



Sarah Walsh
Director, Regulatory Affairs

Gas Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (778) 578-3861
Cell: (604) 230-7874
www.fortisbc.com

August 27, 2026

Commercial Energy Consumers Association of British Columbia
c/o Owen Bird Law Corporation
Vancouver Centre II
2900 – 733 Seymour Street
Vancouver, BC
V6B 0S6

Attention: Patrick J. Weafer

Dear Patrick J. Weafer:

Re: FortisBC Energy Inc. (FEI)
2026 Review of Mains Extension and Connection Policies (Application)
Response to the Commercial Energy Consumers Association of British
Columbia (CEC) 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 CEC 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

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 1

RATE FAIRNESS AND AVOIDANCE OF CROSS-SUBSIDIZATION

1. Reference: Exhibit B-1, pages 3, 7 and 35

2014. The RIA showed that the MX Test and SLCA were causing delivery rates for existing customers to decrease, suggesting that new customers had been cross-subsidizing existing customers. The RIA results informed the BCUC's downward adjustment of the individual PI threshold in the MX Test and other changes, which directionally reduced the share of the cost of new connections and mains borne by new customers. Despite those changes, the second RIA conducted in 2020 indicated that new customers were continuing to disproportionately bear the costs of new connections and mains. The BCUC's 2020 SEF Decision thus made the SEF permanent and facilitated access to that funding.

treat new and existing customers fairly. FEI recognizes that there is a diversity of views among participating stakeholders about whether, as a public policy matter, it should be easier or harder for new customers to connect to the system. For instance, participating chambers of commerce, development industry organizations and First Nations emphasized reducing barriers to access in the interest of, for example, affordability, economic development, access to housing, and access to energy in remote communities. One stakeholder expressed reticence about reducing barriers, emphasizing greenhouse gas (GHG) emissions.

FEI submits that, ultimately, the MX and Connection Policies should be evaluated against how they achieve their long-recognized rate design purpose of treating new and existing customers equitably. The proposals in this Application will advance that objective, based on the best available information.

- Principle 1: Recovering the Cost of Service; the aggregate of all customer rates and revenues must be sufficient to recover the utility's total cost of service.
- Principle 2: Fair apportionment of costs among customers.
- Principle 3: Price signals that encourage efficient use and discourage inefficient use.
- Principle 4: Customer understanding and acceptance.
- Principle 5: Practical and cost-effective to implement.
- Principle 6: Rate stability.
- Principle 7: Revenue stability.
- Principle 8: Avoidance of undue discrimination.

- 1.1 Recognizing that avoiding cross-subsidization between customer groups is a cornerstone of fair ratemaking, as demonstrated in Bonbright Principle 2, please discuss whether public policy issues relating to GHGs may be better addressed in a dedicated proceeding, and please identify all the ways in which FEI normally addresses public policy issues surrounding greenhouse gas emissions, such as with Demand Side Management ("DSM"), Renewable Natural Gas ("RNG"), and other activities.

Response:

FEI responds to public policy objectives set by government through its regulatory proceedings in which FEI seeks BCUC approval, where appropriate, of projects and expenditures that respond

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 2

to applicable legislation or regulation. Applicable legislation and regulations provide the policy framework for those proceedings and for FEI's activities more generally. Proceedings concerning individual infrastructure or connections, such as this MX Test proceeding, can then focus on their specific rate-design purpose of cost causation, economics, and fair treatment of customers while taking applicable local, provincial and federal legal requirements into account.

FEI addresses GHG-related public policy objectives through several established regulatory proceedings and other activities, including:

- LTGRPs, which evaluate long-term demand and supply scenarios and potential resources, including DSM, infrastructure and renewable and lower-carbon gas supply;
- DSM expenditure plans and programs, which support energy efficiency, conservation and advanced demand-side measures;
- RNG and other renewable and lower-carbon gas initiatives, including applications and compliance proceedings under the GGRR;
- The Clean Growth Innovation Fund (CGIF) and related innovation activities, which support the development and demonstration of lower-carbon technologies across gas production, distribution and end use; and
- Other applications and compliance processes through which FEI implements applicable legislation, regulations and applicable government energy objectives.

These mechanisms address GHG reduction objectives across FEI's system. In contrast, the MX Test is a rate design tool that determines how the incremental costs of a particular main extension should be allocated between the connecting customer and existing customers. As such, the MX Test is consistent with, but is not meant to advance, provincial GHG-related policy objectives.

- 1.2 Please discuss any consideration FEI provides to commercial or other customers employing technologies such as heat storage batteries that could further assist the utility in managing peak costs and provide the cost-effectiveness of any FEI offering.

Response:

FEI did not consider the use of technologies such as heat storage batteries in preparing this Application, as the Application is focused on the fairness of the MX Test and the cost of connecting new customers. However, new large volume commercial customers often employ a variety of strategies to manage energy use (capacity and volume), including but not limited to heat storage batteries, water heat storage, and multiple fuel usage including wood, electricity, and liquid fuels. When commercial customers are seeking to attach to the gas system, it is with respect to the gas requirements alone after any consideration of other energy requirements.

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 3

1
2
3
4 1.3 Recognizing that the implementation of such novel technologies are likely to occur
5 in new developments or in concert with new main extensions, please discuss how
6 FEI could appropriately assess and incorporate a value to this utility benefit and
7 apply it as a discount to any Contribution in Aid of Construction (“CIAC”) that may
8 be required by the MX Test. Please provide quantification of the benefits as
9 available.

10
11 **Response:**

12 To date, FEI has not observed an uptake of novel technologies in new developments beyond fuel
13 switching and water heat storage. Without specifically knowing what the technology is and how it
14 might benefit FEI, it is not possible to ascribe a value or benefit to FEI and its customers. However,
15 FEI’s DSM Plan incorporates an Innovative Technologies program area to study and support
16 pilots of new technologies that provide customer and system benefits. As such, it is more likely
17 that the benefit of novel technologies would be recognized and supported through FEI’s DSM
18 Plan than through amendments to the MX Test.

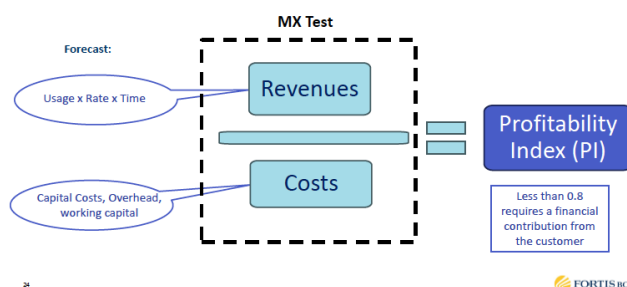
19 Further, the MX Test already accounts for situations where a customer is able to reduce their load
20 through alternative fuels or other technologies. For example, in some cases, the cost to attach a
21 gas customer may be too high for the customer and/or there may be insufficient capacity to
22 provide the requested service. In such cases, a customer may diversify their gas requirement by
23 using alternate sources of energy, which could reduce a potential CIAC because FEI would not
24 need to install assets to meet the higher load or capacity needs. In other words, the “discount”
25 referenced in CEC’s question is already embedded in the calculation. FEI notes, however, that a
26 reduction in gas volumes and revenues may not change the CIAC.

27

1 OBJECTIVES AND ASSUMPTIONS IN MX TEST

- 2 **2. References: Exhibit B-1, Appendix G, Slide 24**
- 3 **Exhibit B-1, pages 2, 4 and 14-15**

Main Extension Test Methodology



- 4
- 5 **1. The MX Test is used for all decisions to extend FEI's distribution system to connect new customers. Broadly speaking, the MX Test is an economic planning tool. It uses a Discounted Cash Flow (DCF) calculation and a set of reasonable assumptions about costs and potential revenues to calculate a Profitability Index (PI). The PI for an individual project is compared against a BCUC-determined PI threshold (currently 0.8) to determine whether a main extension to FEI's distribution system can proceed without a Contribution in Aid of Construction (CIAC) from the customer(s) wishing to connect. The BCUC has also determined that the extensions in aggregate in a year must exceed a specified aggregate PI (currently 1.1).**

Table 1-1: FEI Rate Impact Analysis Shows New Customer Connections Lower Delivery Rates

	2008-2014 7 Years	2015-2019 5 Years	2017-2025 9 Years
Average Cost per GJ with Growth	\$ 4.16	\$ 4.17	\$ 6.72
Average Cost per GJ without Growth	\$ 4.22	\$ 4.21	\$ 6.83
Rate Impact per GJ	\$ (0.06)	\$ (0.04)	\$ (0.12)
Percentage Rate Impact	-1.40%	-1.10%	-1.72%

- 6
- 7 **The MX Test is a discounted cashflow (DCF) analysis that considers the prospective revenues and costs associated with a planned main extension over a 40-year period by calculating the ratio of net present values (i.e., Profitability Index or PI) between the:**

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 5

1. Estimated net cash inflows over 40 years associated with the forecast of new attaching customers over a 5-year period (or a 10-year period in circumstances where a foreseeable build-out of customer attachments is longer than 5 years); and
2. Capital costs of attaching customers over a 5-year period (or a 10-year period in circumstances as noted above) of the main extension.

The discount rate used for the MX Test is based on FEI's pre-tax weighted average cost of capital (WACC) and is inflation adjusted. The MX Test formula is set out below:

$$PI = \frac{NPV(\text{Delivery Margin} + \text{Application Fees} - \text{O\&M} - \text{System Improvement Cost} - \text{Municipal \& Property Tax} - \text{Income Tax})}{NPV(\text{Capital Costs of Mains, Services, and Meters} + \text{Overhead} + \text{Working Capital})}$$

- 2.1 FEI's evidence is that the existing MX Discounted Cash Flow ("DCF") test is failing to minimize the subsidy from new customers to existing customers, as measured by the aggregate profitability index and rate impacts from new customers. Please confirm that achieving a target aggregate PI of 1.0, or close to 1.0, would minimize the subsidy from new customers to existing customers, and please identify those factors in the MX Test or other extension analyses that FEI considers are causing the current lack of fairness (negative rate impact for existing customers) to be perpetuated and provide quantification and supporting calculations for the reduction in subsidy where available.

