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

Attention: Ms. Marija Tresoglavic, Acting Commission Secretary

Dear Sirs/Mesdames:

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

FEI identified an error in BCSEA IR1 2.3, which has been corrected today under separate cover. The correction necessitated revisions to paragraphs 2, 26, 28 and 29 of the Final Submissions. We enclose a replacement version of the Final Submissions.

Replacement wording is underlined, and the deletion in paragraph 26 is denoted with ≪≫.

We apologize to the BCUC and interveners for any inconvenience. FEI would support an adjustment to the dates for intervener submissions and FEI reply submissions to achieve the original intent of the timeline.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

Matthew Ghikas
Personal Law Corporation

MTG/jj
Enclosures

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF

THE UTILITIES COMMISSION ACT

RSBC 1996, CHAPTER 473

and

FORTISBC ENERGY INC.

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

Final Submissions of FortisBC Energy Inc.

October 8, 2020 (Revised October 13, 2020)

FASKEN MARTINEAU DuMOULIN LLP
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PART ONE: INTRODUCTION

1. The BCUC, in approving the System Extension Fund ("SEF") pilot program, found that the program was in the public interest. It determined that $1 million per year of available funding does not impose an excessive cost burden on FEI customers as a whole.[1] The pilot has confirmed the merits of the SEF.

2. The SEF, as intended, promotes equity among customers by reducing the disparity that exists between the Vancouver area and other parts of FEI's service territory in terms of the cost that a potential new customer faces to connect to natural gas. In doing so, the SEF aligns with FEI's postage stamp delivery rate structure and improves energy choices for consumers. Moreover, all customers benefit from new load that would not otherwise have materialized. The customers added under the SEF pilot have, to date, represented an average rate impact of only 0.01 percent per FEI customer, despite that analysis including all of the costs and only approximately 1.5 years of revenues. The economics will only improve – and may ultimately yield net benefits – over the long life of the mains, as the original customer continues to take service and new customers connect.[2] << >>

3. Now having access to the pilot results, FEI has considered different ways to enhance the SEF.[3] FEI's one proposed modification is to increase the extent to which the SEF covers the required customer contribution (Contribution in Aid of Construction ("CIAC")) from 50 percent to 95 percent. The change can be expected to increase program participation consistent with the program's intent. Leaving unchanged the maximum individual SEF amount ($10,000) and overall available SEF funds ($1 million) means that the overall delivery rate impact is unchanged from what the BCUC approved for the pilot. FEI's financial treatment of the SEF addresses any potential underspend by "truing-up" to the actual amount disbursed, thus keeping customers whole.

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

[2] Ex. B-5-1-1, BCSEA IR1 2.3 [Amended].

[3] Ex. B-3, BCUC IR1 7.2 and 7.1.

4. In short, continuing the SEF with the proposed modification is a win-win for participants and FEI customers as a whole. FEI submits that the BCUC should approve the orders sought, as reflected in FEI's draft Order and the blacklined General Terms and Conditions (Appendix A and B to the Application, respectively).

5. These Submissions are organized in two parts:

- Part 2 explains why the SEF is a valuable program that achieves its objective; and
- Part 3 explains the merits of the proposed change to the contribution percentage, and why this enhancement is preferable to other options considered.

PART TWO: THE SEF SHOULD BE A PERMANENT PROGRAM

A. INTRODUCTION

6. This section explains how the SEF pilot has delivered on its objectives, such that it should be made permanent. FEI makes the following points:

- First, the SEF was intended to, and does, promote equity among customers throughout FEI's service territory.
- Second, in doing so, the SEF aligns with FEI's postage stamp delivery rate structure and improves energy choices for consumers, consistent with government policy.
- Third, while the key objective of the SEF is to promote equitable treatment of homeowners throughout FEI's service territory, connecting customers can realize other benefits including reduced Greenhouse Gas ("GHG") emissions and lower energy costs.
- Fourth, existing customers benefit from new load that would not otherwise have materialized.

B. THE SEF PROMOTES GREATER EQUITY AMONG CUSTOMERS THROUGHOUT FEI'S SERVICE AREA

7. The key objective of the SEF is "to promote equity as between new customers in the more developed portions of the Company's service area and customers that are located in areas further from existing mains."[4] The evidence, discussed below, demonstrates that the program is delivering on its objectives.

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[4] Ex. B-3, BCUC IR1 1.1.

(a) A Marked Distinction Exists Between Vancouver Area and Elsewhere When it Comes to Requiring a CIAC

8. The data shows that there is a marked distinction between the Vancouver area and other parts of FEI's service territory when it comes to how often homeowners must provide a CIAC under FEI's Main Extension Test ("MX Test") to connect to the system.

