold
26 balances equity, cost causation, and rate impacts.
27

28 **Response:**

29 Under the cost causation principle, a PI of 1.0 indicates that a customer is expected to cover the
30 full incremental capital and operating costs attributable to their connection over the DCF term.
31 Using a portfolio approach (i.e., aggregate PI), projects with PIs above 1.0 offset forecast under-
32 recoveries from projects with PIs below 1.0. Any remaining aggregate surplus (i.e., aggregate PI
33 > 1.0) or shortfall (i.e., aggregate PI < 1.0) would be reflected in FEI's delivery rates.

34 As discussed in the response to BCUC IR1 1.4, FEI rejected a minimum individual PI threshold
35 of 1.0 as it would result in an unfair apportionment of costs between new and existing customers
36 (Bonbright Principle 2) and it would have disproportionate impacts, adding a material burden onto
37 each new customer while resulting in only a minor delivery rate benefit to existing customers
38 (Bonbright Principle 8).

Please refer to Table 1 below, which is an expanded version of Table 4-8 from the Application and includes the additional PI thresholds requested in this IR as well as the aggregate PI net of CIAC for each threshold. The analysis assumes no change to the other parameters of the MX Test. It makes no assumption about the customer's or developer's decision whether to continue with the project given the change in the CIAC amount required due to the change in the minimum PI threshold.

Table 1: Illustration of Changes in CIAC Requirements (Aggregate, Average, and Highest) and Aggregate PI under Alternative Minimum PI Thresholds (Based on 2025 Data)

Individual PI Threshold	Projects Requiring CIAC	Percentage of Projects					Aggregate PI net of CIAC
		Requiring CIAC	Aggregate CIAC Requirement (\$)	Average CIAC Requirement (\$)	Highest CIAC Requirement (\$)		
0.60	43	11%	\$ 393,650	\$ 9,155	\$ 57,819		2.14
0.65	51	13%	\$ 485,220	\$ 9,514	\$ 68,938		2.14
0.70	64	16%	\$ 624,157	\$ 9,752	\$ 80,057		2.14
0.75	69	17%	\$ 791,469	\$ 11,471	\$ 91,175		2.15
0.80	71	18%	\$ 980,532	\$ 13,810	\$ 102,294		2.15
0.85	92	23%	\$ 1,256,698	\$ 13,660	\$ 113,413		2.16
0.90	109	27%	\$ 1,663,705	\$ 15,263	\$ 124,532		2.17
0.95	117	29%	\$ 2,239,050	\$ 19,137	\$ 135,651		2.18
1.00	136	34%	\$ 2,938,454	\$ 21,606	\$ 301,974		2.20
1.05	146	36%	\$ 3,816,416	\$ 26,140	\$ 486,777		2.22
1.10	155	39%	\$ 4,713,589	\$ 30,410	\$ 671,579		2.24

Table 1 shows that increasing the minimum PI threshold would further exacerbate the inequities that exist between FEI's existing and new customers. At the highest minimum threshold of 1.1, the aggregate PI net of CIAC increases to 2.24, which is more than double the current threshold of 1.1.

FEI notes that the MX Test is a forecasting tool used prior to the project commencement to determine whether the cost to connect new customers is likely to be sufficiently balanced by the revenues they bring in. The actual impact is measured periodically by the RIA to determine whether the interests of FEI's existing and new customers are balanced. FEI has accordingly provided Table 2 below which is an expanded version of Table 4-9 from the Application and includes the additional PI thresholds requested in this IR. It assumes all projects from the 2025 MX Test that proceeded with the current minimum PI threshold of 0.8 would continue to proceed regardless of the amount of CIAC required.