Response:

An aggregate PI result of 1.0, or close to 1.0, would minimize the forecast surplus from the main extensions included in the calculation because their aggregate forecast revenues and CIACs would approximately equal their aggregate forecast costs. However, an aggregate PI of 1.0 would not necessarily eliminate any subsidy between new and existing customers overall. The aggregate PI is a forecast measure that applies to main extensions completed in a particular year and must be considered together with the RIA results, which uses actual information to assess the aggregate rate impact of growth from both main extensions and infill connections over multiple years.

As explained in the response to BCUC IR1 1.3, the aggregate PI threshold of 1.1 provides a reasonable expectation that FEI's main extension activities, considered together, will result in a portfolio-level forecast balance between new and existing customers.

Currently, the RIA shows that new customer growth has reduced delivery rates for existing customers, indicating that overall, the existing MX Test and Connection Policies allocate a disproportionate share of connection costs to new customers.

Proposed Recalibration in the Application

FEI has identified the individual PI threshold and the SLCA as appropriate areas for targeted recalibration to improve the allocation of connection costs between new and existing customers.

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 6

1 FEI proposes to reduce the individual PI threshold from 0.8 to 0.6, while maintaining the aggregate
2 PI threshold of 1.1, and to make targeted changes to the SLCA.

3 As shown in Table 7-2 of the Application, the cumulative effect of FEI's proposed changes is
4 estimated to reduce the delivery rate benefit to existing customers from 1.72 percent to 1.66
5 percent. The proposed changes therefore move the allocation of costs towards a fairer balance
6 while preserving a positive delivery rate benefit for existing customers.

7 ***Adjustments to Other MX Test Inputs***

8 FEI has made targeted adjustments using the best available information relevant to the distinct
9 purpose of each MX Test input. FEI prefers this approach over adjustments to broad MX Test
10 inputs as it introduces targeted incremental changes that move towards balance between new
11 and existing customers while providing opportunity to assess their efficacy and whether further
12 adjustments are warranted. This approach also preserves the distinct purpose of MX Test inputs
13 broadly. For example, the DCF term reflects the average service life and recovery period of the
14 assets associated with new connections, consumption credits are periodically updated based on
15 observed consumption information from the REUS, and the System Improvement cost input
16 reflects forecast system-wide improvement costs associated with growth.

17

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 7

1 **3. Reference: Exhibit B-1, pages 15-16 and 32**

2.2.1.1.1 DELIVERY MARGIN

The annual delivery margin is calculated as follows:

$$\text{Delivery Margin} = ((\text{FEI Basic Charge} \times \text{Number of Customers} \times 365) + (\text{FEI Delivery Charge} \times \text{Number of Customers} \times \text{Consumption per Customer})).$$

Number of Customer Attachments

The forecast of customer attachments to a main extension is based on discussions with the developer or the customer requiring the main extension. The number of customer attachments is different for each main extension. In some cases, there might only be one customer wishing to attach, while in other cases, such as with a developer, there may be many customers attaching to the same main extension over several years depending on the developer's plans and municipal approvals. While the typical MX Test uses a customer attachments forecast period of 5 years, in circumstances where it can be reasonably demonstrated that there is evidence for growth exceeding 5 years, a 10-year forecast period may be used.

As described in Section 3.1, the RIA looks at a relatively short portion of the economic life of the assets and therefore tends to understate the benefits to existing customers. It does not include all the load and customer attachments likely to occur over the useful life of the assets. The mains, services and meters in this analysis are, on average, only 4.5 years old and may not have had time to realize the load growth expected to occur over the initial 5- or 10-year forecasting periods, with the unrealized load growth over the assets' entire service life further contributing to the understatement of benefits. Given this context, it is notable that the RIA shows that new customer connections are already putting downward pressure on rates relatively early in the life of long-lived assets. The benefit to existing customers is occurring earlier than may have been expected, suggesting that new customers are bearing a disproportionate share of the costs to connect.

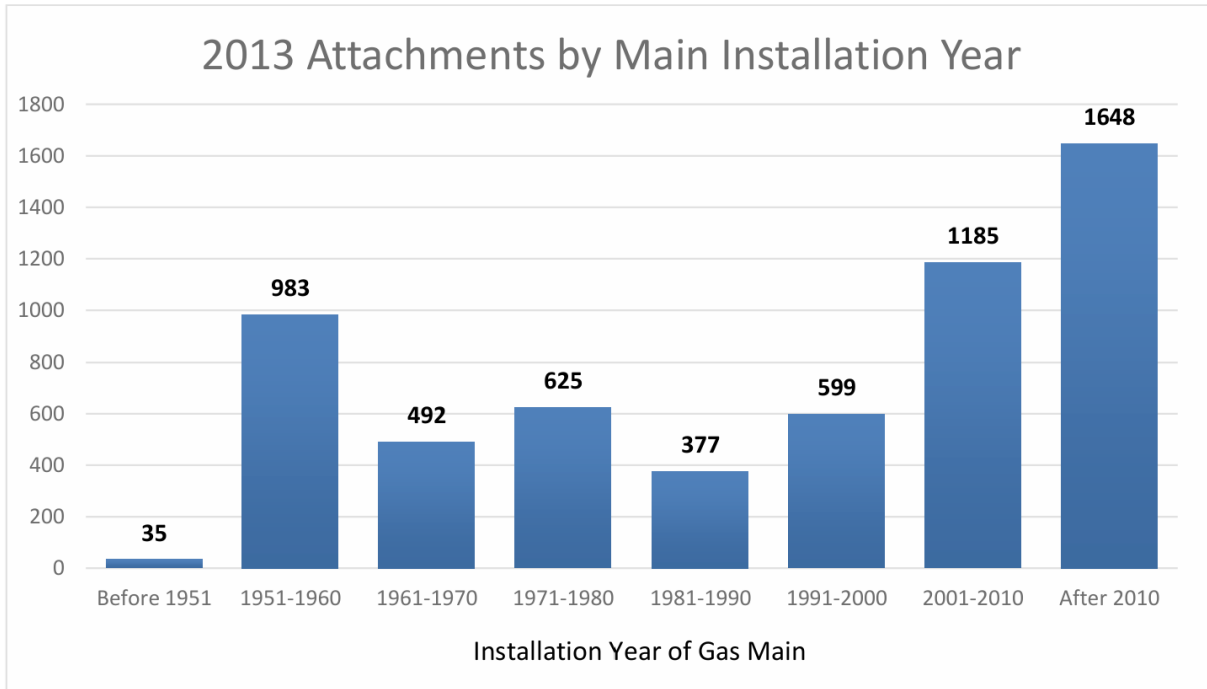
3.1 FEI indicates that the analysis addresses mains, services and meters that are only 4.5 years old, and may not realize all the relevant load growth. Please discuss how FEI arrived at the five years (or 10 years) period for forecasting customer attachments, and please provide any evidence FEI has available as to whether attachments may be continuing even beyond the 5- or 10-year forecast periods and quantify the impacts of extending the analysis time periods to 6, 7, 8, 9 and 10 years.

Response:

The five-year period for forecasting attachments was originally approved by BCUC Order G-80-96, which established the historical guidelines for utility system extension tests in British Columbia.¹ FEI then proposed to increase the five-year period for forecasting attachments to 10 years in certain circumstances as part of the 2015 System Extension Application.

¹ Order G-80-96, Utility System Extension Guidelines, p. 20.

1 As described in the 2015 System Extension Application, and in the response to BCUC IR1 3.1 in
 2 that proceeding,² attachments continue well beyond the 10-year attachment window, as shown in
 3 the figure below.



4
 5 The above figure shows 2013 customer attachments to mains based upon the installation year of
 6 the main, with the majority of attachments to a main occurring after the 10-year forecast period.
 7 Some attachments can occur for more than a 50-year period.

8 FEI has not updated this analysis to 2026 as the limitations to its information system require a
 9 labour intensive main-by-main review through FEI's CAFE system paired with a customer-by-
 10 customer matching through FEI's SAP system. While possible, this would take a substantial
 11 amount of time and effort beyond the IR response timeline.

12

² 2015 System Extension Application proceeding, Exhibit B-3, BCUC IR1 3.1.

1 **4. Reference: Exhibit B-1, page 16; Exhibit B-1, Appendix A, page 5**

Consumption Per Customer

The consumption per customer is a credit for the volume of gas to be consumed by each new customer attaching to the new main extension on a per-installed appliance basis. The average consumption per appliance used for the MX Test at this time is largely based on FEI's 2017 Residential End Use Study (REUS) with a few exceptions as noted in the MX Test Technical Guide (Appendix A, Section 2.1.1.3).

Table 2-2: Consumption Use per Appliance for MX Test

MX Test Appliance Consumption	GJ per Year
Barbeque	0.70
Boiler	51.70
Clothes Dryer	1.80
Fireplace - Décor	16.50
Fireplace - Heating	16.00
Furnace (Primary)	51.70
Furnace (Secondary)	23.30
Hot Tub	21.30
Hot Water Tank	25.10
Pool	39.30
Range/Cooktop	5.20
Wall Heater	7.10

In the case of residential customers, the number and type of appliances to be installed will be based on information provided by the customer or the developer. For example, if a

For commercial and industrial customers, consumption is evaluated on a case-by-case basis in accordance with the specific business needs and/or operational requirements, as well as the specific equipment/appliances to be installed by each customer.

4.1 Please elaborate on the types of equipment and consumption levels that might reasonably be associated with each non-residential rate class, and please:

- a) break down the number of customers by rate class for each of the last 10 years;
- b) provide the proportion of gas consumed by each rate class for each of the last 10 years; and
- c) discuss how over- or under-estimating of consumption would impact the appropriateness of the MX Test in addressing cross-subsidization and provide examples with quantification and supporting calculations.

Response:

Please find descriptions of the typical equipment and the average consumption levels of FEI's non-residential rate classes below. As noted on page 5 of the MX Test Technical Guide in Appendix A of the Application, and referenced in the preamble above, the consumption inputs for MX Tests completed for commercial and industrial customers are evaluated on a case-by-case basis. FEI's discussions with these customers, especially large commercial and industrial

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 10

customers, usually involve the customer's engineers or design consultants, informed by detailed engineering analysis completed in accordance with their specific business needs and/or operational requirements.