- **Vancouver Area:** Only 0.6 percent (119/18,700 = 0.006) of residential customer additions in the Lower Mainland during the pilot period paid a CIAC toward a main extension. This small percentage would be much smaller (only 0.1%)[5], but for one strata conversion that represented 100 of the 119 customers in the Vancouver area who paid a CIAC.[6]

- **Outside of the Vancouver Area:** By contrast, approximately 2 percent (682 / 34,400 = 2) of the residential customer additions outside of the Vancouver area required a CIAC, which is nearly three times the observed rate within the Vancouver area.[7] This figure would be 20 times that noted within the Vancouver area after removing the skewing effect of the large Vancouver area strata noted above.[8] Eighty-eight percent of the homeowners that qualified for the SEF program were from outside of the Vancouver area, with that number increasing to 99 percent but for the single strata conversion referenced above.[9]

9. It is notable that when all homeowners in FEI's dataset are considered, including all those who participated in the SEF as well as those who declined the SEF offer, approximately 60 percent are from Vancouver Island.[10]

10. The following table shows that, among those customers outside the Vancouver area who have to pay a CIAC to connect to the system, the amount of the CIAC tends to be significant.[11]

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5 20 / 18,700 = 0.1%

6 Ex. B-6, CEC IR1 2.2. See also: Ex. B-3, BCUC IR 2.1.2, 3.2.1 and 7.5.

7 Ex. B-6, CEC IR1 2.2.

8 Ibid.

9 Ex. B-3, BCUC IR1 3.2.1.

10 Ex. B-5, BCSEA IR1 6.1.

Average CIACs Outside of Vancouver Area

Year	# of Qualified Homeowners	Average CIAC
2017	269	$7,570.00
2018	267	$6,690.00
2019	261	$5,780.00
Overall	**797**	**$6,690.00**

11. The SEF, by reducing the CIAC faced disproportionately by potential customers outside of the Vancouver area, promotes the equitable treatment of customers.

(b) Reducing the Disparity Within FEI's Service Area Is a Valid Rate Design Objective

12. There is ample precedent for a rate design approach that seeks to promote more uniform treatment of a class of customers throughout a utility's service area. Reducing rate disparities associated with location is the very essence of "postage stamping" rates. Postage stamping is the governing rate design principle for FEI and the other major utilities in BC - BC Hydro and FortisBC Inc.

13. FEI observed that the postage stamping rationale can apply to any rate design feature, not just delivery rates:

> The concept of a postage stamp rate could be applied to any rate. For example, it would be possible to have a postage stamp extension or service connection charge, according to which all customers, regardless of location, would be charged the same amount for a connection. Under that model, someone requesting a relatively low cost connection would pay more than would be suggested by the true cost, while a higher cost connection would be provided at below the true cost.
>
> FEI's SEF mitigates some of the difference in costs due to location and is, therefore, consistent with the principle of postage rates that underlies FEI's approved delivery rates, although it does not result in a postage stamp rate *per se*.[12]

14. The BCUC recently endorsed FEI's application of postage stamp principles to commodity costs in Revelstoke. The BCUC's rationale was apt in the current circumstances: "Therefore, as

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[11] Ex. B-2, Evidentiary Update, p. 4.

[12] Ex. B-4, BCOAPO IR1 3.1.

FEI's proposal offers considerable betterment to consumers in Revelstoke with minimal impact to natural gas customers, the Panel finds the resulting rates for all FEI customers would neither be unduly discriminatory nor unduly preferential."[13]

C. SEF PROMOTES ENERGY CHOICE, BENEFITTING PARTICIPANTS AND REFLECTING GOVERNMENT POLICY

15. The SEF, by moderating the CIAC more often required outside of the Vancouver area, improves access to natural gas as an energy option. FEI discusses below how this is beneficial for the potential new customers, is consistent with the MX Guiding Principles developed with stakeholder input, and is supported by government policy.

(a) The Greater Prevalence of CIACs Outside of the Vancouver Area Makes Natural Gas Service Less Accessible

16. The disparity within FEI's service territory as to how often a CIAC is required, combined with the typical size of a CIAC, means there is "a clear and significant difference in the availability of natural gas in different parts of [FEI's] service territory."[14] Promoting equitable treatment by reducing the barrier posed by the CIAC in certain parts of FEI's service area improves access to natural gas as an energy option for people throughout the province.[15]

17. It stands to reason that a CIAC can be a barrier, and the evidence bears that out. Participants in the Stakeholder consultations for the 2015 MX Application "expressed that the upfront cost of installing natural gas infrastructure, including any potential CIAC related to system extensions, presented a major barrier in access to natural gas service for new customers."[16] This feedback is backed-up by the actions of homeowners that declined service after qualifying for the SEF: all of those parties cited cost as the reason for not connecting.[17]

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[13] *FEI Revelstoke Propane Portfolio Cost Amalgamation Application*, Order G-245-20, Decision, p. 11. See also: "The Panel is of the view that where delivery charges are already standardized as an element of a service, it would be neither irrational nor unwarranted to take an additional step of equalizing commodity-related costs in providing that service. The character of FEI's energy provision service is sufficiently similar for propane and natural gas as to indicate the existence of a single class of service."