Table 2: Estimated Rate Impacts Due to New Customer Connections if the Minimum Individual PI Threshold is Changed (Based on 2017-2025 RIA Results)

2017-2025 RIA	Minimum Individual PI Threshold										
	0.60	0.65	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.10
Average Cost per GJ with Growth	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715
Average Cost per GJ without Growth	\$ 6.831	\$ 6.831	\$ 6.832	\$ 6.832	\$ 6.833	\$ 6.834	\$ 6.835	\$ 6.836	\$ 6.838	\$ 6.840	\$ 6.842
Rate Impact per GJ	\$ (0.116)	\$ (0.116)	\$ (0.116)	\$ (0.117)	\$ (0.118)	\$ (0.118)	\$ (0.120)	\$ (0.121)	\$ (0.122)	\$ (0.124)	\$ (0.127)
Percentage Rate Impact	-1.69%	-1.70%	-1.70%	-1.71%	-1.72%	-1.73%	-1.75%	-1.77%	-1.79%	-1.82%	-1.85%
Change in Percentage Rate Impact from PI @ 0.8	0.03%	0.02%	0.02%	0.01%	0.00%	-0.01%	-0.03%	-0.05%	-0.07%	-0.10%	-0.13%

The various minimum thresholds proposed in this IR do not change the general trends presented in Section 4.3.3.1 of the Application. Increasing the minimum PI threshold for individual projects under the MX Test would increase the aggregate CIAC (assuming all projects still proceed), which in turn would increase the benefits that existing customers receive from new customer connections (i.e., would increase the extent to which new customers are subsidizing existing customers). Conversely, reducing the minimum PI threshold would decrease the aggregate CIAC, which in turn would reduce the benefits that existing customers receive from new customer connections (i.e., would move towards eliminating the current cross-subsidization of existing customers by new customers).

Ultimately, FEI is seeking to achieve a reasonable balance in the treatment of new and existing customers. Based on the RIA results presented in Table 2, FEI has proposed lowering the individual PI threshold from 0.8 to 0.6 as a targeted means of moving the RIA results closer to zero at the portfolio level (a zero RIA would indicate that equity between new and existing customers has been fully achieved). This approach was chosen as it is simple to understand and directly affects the CIAC payable by projects below that threshold, without changing the other inputs and parameters of the MX Test.

1.8 Please confirm, or otherwise explain, that FEI does not use a quantitative tolerance factor in determining whether the results of the Rate Impact Analysis warrant changing the size of the Profitability Index.

Response:

FEI confirms that it does not use a quantitative tolerance factor in determining whether the results of the RIA warrant changing the size of the PI. Whether recalibration is warranted depends on, for example, the magnitude and direction of the rate impact, the persistence of the result over time, the reasons for the result, the effects of any potential adjustment on CIAC requirements and delivery rates, the individual and aggregate PI results, and the applicable rate design principles. Please also refer to the response to BCUC IR1 11.1 for discussion on how FEI considers the RIA results.

1.9 Please identify an appropriate quantitative tolerance factor (range) for the Rate Impact Analysis results within which FEI would conclude that no recalibration of the MX and connection policies is warranted.

Response:

Please refer to the response to BCSEA IR1 1.8.

1.10 Is FEI's Rate Impact Analysis based solely on data from the period 2017 to 2025? If so, is the 2017-2025 period representative of future periods, given that the 2017-2025 period included COVID-19, unusually high construction inflation, changing appliance efficiency, declining gas consumption, and rapid policy changes?

Response:

The RIA filed in this Application is based on data from 2017 to 2025. However, FEI has also previously presented RIAs for the periods from 2008 to 2014² and from 2015 to 2019³. Each of these analyses found that the addition of new customers had a favourable impact on the delivery rates of existing customers.

The consistency in the direction of the results across the three periods provides additional support for FEI's conclusion that the 2017 to 2025 result is not attributable solely to the particular conditions experienced during that period.

The RIA assesses how the MX Test and Connection Policies performed under the actual conditions experienced over the period examined. In FEI's view, the length and diversity of the 2017 to 2025 period, together with the consistent direction of the prior RIA results, provide a reasonable basis for adjusting the current MX Test and Connection Policies. Future RIAs will allow FEI to assess any policy changes implemented during the period to consider whether changes are warranted.

² Exhibit B-1, Application, Appendix B, Table 2, p. 1.

³ Exhibit B-1, Application, Appendix B, Table 2, p. 2.