Small Commercial – RS 2

Appliances for small commercial customers typically consist of space heating, domestic hot water and commercial cooking equipment. Space and hot water heating equipment are often the same as residential equipment and may also include commercial equipment such as rooftop units, unit heaters, radiant tube heaters, and hot water boilers. Cooking equipment is generally commercial grade. Consumption may vary depending on whether the customer's operation has high process-related loads (e.g., restaurants) compared to customers primarily with heating and hot water loads. RS 2 customers consume approximately 325 GJ per year on average and may consume up to 2,000 GJ per year under FEI's tariff.

Large Commercial – RS 3 and 23

Customers with annual consumption of over 2,000 GJ are eligible under these rate schedules. There is no typical list of equipment and consumption levels for customers in these rate classes, as the gas burning equipment used by these customers can vary widely. As discussed above, FEI works with the customers (and their engineers/consultants) directly to obtain information – such as the BTU rating of the equipment to be installed and its expected operating hours – to estimate the expected annual consumption for the MX Test. The profile of each customer can differ substantially depending on building size, occupancy and whether gas is used for process-related activities or for heating only. The current average consumption of RS 3 is approximately 3,650 GJ per year, while the current average consumption of RS 23 customers is approximately 5,700 GJ per year.

Industrial Service – RS 4, 5, 6, 7, 22, 25, and 27

There is no typical list of equipment or consumption levels for industrial customers given the substantial diversity of industrial facilities, including hospitals, universities, office towers, condo buildings, shopping centers, aquatic centers, manufacturing facilities, mills, etc. As discussed above, FEI works with the customers (and their engineers/consultants) directly to estimate the expected annual consumption used in the MX Test. The current average consumption for these industrial rate classes is as follows:

- **RS 4 (Seasonal Service):** approximately 8,550 GJ per year;
- **RS 5 (General Service):** approximately 14,150 GJ per year;
- **RS 6 (Natural Gas Vehicle Service):** approximately 914 GJ per year;
- **RS 7 (Interruptible Service):** approximately 101,425 GJ per year;
- **RS 22 (Large Volume Transportation Service):** approximately 590,246 GJ per year;
- **RS 25 (General Firm Transportation Service):** approximately 29,276 GJ per year; and

- **RS 27 (Interruptible Transportation Service):** approximately 70,169 GJ per year.

Please refer to Table 1 below for the number of non-residential new customers (gross customer additions) by rate class from 2016 to 2025.

Table 1: New Non-Residential Customer Additions by Rate Class (2016 to 2025)

Rate Schedule	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Rate 2	1,448	1,496	3,308	3,280	2,900	3,020	2,644	3,062	1,420	2,861
Rate 3	212	164	324	332	290	258	236	224	101	222
Rate 4	-	-	-	-	-	-	-	-	2	-
Rate 5	21	26	22	76	42	56	40	34	8	-
Rate 6	-	-	-	-	-	-	-	-	-	-
Rate 7	1	3	2	6	2	-	-	2	-	7
Rate 22	-	-	-	-	-	-	-	-	-	-
Rate 23	25	8	12	22	8	16	12	-	4	25
Rate 25	1	5	4	8	4	6	2	2	-	7
Rate 27	1	3	6	4	4	-	2	-	-	-
Grand Total	1,709	1,705	3,678	3,728	3,250	3,356	2,936	3,324	1,535	3,122

Please refer to Table 2 below for the proportion of consumption associated with the gross customer additions in Table 1 attributable to each rate class from 2016 to 2025.

Table 2: Proportion of Consumption Associated with New Non-Residential Customer Attachments by Rate Class (2016 to 2025)

Rate Schedule	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Rate 2	19%	10%	17%	18%	23%	19%	29%	35%	42%	27%
Rate 3	39%	20%	23%	25%	32%	27%	35%	27%	31%	53%
Rate 4	-%	-%	-%	-%	-%	-%	-%	-%	1%	-%
Rate 5	32%	24%	28%	35%	30%	32%	25%	28%	21%	9%
Rate 6	-%	-%	-%	-%	-%	-%	-%	-%	-%	-%
Rate 7	4%	28%	14%	11%	-%	-%	-%	10%	-%	-%
Rate 22	-%	-%	-%	-%	-%	-%	-%	-%	-%	-%
Rate 23	4%	1%	1%	3%	1%	2%	4%	-%	4%	8%
Rate 25	1%	8%	4%	3%	2%	20%	1%	-%	-%	2%
Rate 27	1%	9%	12%	5%	11%	-%	7%	-%	-%	-%
Grand Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Table 1 above shows that while the majority of the new customer additions are small commercial customers under RS 2, in terms of consumption, the majority of the new gas volumes are from new larger commercial customers under RS 3 and general service customers under RS 5.

FEI notes that the estimated consumption used in the MX Tests is not used in FEI's revenue requirement and rate setting applications, or in FEI's forecasts of system improvements or other

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 12

1 capital expenditures. Rather, FEI uses historical demand to forecast consumption for rate-setting
2 purposes, and peak-day demand and design peaks for capital forecasting purposes. As such, the
3 only implication of over- or under-estimating the consumption used in the MX Test would be over-
4 or under-calculating the CIAC needed from the customers or developers wishing to connect to
5 FEI's system. For instance, if the consumption is under-forecast in the MX Test, FEI would have
6 collected a larger CIAC than was needed to achieve an individual PI of 0.8, thereby benefiting
7 existing customers. In contrast, if the consumption is over-forecast, FEI will have collected too
8 small a CIAC, thereby benefiting the new customer.

9 It is important to note that there would only ever be a very minor impact on FEI's delivery rates
10 due to over- or under-calculating the CIAC amount. As discussed on page 44 of the Application,
11 the total aggregate amount of CIAC is small (averaging approximately 3 percent) when compared
12 to the total aggregate direct costs of main extensions from 2017 to 2025. Therefore, even if the
13 CIAC was over- or under-calculated by 100 percent, it would only have a minor effect on FEI's
14 delivery rates. For example, Table 4-4 of the Application shows that if the DCF term were
15 shortened to 20 years, the aggregate CIAC requirement would increase by approximately 333
16 percent from \$0.980 million to \$4.242 million, which is equivalent to a delivery rate impact of 0.19
17 percent, as shown in Table 4-5 of the Application (i.e., the difference between 40 years and 20
18 years). As discussed above, FEI typically works with the customer/developer's engineers or
19 consultants directly to estimate the expected consumption of the new attachment for the purpose
20 of the MX Test. These discussions are often informed by detailed engineering design and
21 analysis, generally resulting in a high level of accuracy for the initial consumption estimate. As a
22 result, it is highly unlikely that the consumption figures used in the MX Tests would be over- or
23 under-estimated by as much as 333 percent relative to actual, and even if this occurred, it would
24 result in a minor delivery rate impact to existing customers (or existing customers cross-
25 subsidizing new customers in terms of delivery rate impact).

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 13

1 **5. Reference: Exhibit B-1, pages 18 and 41**

2.2.1.1.4 **SYSTEM IMPROVEMENT (SI) COSTS**

The SI Cost input to the MX Test serves as a proxy for the incremental system improvement costs associated with growth not attributable to any specific customer. As part of the MX Test, the SI Cost is calculated as:

$$\text{SI} = \text{Number of Customer Attachments} \times \text{Consumption per Customer} \times \text{SI Charge per GJ}$$

System Improvements are planned annually to meet capacity constraints in certain areas of the gas system based on a forecast of growth in distribution system capacity requirements. System Improvement requirements can be caused by increases in consumption by existing customers and increases in consumption driven by the addition of customers. The current method of determining the SI Charge was originally developed in 1994 as a proxy so that a notional amount for System Improvement costs could be considered within the MX Test.

The SI Charge per GJ is updated on an annual basis.

- **System improvement / reinforcement costs:** There is no universally accepted approach for addressing system improvement / reinforcement costs (i.e., the costs associated with system upgrades that occur while the new main extension is installed) in the system extension policies. In some cases, these costs are excluded from the test and recovered from all customers in revenue requirements. The costs may alternatively be considered as part of the aggregate profitability analysis but excluded from the project level profitability analysis or considered at both aggregate and project level analysis. FEI includes system reinforcement costs, known as the SI Charge, in its individual project level MX Tests. Including an SI Charge in FEI's MX Test means that new customers are contributing to system upgrades that occur while the new main extension is being installed.

5.1 FEI states that system improvements can be caused by increases in consumption driven either by existing customers or new customers. Please elaborate on how the System Improvement Charge in FEI's MX Test avoids charging new customers for improvement costs that may be generated by existing customers and provide quantification of the amounts and percentage proportions of costs arising from existing and new customers.

Response:

The current method for the SI Charge included in FEI's MX Test does not make any assumptions on whether the system improvement cost is caused by existing or new customers. It conservatively includes all system improvement costs in the calculation of the SI Charge as part of the MX Test.

Since the need for system improvements depends on the overall growth in the peak demand of a particular main that serves both new and existing customers, an alternative approach would be applying the same 50 percent allocation of system improvement costs to the MX Test that was applied to the 2017-2025 RIA (as explained in the response to BCUC IR1 11.2). Please refer to Table 1 below which shows that if only 50 percent of the *5-Year Forecast of FEI's Total System*

1 *Improvement* (Line 2) is included, the SI Charge used in the 2025 MX Test would be reduced
2 from \$1.04 per GJ to \$0.52 per GJ.

3 **Table 1: SI Charge Calculation for the 2025 MX Test**

Line	Main Extension Tests Rate Schedule	100% of SI Included (Current: 2025 MX Test)	50% of SI Included	Calculations
1	5-Year Forecast Increase of FEI's Peak Day Demand (TJs)	46	46	
2	5-Year Forecast of FEI's Total System Improvement (\$000s)	74.322	37.161	50% of 2025 MX Test
3	Investment Cost per GJ of Peak Capacity - \$/GJ	\$ 1,615.69	\$ 807.84	Line 2 / Line 1
4	5-Year Average Forecast Load Factor	0.335	0.335	
5	Investment Cost per GJ of Annual Capacity - \$/GJ	\$ 13.23	\$ 6.61	Line 3 / (Line 4 x 365 days)
6	Financing Cost per \$1,000	\$ 78.33	\$ 78.33	
7	Levelized SI Charge (\$/GJ)	\$ 1.04	\$ 0.52	Line 5 x Line 6 / 1,000

5 Please refer to Table 2 below which shows the impact to the CIAC requirement based on the 2025
6 MX Test data if the SI Charge used in the MX Test is based on 50 percent of the 5-year forecast
7 of system improvement costs instead of 100 percent. As shown in Table 2, the aggregate CIAC
8 requirement would decrease by approximately 17 percent, from \$0.980 million to \$0.818 million,
9 while the average CIAC requirement would decrease by approximately 12 percent, from \$13.8
10 thousand to \$12.2 thousand.

11 **Table 2: Illustration of Changes in CIAC Requirements (Aggregate, Average, and Highest) Under**
12 **Lower SI Charge (Based on 2025 Data)**

SI Charge	Projects Requiring CIAC	Percentage of Projects Requiring CIAC	Aggregate CIAC Requirement (\$)	Average CIAC Requirement (\$)	Highest CIAC Requirement (\$)
CEC IR1 5.1 (\$0.52/GJ)	67	17%	\$ 818,470	\$ 12,216	\$ 89,209
Approved (\$1.04/GJ)	71	18%	\$ 980,532	\$ 13,810	\$ 102,294

1 **6. Reference: Exhibit B-1, pages 41, 42, 44 and 45**

As discussed below, the 40-year DCF term continues to be appropriate because it closely reflects the weighted average service life of the assets associated with new connections, including new distribution mains, services, meters, and related assets, in accordance with FEI's most recently approved depreciation study.⁵⁶ Additionally, FEI's analysis shows that shortening the term while holding all other factors constant would have a very significant negative impact on new customers

Table 4-4: Illustration of Changes in CIAC Requirements (Aggregate, Average, and Highest) Under Alternative DCF Terms (Based on 2025 Data)

DCF Term (Years)	Projects Requiring CIAC	Percentage of Projects Requiring CIAC	Aggregate CIAC Requirement (\$)	Average CIAC Requirement (\$)	Highest CIAC Requirement (\$)
60	62	15%	\$ 686,902	\$ 11,079	\$ 87,867
50	67	17%	\$ 794,492	\$ 11,858	\$ 94,032
40	71	18%	\$ 980,532	\$ 13,810	\$ 102,294
30	112	28%	\$ 1,612,649	\$ 14,399	\$ 113,406
20	173	43%	\$ 4,242,401	\$ 24,523	\$ 638,129

Table 4-6: Estimated Rate Impacts Due to New Customers Connections if DCF Term of the MX Test is Changed (Based on 2017-2025 RIA Results)

2017-2025 RIA	DCF Term				
	60 Years	50 Years	40 Years	30 Years	20 Years
Average Cost per GJ with Growth	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715
Average Cost per GJ without Growth	\$ 6.829	\$ 6.831	\$ 6.833	\$ 6.835	\$ 6.846
Rate Impact per GJ	\$ (0.114)	\$ (0.115)	\$ (0.118)	\$ (0.120)	\$ (0.131)
Percentage Rate Impact	-1.67%	-1.69%	-1.72%	-1.76%	-1.91%
Change in Percentage Rate Impact from 40 years	0.05%	0.03%	0.00%	-0.04%	-0.19%

4. **A 50- or 60-year term is not justified:** While extending the DCF term could, all things equal, lower the connection costs to new customers and directionally move the RIA results closer to equilibrium, it would be misaligned with the assets' expected service lives and have only a minor impact on delivery rates. As explained above, 40 years approximates the expected service life – approximately 44 years based on the weighted average of FEI's mains, meters, regulators, and service lines depreciation rates. Further, as observed above, extending the DCF term to 50 or 60 years would only have a minor impact on the CIAC requirement of each project and therefore have only a minor impact on customer delivery rates.

- 6.1 Please provide the actual service life data for FEI's current mains, meters, regulators, and service lines, as well as the expected service lives for new mains, meters, regulators, and service lines.

Response:

FEI utilizes pool accounting for its assets and therefore does not track the actual life of each individual main, meter, regulator, and service line. FEI completes a depreciation study periodically for BCUC approval (typically every five years) which assesses the average remaining life and recommends a depreciation rate for each asset group based on new additions, retirements, net

salvage costs and any gains/losses during each period. FEI's most recent depreciation study was completed in 2024, based on data as of December 31, 2022, and was approved by the BCUC as part of the 2025-2027 Rate Setting Framework (RSF) Decision and Order G-69-25.

In consideration that FEI does not track the actual service life of each individual main, meter, regulator, and service line, FEI provides Table 1 below showing the average service life based on the currently approved depreciation rates (which account for new and existing assets as well as any gains/loss)³ and the expected service life for new assets from the approved 2022 depreciation study that would be associated with new customer connections (i.e., mains, meters, regulators, and service lines).

As Table 1 shows, the majority of FEI's assets associated with new customer connections are the mains and service lines, both of which are expected to be useful beyond the 40-year DCF term used in the MX Test.

Table 1: Current Average Service Life and Expected Service Life for Distribution Assets Associated with New Customer Connections

Asset Account	Description	Gross Plant In-Service (\$000s)	Approved Depreciation Rate	Average Life of Current Assets (1 / Depreciation Rate) (Yrs)	Expected Service Life from Depreciation Study (Yrs)
473-00	Services	\$ 1,778,059	2.11%	47	47
474-00	House Regulators & Meter Installations	187,263	4.35%	23	23
474-02	Meters/Regulators Installations	265,019	4.55%	22	22
475-00	Mains	2,531,864	1.42%	70	65
477-10	Measuring & Regulating Equipment	271,542	2.66%	38	34
478-10	Meters ¹	450,000	5.00%	20	18
Weighted		\$ 5,483,747	2.25%	44	50

Note to Table:

¹ FEI is currently undertaking the AMI CPCN Project which includes the replacement of all of FEI's old diaphragm meters with AMI meters. All new customers attaching to FEI's system will now be fitted with AMI meters. As such, for the meters asset class, FEI used the approved depreciation rate of 5 percent for AMI meters and the forecast total capital cost of the AMI meters from the AMI Project CPCN Application for the weighted average calculation in the table above.

³ Calculated as 1 / Depreciation Rate based on straight-line depreciation, i.e., for the service line the current average life is 1 / 2.11% = 47 years.

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 17

OVERHEAD RATE INCLUDED IN MX TEST

7. Reference: Exhibit B-1, Appendix A, page 9

2.2.2 Overhead

The overhead is a proxy for the incremental general costs that are incurred to install main extensions but cannot be associated with any particular main extension project. Example of these general costs include administrative duties, right of way management, and government fees. For the purpose of the MX Test, overhead is calculated by multiplying the costs of mains, services, and meters by the overhead rate, which is updated annually.

The overhead rate is a combination of direct and indirect overhead related to capital additions. For direct overhead, which reflects planning costs for main extensions that have not been charged to a specific project, the direct overhead rate is set based on a three-year weighted average of actual planning costs divided by the actual mains and services additions (i.e., 2026 MX Test would be based on the weighted average of 2022 to 2024). For indirect overhead, which reflects a portion of FEI's general overhead, the indirect overhead rate is calculated using the following steps:

- 7.1 The CEC understands that the planning costs included in the 'direct overhead' rate excludes all planning costs that were already attributed to a project in the Mains Extension test. Please elaborate on why activities such as 'Right of Way' management or 'government fees' cannot be attributable to a given extension and further explain how the planning costs can be identified as variable and exclusive to the new mains extensions and not otherwise be represented in any other fees that incorporate overhead.

Response:

Activities such as Right of Way management and government fee administration may support multiple mains extension projects and are not always incurred on a project-specific basis. For example, Right of Way activities may include easement and statutory right-of-way administration, landowner coordination, and land right reviews that cover multiple projects at once. Similarly, government fee activities may include permit application and processing fees, land title registration fees and municipal permitting requirements for multiple projects at once. There are also circumstances where Right of Way reviews or government administration duties have been started/completed but the project might be changed or cancelled such that it cannot be reasonably allocated to a particular extension project.

Planning and support costs are also often not tied to a specific project. Planning work may be undertaken in support of multiple projects at once (e.g., same customer/developer) or a proposed main extension project may be subsequently modified, delayed or cancelled before the associated planning effort can be capitalized to a specific job.

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 18

1 **8. Reference: Exhibit B-1, Appendix A, pages 9-10**

be based on the weighted average of 2022 to 2024). For indirect overhead, which reflects a portion of FEI's general overhead, the indirect overhead rate is calculated using the following steps:

- 1) Divide FEI's total capitalized overhead that is allocated to the assets related to services, mains, house regulators, and meters by the capital additions in those same categories to calculate a percentage.
- 2) Determine an incremental percent of indirect overhead applicable to mains extensions by using the most recent capitalized overhead study and the overhead capitalized pool represented by the O&M activities of Distribution Operations. The Distribution Operations portion represents the portion that is directly attributable (incremental) to mains extensions.
- 3) Apply the percentage calculated in Step 2) to the percentage determined in Step 1).

For main extensions where capital costs are estimated to be less than \$25,000, an annual fixed overhead rate is used in the MX Test which is equal to the sum of the direct overhead percentage and the indirect overhead percentage described above. For the 2026 MX Test, the annual fixed overhead rate is 17.38 percent.

8.1 FEI appears to use a 'fixed overhead' cost for all capital expenditures, as compared to a 'variable' overhead cost, meaning that the included costs do not vary with the addition of new mains, services, and meters. Please provide the total overhead costs allocated to mains and extensions capital expenditures and the total cost of the mains extensions capital forecasts for the next 5 years, showing the % for the overheads that would be applied.

Response:

The understanding that FEI's overhead costs do not vary with the addition of new mains, services and meters is incorrect. In the MX Test, the term "fixed overhead" refers to a fixed percentage rate, not a fixed dollar amount. The overhead dollars allocated to a project vary with the size of the project because the overhead is calculated by applying the approved percentage rate or sliding-scale formula, as applicable, to the project's direct capital costs, as follows:

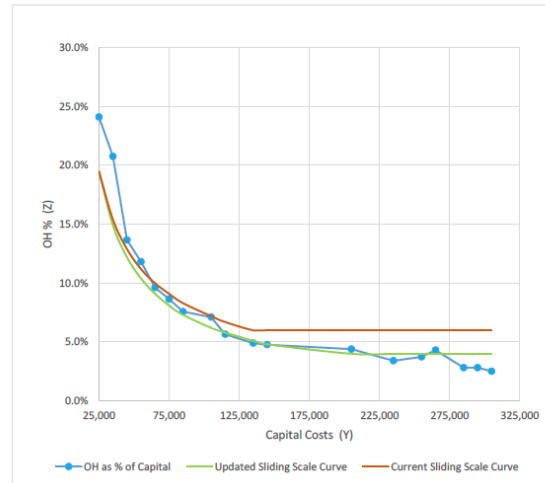
- For projects with direct costs of \$25,000 or less, FEI applies the approved percentage rate, which is 17.38 percent for the 2026 MX Test and is updated annually.
- For projects above \$25,000, FEI applies the sliding scale overhead formula, which reduces the overhead percentage as the project size increases, down to a minimum rate of 6 percent under the current methodology. FEI proposes to reduce the minimum rate to 4 percent based on actual data from 2020 to 2024.

FEI is unable to provide the requested total overhead costs and main extension capital costs for the next five years. FEI does not prepare a multi-year capital forecast for future main extensions because these projects arise when customers request service and are evaluated individually through the MX Test. As a result, there is no aggregate five-year capital forecast or corresponding overhead forecast specific to main extensions.

1 OVERHEAD RATE FOR MAIN EXTENSION CAPITAL COST GREATER THAN \$25,000

2 9. Reference: Exhibit B-1, pages 55 and 56

Figure 4-2: Overhead as a Percentage of Capital Cost & Sliding Scale Overhead Formula



3

Main Extension Capital Cost greater than \$25,000:

- The MX Test will calculate the overhead rate as set out in the formula below.

$$Z = \text{Greater of } \left(\frac{X}{25,000^{0.8}} \times Y^{-0.8} \right) \text{ OR } 4\%$$

Where:

X = Annual fixed overhead rate

Y = Capital cost of project (before overheads applied)

Z = Overhead rate used for this project in MX Test

4

4.4.2 Proposed Update Has Minimal Impacts on CIAC, Aggregate PI or RIA

Consistent with previous MX Test applications, FEI is proposing to update the sliding-scale overhead formula in the MX Test to reflect the latest information. This proposed update has an immaterial impact on the aggregate PI, the CIAC requirement or the RIA results. Using the 2025 MX Test data, if the updated sliding scale formula were applied, the aggregate PI would have changed from 2.15 to 2.18, and the aggregate CIAC requirement would change from approximately \$0.980 million to approximately \$0.950 million. If the proposed update to the sliding scale formula was applied to the MX Tests from 2017 to 2025, the RIA result would have only changed by approximately 0.001 percent.

5

6 9.1 Please provide the expected impact on the aggregate PI if the sliding scale
7 overhead cost had a 2% minimum, a 1% minimum, no minimum, or was removed
8 as a cost altogether.

9

10 Response:

11 Please refer to Table 1 below for the impact on the CIAC requirement and the aggregate PI (net
12 of CIAC) if:

- the floor of the sliding scale (applied to projects over \$25,000) is changed to 2 percent, 1 percent, and zero percent (no minimum); and
- the sliding scale is removed altogether.

Please also refer to Table 2 for the impact to the 2017-2025 RIA results under the same scenarios listed above. FEI notes that if the sliding scale overhead is removed, the annual fixed overhead rate will be applied to all projects whether it is above or below \$25,000.

Table 1: CIAC Requirements and Aggregate PI (net of CIAC) if Sliding Scale Overhead Floor is Changed to 2%, 1%, 0%, or if Sliding Scale is Removed

SI Charge Methodology	Projects Requiring CIAC	Percentage of Projects Requiring CIAC	Aggregate CIAC Requirement (\$)	Average CIAC Requirement (\$)	Highest CIAC Requirement (\$)	Aggregate PI (Net of CIAC)
Current	71	18%	\$ 980,532	\$ 13,810	\$ 102,294	2.15
Proposed (4% Floor)	71	18%	\$ 950,034	\$ 13,381	\$ 98,938	2.18
2%/1%/0% Floor	71	18%	\$ 929,800	\$ 13,096	\$ 97,465	2.21
Remove Sliding Scale	90	22%	\$ 1,380,301	\$ 15,337	\$ 120,886	1.98

Table 2: Changes to 2017-2025 RIA Results if Sliding Scale Overhead Floor is Changed to 2%, 1%, 0%, or if Slide Scale is Removed

2017-2025 RIA	Sliding Scale Overhead Formula			
	Current	Proposed (4% Floor)	2%/1%/0%	Remove Sliding Scale
Average Cost per GJ with Growth	\$ 6.7152	\$ 6.7152	\$ 6.7152	\$ 6.7152
Average Cost per GJ without Growth	\$ 6.8327	\$ 6.8327	\$ 6.8326	\$ 6.8342
Rate Impact per GJ	\$ (0.1175)	\$ (0.1175)	\$ (0.1174)	\$ (0.1189)
Percentage Rate Impact	-1.720%	-1.719%	-1.719%	-1.740%
Change in Percentage Rate Impact from Current	0.000%	0.001%	0.002%	-0.020%

There is essentially no difference in terms of the CIAC requirement or aggregate PI (net of CIAC) if the sliding scale overhead floor is changed to 2 percent, 1 percent, or 0 percent after rounding. Further, the difference compared to the proposed floor of 4 percent is small. However, removing the sliding scale overhead for projects over \$25,000 (i.e., applying the fixed annual overhead rate to all projects) would have a material impact on the CIAC requirements.

As explained in Section 2.2.2 of the MX Test Technical Guide included in Appendix A of the Application, the purpose of the sliding scale is to estimate the overhead costs for larger projects more accurately since overhead costs do not have a linear relationship to the direct capital cost of a main extension (as shown in Figure 4-2 of the Application). If the same fixed annual overhead rate is applied to all projects below and above \$25,000, significant overhead costs would be applied to the MX Tests of large projects (especially those projects that cost over \$100,000), causing these projects to fail (or require large CIAC payments) even though high overhead costs are not actually occurring. Based on the 2025 MX Test data, the aggregate CIAC requirement would increase from the current \$0.980 million to \$1.380 million, which is an increase of approximately 40.8 percent.

1 **IMPACT OF CHANGES OF INDIVIDUAL PIS TO AGGREGATE PI**

2 **10. Reference: Exhibit B-1, pages 36, 49, 50, 52 and 52**

- **Aggregate Level:** An aggregate PI target of 1.0 (in FEI's case, 1.1) provides a reasonable expectation that adding new customers is not expected to be detrimental to existing customers based on current information.
- **Individual Project Level:** An individual PI threshold (i.e., floor) that is lower than the aggregate target provides flexibility to account for unique circumstances and prevents the undue exclusion of new connections.

Table 4-8: Illustration of Changes in Main Extension CIAC Requirement (Aggregate, Average, and Highest) Under Alternative Minimum Individual PI Thresholds (Based on 2025 Data)

Individual PI Threshold	Projects Requiring CIAC	Percentage of Projects Requiring CIAC	Aggregate CIAC Requirement (\$)	Average CIAC Requirement (\$)	Highest CIAC Requirement (\$)
0.5	31	8%	\$ 254,242	\$ 8,201	\$ 39,757
0.6	43	11%	\$ 393,650	\$ 9,155	\$ 57,819
0.7	64	16%	\$ 624,157	\$ 9,752	\$ 80,057
0.8	71	18%	\$ 980,532	\$ 13,810	\$ 102,294
0.9	109	27%	\$ 1,663,705	\$ 15,263	\$ 124,532
1.0	136	34%	\$ 2,938,454	\$ 21,606	\$ 301,974
1.1	155	39%	\$ 4,713,589	\$ 30,410	\$ 671,579

Table 4-9: Estimated Rate Impacts Due to New Customers Connections if the Minimum Individual PI Threshold of the MX Test is Changed (Based on 2017-2025 RIA Results)

2017-2025 RIA	Minimum Individual PI Threshold						
	0.5	0.6	0.7	0.8	0.9	1.0	1.1
Average Cost per GJ with Growth	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715	\$ 6.715
Average Cost per GJ without Growth	\$ 6.830	\$ 6.831	\$ 6.832	\$ 6.833	\$ 6.835	\$ 6.838	\$ 6.842
Rate Impact per GJ	\$ (0.115)	\$ (0.116)	\$ (0.116)	\$ (0.118)	\$ (0.120)	\$ (0.122)	\$ (0.127)
Percentage Rate Impact	-1.68%	-1.69%	-1.70%	-1.72%	-1.75%	-1.79%	-1.85%
Change in Percentage Rate Impact from PI @ 0.8	0.04%	0.03%	0.02%	0.00%	-0.03%	-0.07%	-0.13%

Table 4-11: Comparison of 2017 to 2025 Aggregate PI between Minimum Individual PI Threshold of 0.8 and 0.6

Aggregate PI (net of CIAC)		
Year	Minimum Individual PI Threshold = 0.8 (Current)	Minimum Individual PI Threshold = 0.6 (Proposed)
2017	4.12	4.09
2018	1.82	1.81
2019	1.87	1.86
2020	2.00	1.99
2021	2.12	2.11
2022	1.91	1.89
2023	2.00	1.97
2024	1.97	1.95
2025	2.15	2.14

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 22

The following calculation mathematically determines the theoretical number of additional projects all with an individual PI of 0.6 (i.e., those just meeting the threshold of the MX Test without needing a CIAC) that could cause the overall aggregate PI to decrease to 1.1. Based on the average cost of the projects from the 2025 MX Test data, it would require an additional 833 projects (all of which were just meeting a minimum PI threshold of 0.6) in order to cause the overall aggregate PI to decrease from 2.14 to 1.1. Considering there were only 413 actual projects from the 2025 MX Test data, such an outcome is highly unlikely. As such, even if the individual minimum PI threshold is reduced from 0.8 to 0.6, the likelihood of the aggregate PI being reduced to 1.1 is very small.

10.1 The evidence indicates that under a threshold of 0.5 Individual PI and FEI historically could expect a positive contribution from new customers to existing customers at an aggregate level. At a threshold PI of 0.6, there also remains a significant aggregate PI of 2.14, well above the Commission's criteria. At pages 53 and 54 of the Application (Exhibit B-1), FEI provides calculations demonstrating that an additional 833 projects with a PI @0.6 would be required to even meet an aggregate PI of 1.1. Using the best available information, and assuming an appropriate level of uptake, please provide FEI's estimate as to the individual PI level that could reasonably be expected to result in an aggregate PI of 1.1 and of 1.0, and please provide the supporting assumptions and calculations.

Response:

Based on the 2025 MX Test data, no individual PI threshold at or above zero would reduce the aggregate PI for the 2025 portfolio to 1.1 or 1.0. Even at an individual PI threshold of zero, the aggregate PI would remain approximately 2.13.

To reduce that aggregate PI to 1.1, FEI would need to add approximately 375 projects, each with an individual PI of zero and an NPV of project costs equal to the average for all 2025 main extensions.

To reduce the aggregate PI to 1.0, FEI would need to add approximately 453 projects using the same assumptions.

Compared to the 413 projects completed in 2025, these scenarios represent increases of approximately 91 percent and 110 percent, respectively. They also assume that every additional project would have no forecast revenue. FEI does not consider these assumptions to represent a reasonable estimate of the number or characteristics of additional projects that would proceed at a lower individual PI threshold.

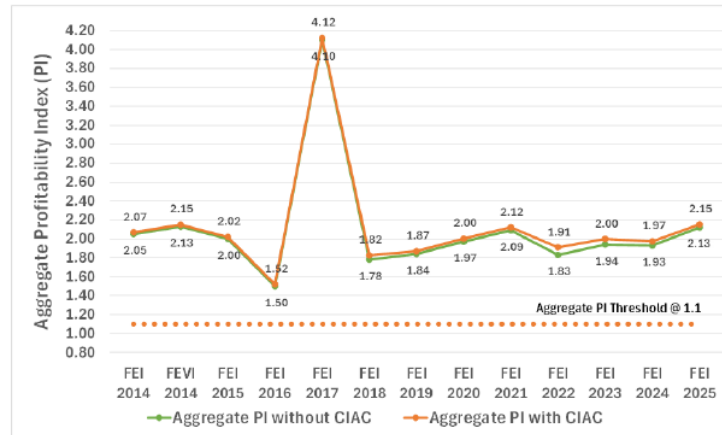
As shown in the response to BCUC IR1 3.3, FEI has consistently connected more projects with an individual PI above 1.0 than projects with an individual PI below 1.0 from 2017 to 2025. This historical distribution further demonstrates why the aggregate PI cannot be expected to equal 1.1 or 1.0 solely by selecting a lower individual PI threshold.

FEI expects that its proposal to reduce the individual PI threshold from 0.8 to 0.6 will directionally improve the balance between new and existing customers, as discussed in Section 4.3.3.3 of the Application. The proposed threshold is a targeted and readily understood adjustment that reduces CIAC requirements while retaining the aggregate PI threshold of 1.1.

1 NEED FOR CIAC AND IMPACT OF CIAC ON CUSTOMERS

2 11. Reference: Exhibit B-1, page 47

Figure 4-1: Annual Aggregate PI Values and Minimum Threshold 2014-2025



While the figure above shows the aggregate PI with and without CIAC, it is not logical to consider any final MX Test PI without taking into account the CIAC received from the customer. Therefore, in Table 4-7 below, FEI provides the minimum and aggregate PI scores, including CIAC received, for all main extensions completed from 2014 through 2025.

11.1 The evidence indicates that even in the absence of any CIAC, there is a significant benefit (in the aggregate) from new customers connecting, and that the PI remains well above 1.1. In light of this information, please discuss whether or not FEI has considered eliminating the CIAC altogether for all, or for any group of new, customers, and, if yes, please provide any supporting calculations for FEI's analyses with respect to its determinations.

Response:

FEI has not considered eliminating the CIAC for all or any group of new customers. While the evidence in the Application shows that the aggregate PI remains well above 1.1 even in the absence of CIAC payments for the historical projects analyzed, FEI does not consider this a sufficient basis to remove the CIAC requirement. The CIAC serves two essential functions: (1) it supports cost causation; and (2) it provides a safeguard against uneconomic projects from proceeding where customers would otherwise face no upfront contribution.

FEI has not undertaken calculations or modelling regarding the elimination of CIACs. As discussed in the response to BCUC IR1 2.1, FEI cannot reliably estimate the number or characteristics of additional projects that might proceed if CIACs were eliminated. The historical aggregate PI without CIACs therefore does not establish how eliminating CIACs would affect the future project mix or aggregate PI. In the absence of that information, FEI cannot conclude that CIACs could be eliminated without shifting an inappropriate share of future connection costs to existing customers.

12. **Reference: Exhibit B-1, pages 49 and 62**

Table 4-8: Illustration of Changes in Main Extension CIAC Requirement (Aggregate, Average, and Highest) Under Alternative Minimum Individual PI Thresholds (Based on 2025 Data)

Individual PI Threshold	Projects Requiring CIAC	Percentage of Projects Requiring CIAC	Aggregate CIAC Requirement (\$)	Average CIAC Requirement (\$)	Highest CIAC Requirement (\$)
0.5	31	8%	\$ 254,242	\$ 8,201	\$ 39,757
0.6	43	11%	\$ 393,650	\$ 9,155	\$ 57,819
0.7	64	16%	\$ 624,157	\$ 9,752	\$ 80,057
0.8	71	18%	\$ 980,532	\$ 13,810	\$ 102,294
0.9	109	27%	\$ 1,663,705	\$ 15,263	\$ 124,532
1.0	136	34%	\$ 2,938,454	\$ 21,606	\$ 301,974
1.1	155	39%	\$ 4,713,589	\$ 30,410	\$ 671,579

Table 4-13: Illustration of Changes in Aggregate PI and CIAC Requirements (Aggregate, Average, and Highest) Under the Combined Proposed Changes (Based on 2025 Data)

	Aggregate PI (net of CIAC)	Projects Requiring CIAC	Percentage of Projects Requiring CIAC	Aggregate CIAC Requirement (\$)	Average CIAC Requirement (\$)	Highest CIAC Requirement (\$)
Current	2.15	71	18%	\$ 980,532	\$ 13,810	\$ 102,294
Incremental Change:						
1) Lower Individual PI Threshold to 0.6	(0.01)	(28)	-7%	\$ (586,882)	\$ (4,656)	\$ (44,476)
2) Update Overhead Sliding Scale Formula	0.03	(1)	0%	\$ (6,440)	\$ 65	\$ (2,517)
Proposed (Combined)	2.17	42	10%	\$ 387,210	\$ 9,219	\$ 55,301

12.1 Under the existing PI threshold of 0.8, 71 (or 18% of) projects require a CIAC, with the highest amount being over \$100,000, and that under the current proposal 10% of customers will require a CIAC, with the highest amount being about \$55,000. Noting that, as a group, new customers have a positive impact on rates, please discuss, and provide supporting evidence, as to if and how the CIAC requirement may have negatively impacted connections or prevented customers from connecting to FEI over the last 10 years, identify whether or not this could have had a perverse outcome for existing customers, and please discuss whether or not this could be a foreseeable result in the future.

Response:

As discussed in the response to BCUC IR1 2.1, FEI does not maintain a record of preliminary project inquiries that did not advance to project creation in its information system (CAFÉ). As such, FEI is unable to provide supporting evidence quantifying the number of potential connections that did not proceed because of a CIAC over the last 10 years. However, FEI expects that, all else equal, a higher CIAC would result in a potential customer being less likely to proceed with a connection.

FEI is also unable to quantify the impact that potential, but canceled connections would have had on existing customers. Such an assessment would require project-specific cost, load, PI and estimated CIAC information for the potential projects that did not proceed, together with assumptions regarding whether those projects would have proceeded at a lower CIAC. FEI does not maintain complete information for that analysis.

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 25

12.2 Please discuss whether or not FEI has considered implementing a rate rider in place of a CIAC, and please provide a preliminary concept as to how this could be implemented and please quantify the likely impacts of such a proposal on new customer connections with the main extension requirements.

Response:

FEI has not considered recovering a CIAC through a rate rider and has not developed a preliminary concept for implementing such an approach. FEI may finance a CIAC, which provides an existing means for a customer or developer to pay the CIAC over time rather than entirely upfront (akin to a rate rider).

FEI does not consider implementing a rate rider in place of a CIAC to be appropriate because it would be administratively burdensome and complex relative to the existing CIAC process for the following reasons:

- Given that FEI, on average, collects over a thousand main extension and service line CIACs each year (for example, there were 62 mains CIACs and 1,153 service line CIACs including all infill customers in 2025), implementing a rate rider would require FEI to incur costs to modify its billing system to apply and track a separate rider for each premises. FEI would also incur ongoing costs for additional staff and administrative processes to calculate the riders, track recovery of each CIAC over potentially different periods and determine when each CIAC has been fully recovered. For example, each CIAC might be recovered over different timelines and across different years, thus FEI would need to implement new administrative processes to determine when each CIAC is fully recovered for each individual premises. If the rate rider was volumetric (i.e., \$ per GJ), variations in customer consumption would create additional complexity in recovering the required amount due to the timing of when FEI would have to halt the rate rider from being applied so as to collect the appropriate CIAC amount.
- Rate riders are not currently shown separately on customer bills, which show the total basic charge or delivery charge, inclusive of any riders. Therefore, customers would not be able to track their CIAC payments through their bills, unless FEI incurred additional costs to modify the presentation of customer bills.
- Given that a rate rider would need to be associated with individual premises, administering CIAC rate riders would be particularly complex for main extensions that serve multiple customers, such as main extensions serving new multi-home developments, townhouse complexes or high-rise condominiums with individually metered units.⁴ The CIAC would need to be calculated and allocated among the individual premises served by the same

⁴ Most of FEI's main extensions provide service to more than one customer.

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 26

1 main extension that required a CIAC, potentially resulting in multiple rate riders for a single
2 CIAC, thereby further increasing the number of CIAC rate riders that needs to be
3 calculated and maintained each year (as noted above, FEI collects over a thousand CIACs
4 each year).

- 5 • Using a rate rider for a CIAC would also be challenging for contributory mains, where initial
6 contributing customers may receive partial refunds when additional customers connect to
7 the same main within the first 5 years (or 10 years for some mains). The CIAC rate riders
8 for these mains would have to be recalculated and adjusted each year (whether for 5 or
9 10 years) to reflect those additional contributions and refunds.

- 10 • Finally, the CIAC is typically paid by the developers or first customers connecting to the
11 new main extension. Recovering the CIAC through customer bills could instead transfer
12 costs otherwise payable by the developer or initial connecting customers to future
13 occupants of the premises.

14 FEI considers that it is unnecessary and overly complicated to use rate riders to recover a CIAC.
15 The existing process under which the initial customers or developers pay the CIAC directly is
16 simple, transparent and well-understood. FEI therefore would not be amenable to replacing the
17 existing approach with a rate rider alternative.

18

1 IMPACT OF ALL MX TEST PROPOSALS

2 13. Reference: Exhibit B-1, pages 62 and 63

Table 4-13: Illustration of Changes in Aggregate PI and CIAC Requirements (Aggregate, Average, and Highest) Under the Combined Proposed Changes (Based on 2025 Data)

	Aggregate PI (net of CIAC)	Projects Requiring CIAC	Percentage of Projects Requiring CIAC	Aggregate CIAC Requirement (\$)	Average CIAC Requirement (\$)	Highest CIAC Requirement (\$)
Current	2.15	71	18%	\$ 980,532	\$ 13,810	\$ 102,294
Incremental Change:						
1) Lower Individual PI Threshold to 0.6	(0.01)	(28)	-7%	\$ (586,882)	\$ (4,656)	\$ (44,476)
2) Update Overhead Sliding Scale Formula	0.03	(1)	0%	\$ (6,440)	\$ 65	\$ (2,517)
Proposed (Combined)	2.17	42	10%	\$ 387,210	\$ 9,219	\$ 55,301

Table 4-14: Combined Impact of Proposed Changes to the Aggregate PI from 2017 to 2025

Year	Combined Impact	
	Current	Proposed
2017	4.20	4.17
2018	1.82	1.81
2019	1.87	1.86
2020	2.00	1.98
2021	2.12	2.13
2022	1.91	1.91
2023	2.00	2.00
2024	1.97	1.98
2025	2.15	2.17

Table 4-15: Estimated Combined Rate Impacts due to Proposed Changes to MX Test (Based on 2017-2025 RIA Results)

2017-2025 RIA	Combined Impact	
	Current	Proposed
Average Cost per GJ with Growth	\$ 6.715	\$ 6.715
Average Cost per GJ without Growth	\$ 6.833	\$ 6.831
Rate Impact per GJ	\$ (0.118)	\$ (0.116)
Percentage Rate Impact	-1.72%	-1.69%
Change in Percentage Rate Impact from Current	0.00%	0.03%

13.1 The CEC notes that the combined proposed changes continue to result in a notable cross-subsidy from new customers to existing customers. Please explain why FEI has created an application which continues to anticipate a cross-subsidy from new customers to existing customers and provide a proposal (amending any of the terms in the MX Test) that could result in no cross-subsidy from new customers to existing customers over the next five years, and please discuss the pros and cons of doing so.

Response:

FEI anticipates that reducing the individual PI threshold from 0.8 to 0.6 will improve the balance between new and existing customers. FEI has proposed a measured recalibration rather than attempting to eliminate the favourable rate impact of new customer growth over the next five years for the following reasons:

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 28

1 1. As described in the response to BCUC IR1 2.1, FEI does not have complete information
2 regarding potential connection projects that did not proceed beyond the preliminary Key
3 Account Manager (KAM) review. FEI prudently manages the cost and effort to respond to
4 preliminary connection inquiries that may never result in projects that advance to further
5 stages. Without this information, FEI is unable to determine how many additional
6 connections would proceed with a larger reduction in the individual PI as compared to
7 those that did not proceed under the current threshold. Because these projects are not
8 captured in the analysis presented in Table 4-15 of the Application, the RIA results could
9 vary.

10 2. Future RIA results will depend on actual project activity and cannot be determined solely
11 by changing the MX Test parameters. The RIA is a retrospective, aggregate analysis
12 based on actual costs, customer additions and consumption. Its future result will therefore
13 depend not only on the MX Test parameters, but also on the number, size, costs and
14 consumption of the projects that actually proceed. As a result of these other influences, it
15 is not possible to identify an amendment (or combination of amendments) to the MX Test
16 in advance to ensure there is no cross-subsidy (i.e., a zero RIA result) from new customers
17 to existing customers over the next five years.

18 3. A more substantial reduction or elimination of CIACs could increase the risk of an
19 unfavourable rate impact on existing customers. As explained in the Application, the total
20 aggregate amount of CIACs is small, averaging approximately 3 percent of the total
21 aggregate direct costs of main extensions from 2017 to 2025.⁵ FEI expects that changing
22 the CIAC requirements alone would have a limited effect on the aggregate RIA result for
23 the historical project mix. A more substantial reduction or elimination of CIACs could cause
24 additional projects with weaker economics to proceed, potentially shifting connection costs
25 to existing customers and producing an unfavourable rate impact.

26 Given the uncertainties discussed above, FEI considers its proposed reduction of the individual
27 PI threshold from 0.8 to 0.6, together with the retention of the aggregate PI threshold of 1.1, to be
28 a measured adjustment that improves the balance between new and existing customers while
29 maintaining appropriate safeguards for existing customers.

30 FEI proposes to file an updated RIA seven years after the BCUC issues its decision on this
31 Application. This will provide a sufficient length of time for the approved changes to be reflected
32 in actual costs, customer additions, and consumption.

33 Please also refer to the response to COSCO-RCIA IR1 5.1.

⁵ Exhibit B-1, Application, p. 44.

1 SERVICE LINE CONNECTION ALLOWANCE (“SLCA”) (INFILL CUSTOMERS)

2 14. Reference: Exhibit B-1, various excerpts from pages 64 and 20

This section addresses the SLCA with a specific focus on the issues that the BCUC identified in Letter L-11-25. As described in Section 2.2.2, the SLCA represents the maximum allowance FEI will extend to each single family residential or small commercial “infill” customer connecting to an existing main. The SLCA is derived using the MX Test methodology and similarly serves as a financial evaluation tool to determine whether the customer should provide a CIAC. It uses actual average cost and consumption data from the previous year. Conceptually, the current SLCA represents a value where the average revenue from new residential connections will equal the average cost to install a service line and meter, plus an allocated average mains cost (i.e., yield a PI ratio of 1.0).

The SLCA continues to serve its intended rate design purpose, such that this longstanding approach should be largely maintained. FEI proposes two changes to the determination of the SLCA that will improve its performance:

1. **Remove the final step of the SLCA calculation:** While the logic behind the SLCA methodology remains sound, the final step of the calculation has often yielded invalid results, requiring a work-around. Setting the SLCA at the Target Service Line Cost (which is the result of the first two calculation steps) is an easy fix and was used successfully as a work-around in the years 2019 to 2023 when this issue previously arose. Making this methodological change permanent will avoid the need for a work-around, simplify the SLCA calculation, and make the results more stable from year to year.
2. **Lower the SLCA target PI by 0.2 (from 1.0 to 0.8):** Changing the PI target in the SLCA has a similar directional impact as in the MX Test. This proposal to reduce the SLCA target PI will help to address the results of the RIA that indicate new customers are bearing a disproportionate share of the main and connection costs.

FEI is proposing to lower the SLCA PI threshold by 0.2, from 1.0 to 0.8, rather than match the same PI of 0.6 as proposed for the MX Test. The intent is to move incrementally, recognizing that the various proposals will all have implications for the RIA results. The impact of changing the SLCA PI threshold from 1.0 to 0.8, on its own and collectively with other proposals affecting the SLCA, is illustrated in Table 5-6 below.

Table 5-6: Historical vs Updated SLCA Amounts

Year	SLCA Approved	1) SLCA without Final Step Applied (Proposed)	1) + 2) SLCA w/o Final Step and w/ PI Adjustment to 0.8
2019	\$ 2,414	\$ 2,414	\$ 3,486
2020	\$ 2,915	\$ 2,915	\$ 3,989
2021	\$ 3,080	\$ 3,080	\$ 4,370
2022	\$ 3,325	\$ 3,325	\$ 4,640
2023	\$ 3,925	\$ 3,925	\$ 5,392
2024	\$ 3,312	\$ 2,654	\$ 3,972
2025	\$ 3,875	\$ 3,051	\$ 4,596

Table 5-7: Estimated Combined Rate Impacts Due to Proposed Changes to SLCA (Based on 2017 to 2025 RIA Results)

2017-2025 RIA	Combined Impact of SLCA Changes	
	Current	Proposed
Average Cost per GJ with Growth	\$ 6.715	\$ 6.715
Average Cost per GJ without Growth	\$ 6.833	\$ 6.830
Rate Impact per GJ	\$ (0.118)	\$ (0.115)
Percentage Rate Impact	-1.72%	-1.69%
Change in Percentage Rate Impact from Current	0.00%	0.03%

Target Service Line Cost. Conceptually, the SLCA represents a value where, for the average new residential connections, the expected revenue would equal the expected cost to install a service line and meter. However, in practice, based on actuals from 2017 to 2025, the revenue from new connections in aggregate has been outweighing the costs to connect these new customers as demonstrated through the RIA discussed in Section 3.4 below.

14.1 FEI's evidence is that, in spite of the continued cross-subsidization from new customers to existing customers in the SLCA, FEI intends to move 'incrementally' by only dropping the PI to 0.8. The proposed SLCA changes will continue to result in cross-subsidization from new customers to existing customers. Please explain why FEI believes that 'incremental' movement is preferable rather than either matching the MX PI or targeting the removal of the cross-subsidy altogether, and please provide a proposal for reducing the SLCA down to an aggregate PI of 1.0.

Response:

Please refer to the response to CEC IR1 13.1 for the reasons why FEI considers incremental movement preferable. FEI has provided a response to the recalibrations proposed in the question:

- Matching the MX PI or targeting the removal of the cross-subsidy altogether:** Further reducing the SLCA target PI and/or matching the SLCA target PI to the individual MX Test threshold of 0.6 would increase the SLCA and reduce CIAC requirements for infill customers, shifting a greater portion of infill connection costs to recovery through delivery rates. However, FEI cannot determine in advance whether a target PI of 0.6, or any other target PI, would eliminate the favourable rate impact associated with new infill connections. The future RIA results would depend on the number and cost of actual infill connections, the CIACs collected, customer consumption and the other actual conditions reflected in the RIA. A larger reduction in the target PI could also alter customer connection decisions and the mix of infill connections that proceed. Those effects are not captured by applying alternative SLCA parameters to the historical connections that actually proceeded. Therefore, FEI considers the proposed reduction of the target PI from 1.0 to 0.8 to be a measured adjustment that responds to the current RIA results without assuming that historical customer activity will remain unchanged.
- Reducing the SLCA down to an aggregate PI of 1.0:** The target PI used in the SLCA calculation and the individual PI threshold used in the MX Test serve different purposes. The MX Test calculates a project-specific PI to determine whether a main extension

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 31

1 requires a CIAC. By contrast, the SLCA calculation uses a target PI as an input to solve
2 for the Target Service Line Cost available to an average eligible infill customer. As such,
3 the SLCA does not have an aggregate PI that can be reduced to 1.0. Instead, FEI has
4 proposed to reduce the target PI to 0.8 to increase the SLCA and reduce the CIAC burden
5 on infill customers, consistent with the RIA results showing a favourable delivery rate
6 impact from new customer growth.

7 While a further reduction in the SLCA target PI could increase the allowance and reduce CIAC
8 requirements, it would not ensure the elimination of the favourable rate impact associated with
9 new infill connections as there are a number of factors that influence the RIA results beyond MX
10 Test inputs. FEI therefore considers its proposed reduction of the SLCA target PI from 1.0 to 0.8
11 to be a measured adjustment that improves the balance between new and existing customers
12 while preserving the SLCA's established rate design function.

13

1 SYSTEM EXTENSION FUND

2 15. Reference: Exhibit B-1, pages 2, 79, 82, and 83

3 3. The SEF is a BCUC-approved fund of \$1 million annually that can be used to offset a CIAC under the MX Test for qualifying residential customers. In effect, the SEF makes it easier for remote residential customers to access the system, as a means of promoting equitable access regardless of location. Eligibility is currently limited to residential customers.

Table 6-1: SEF Program Summary Results 2017 through 2025

System Extension Fund	Total	
	Number of Application Received	1,317
	Number of Approved SEF Requests	1,317
	Value of Approved SEF Requests	\$ 4,677,554
	Number of Denied SEF Requests	-

4 6.4 FEI PROPOSES TO EXPAND SEF AVAILABILITY TO SMALL COMMERCIAL CUSTOMERS

FEI proposes to allow small commercial customers to participate in the SEF, without increasing the overall SEF funding. FEI's proposal will promote equity among small commercial customers, consistent with FEI's postage stamp rate design. It will ultimately help to treat new and existing customers equitably.

5 The SEF has been limited to residential applications primarily because it was modeled on BC Hydro's Uneconomic Extension Assistance Program, which is not available to commercial enterprises. In response to CEC IR1 47.4 in the 2015 System Extension Application proceeding, FEI stated the following:⁷⁶

...In general, residences are more likely to be located in less densely populated area, compared to commercial establishments. Because of the distance the main needs to be extended to serve these customers, the CIAC often becomes cost prohibitive.

...many large commercial and industrial customers have high energy requirements and given the large volume of consumption of these customers, a CIAC is often not required, as such they would not need access to the SEF funds.

However, the Company is not opposed to making the SEF available to commercial customers.

6
7 15.1 There have been no denied funding requests between 2017 and 2025, and the
8 fund has not been used to its maximum. FEI proposes to extend the System
9 Extension Fund to small commercial customers without increasing the size of the
10 fund. Please provide the expected impacts on the \$1 million annual fund maximum
11 from the inclusion of small commercial customers. Please include: FEI's estimate
12 of the average annual number of small commercial customers that may be
13 expected to access the funds; the expected average annual value of SEF requests
14 when including small commercial customers; and whether or not any customers

are likely to be refused due to funding limitations, and, if so, how any contention for funds would be resolved.

Response:

FEI expects that expanding SEF eligibility to small commercial customers will increase participation in the program and extend the benefits of the SEF within the existing \$1 million annual funding envelope. However, FEI does not have a reasonable basis to quantify the number of small commercial customers that may access the SEF or the associated annual value of funding requests. As small commercial customers have not previously been eligible for the SEF, FEI does not have historical participation data for that customer class or another reliable basis for estimating how many eligible customers would seek funding and proceed with a connection. As discussed in Section 6.4 of the Application, the proposed expansion would extend the SEF's equity benefits to small commercial customers that face high costs to connect due to their location, without increasing the existing annual funding envelope.

FEI's historical experience supports its expectation that the existing funding envelope can accommodate the proposed expansion for the reasons below.

- No SEF funding requests were denied between 2017 and 2025,⁶ and over that period, only approximately 52 percent of the available SEF funding, or \$4.7 million of the available \$9 million, was used.
- While the SEF has also supported more than 1,300 homeowners to date, participation and the associated financial relief have declined in recent years, as shown in the table below.

Table 1: Annual SEF Applications and Funding

Year	Annual Total Funding	Annual Total Applications
2025	\$ 316,533	62
2024	\$ 560,961	91
2023	\$ 621,705	107
2022	\$ 875,419	159
2021	\$ 939,149	175
2020	\$ 383,585	179
2019	\$ 321,537	160
2018	\$ 392,716	167
2017	\$ 265,950	218

In particular, in 2025, only \$316,533 of the \$1 million annual funding envelope was used. FEI considers that the proposed expansion would build on the SEF's demonstrated benefits by extending eligibility to another group of customers within the existing funding envelope without adversely affecting residential customers.

⁶ This is because the SEF is communicated to eligible customers primarily via FEI's KAMs who work with customers on new main extensions. The KAMs identify which customers are eligible and discuss the SEF with those customers directly.

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 34

- The proposed reduction in the individual PI threshold from 0.8 to 0.6 may also reduce residential demand for SEF funding because some projects that currently require a CIAC to reach 0.8 would no longer require SEF assistance for that purpose.
- The potential small commercial participant group is materially smaller than the residential customer group. From 2017 to 2025, the number of small commercial customers (RS 2) was consistently approximately 9 to 9.5 percent of the number of residential customers (RS 1). While this comparison does not identify the number of customers in either rate class that could qualify for the SEF, it indicates that the overall pool of potential small commercial participants is substantially smaller than the residential customer population.

FEI does not anticipate that the proposed expansion of the SEF to small commercial customers will result in customers being refused funding due to the \$1 million annual funding limit. If demand exceeded the \$1 million annual funding limit, otherwise eligible requests would not receive funding once the available annual funding had been fully allocated for that year. If the timing of the connection project permitted it to be deferred, the request could be considered in a subsequent year, subject to the funding available in that year.

- 15.2 Please elaborate on why FEI has not sought the opportunity to extend the SEF to other commercial and industrial customers, and please indicate how many commercial and industrial customers could potentially access SEF funds if the fund were made available to all ratepayer groups assuming the fund remained at \$1 million annually and increased to \$1.5 million annually or \$2 million annually.

Response:

The SEF has only been approved on a permanent basis since January 1, 2021. Since the permanent approval of the fund, FEI has had the opportunity to observe its performance and, based on the actual results observed over the past five years, is now proposing to expand the fund as part of this Application.

The proposed expansion to small commercial customers extends the SEF to a defined customer group (RS 2), while retaining the existing \$1 million annual funding envelope and the existing eligibility and customer-level funding limits. This approach allows FEI to extend the SEF's equity benefits while limiting the potential impact on eligible residential participants.

As explained in Section 6.4 of the Application, many larger commercial and industrial customers have sufficiently high forecast gas loads that their main extensions do not require a CIAC; thus, they would not seek SEF funding. Where a larger commercial or industrial project does require a CIAC, the amount may also be materially greater than the SEF's maximum customer-level assistance, reducing the extent to which the SEF would address the relevant connection barrier.

FEI therefore considers small commercial customers to be the more appropriate group for the proposed expansion.

Extending eligibility for SEF funding to all customer rate classes would significantly broaden the potential participant pool, thereby increasing demand for the existing \$1 million fixed annual funding envelope and potentially reducing the funding available to eligible residential and small commercial customers. FEI does not consider a broader expansion appropriate at this time.

As explained in the response to CEC IR1 15.1, FEI is unable to quantify the number of small commercial customers that may access the SEF or the associated annual value of funding requests because small commercial customers have not previously been eligible for the program. FEI also does not have historical participation data or another reliable basis for estimating the number of other commercial and industrial customers that could access the SEF if eligibility were extended to all customer groups. FEI therefore cannot estimate the number of commercial and industrial customers that could access SEF funding under annual funding envelopes of \$1 million, \$1.5 million or \$2 million.

15.3 Please calculated the size of the SEF that would be required to completely offset the anticipated subsidy from new customers to existing customers under FEI's current proposal, such that there was no cross-subsidy from one customer group to the other.

Response:

Based on the estimated annual delivery rate benefit identified in the response to COSCO-RCIA IR1 4.1, an annual SEF funding envelope of approximately \$22.9 million would be equivalent to the estimated remaining benefit to existing customers following implementation of FEI's proposed changes. However, FEI does not consider that \$22.9 million represents an appropriate or reliable estimate of the SEF funding required to eliminate any cross-subsidy between new and existing customers.

The \$22.9 million represents the estimated annual reduction in revenue requirements associated with all new customer growth from main extensions and infill connections. In contrast, the SEF is currently only available to eligible residential customers who require a CIAC. Increasing the SEF funding envelope would provide additional assistance to those eligible customers (including the small commercial customers FEI proposes to allow to participate in the SEF), but would not necessarily result in the full funding envelope being used or distributed across all new customers whose growth contributes to the RIA result. As such, equating the annual delivery rate benefit directly with the required SEF funding envelope would not establish that any cross-subsidy between new and existing customers has been eliminated.

FortisBC Energy Inc. (FEI or the Company) 2026 Review of Mains Extension and Connection Policies (Application)	Submission Date: August 27, 2026
Response to CEC Information Request (IR) No. 1	Page 36

1 Further, the approximately \$22.9 million amount would be more than 22 times the existing \$1
2 million annual SEF funding envelope. While FEI proposes to expand SEF eligibility to small
3 commercial customers, as explained in the response to CEC IR1 15.1, FEI expects that the
4 existing funding envelope can accommodate the proposed expansion.

5