[14] Ex. B-1 and B-2, Application and Evidentiary Update, p. 4.

[15] Ex. B-3, BCUC IR1 1.1.

[16] Ex. B-3, BCUC IR1 1.1.

[17] Ex. B-3, BCUC IR1 6.2.

The costs being cited must be upfront costs, given that the ongoing operating cost is significantly lower than other alternatives, which favours natural gas.[18]

(b) Having the Option of Accessing Natural Gas Service Has Value to Energy Consumers

18. Having natural gas as a viable energy option is beneficial for customers, both from the standpoint of affordability and as an opportunity to reduce personal GHG emissions.

Using Natural Gas Can Reduce Heating Costs

19. The operating cost of energy favours natural gas over other fuel types, helping customers keep their energy costs low. FEI estimates that the cost of natural gas is approximately two-thirds less than the cost of electricity and other options like heating oil or propane. On Vancouver Island, for example, the cost of heating a typical residential home with natural gas is approximately $595, as compared to over $2,100 for electric baseboards or heating with fuel oil. On Vancouver Island, access to natural gas would provide the average homeowner with annual energy cost savings of approximately $1,505.[19]

The SEF Can Help Participating Customers Lower their GHG Emissions

20. Higher carbon fuel sources, such as propane and fuel oil, are prevalent in parts of FEI's service territory. The SEF can help a participating homeowner reduce his/her GHG emissions in the following ways:

(a) The SEF facilitates access to natural gas, which has a much lower GHG emission intensity than heating oil and propane. Twenty-one percent (113) of the SEF participants during the three year SEF pilot converted from higher GHG fuel sources to natural gas. The percentage was higher (35%) on Vancouver Island, where heating with fuel oil or propane is more common.[20] In terms of expected performance going forwards:

> If the SEF program was made permanent, FEI would expect that the proportion of customers fuel switching from higher emissions

[18] Ex. B-4, BCUC IR1 2.2.
[19] Ex. B-3, BCUC IR1 2.2.
[20] Ex. B-3, BCUC IR1 2.1 and 2.1.2.

> fuel types would be similar to what has been noted during the pilot period. However, should the SEF program be made permanent with the proposed modifications applied for, FEI expects an increase in the overall participation level in the program, and thereby a greater number of homeowners switching from a higher GHG emitting fuel type.[21]

(b) Once a homeowner has chosen natural gas over a higher emission alternative, there are opportunities for that customer to further reduce his/her GHG emissions. All FEI customers have access to energy conservation programs and the option to access Renewable Natural Gas service. As FEI pursues its objective of providing 30 percent of its supply of gas from renewable sources by 2030, these customers may see their GHG emissions further reduced along with all other FEI customers.[22]

21. Once a main extension is built, the GHG benefits can multiply. Neighbours using higher GHG emitting fuel types can now connect to the natural gas system more cost-effectively.[23]

(c) Making Natural Gas More Accessible Aligns With MX Guiding Principles Developed With Stakeholder Involvement

22. The SEF aligns with two of the Guiding Principles established for the 2015 System Extension Application with input from intervener groups, a number of First Nations, regional district and municipal representatives, and two provincial government ministries. The applicable Guiding Principles are:

- Provide Energy Choice; and
- Support Government Objectives.

23. The SEF promotes energy choice by mitigating the connection cost barrier to natural gas service. In terms of supporting government objectives, FEI explained:

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[21] Ex. B-3, BCUC IR1 2.1.3.
[22] Ex. B-3, BCUC IR1 2.1.3 and 2.1.1.
[23] Ex. B-3, BCUC IR1 2.1.2.

> The second Guiding Principle, Support Government Objectives, sought to provide the public the potential benefits of access to low cost energy, local economic development, the creation and retention of jobs and tax revenues, as well as assist in meeting greenhouse gas (GHG) emissions targets and related energy objectives of the Clean Energy Act (CEA). In expanding the access to natural gas service the SEF primarily assists in providing the public with the benefits of low cost energy which helps maintain housing affordability and fosters economic development.[24]

(d) Government Supports Postage Stamping as a Means of Improving Access to Natural Gas

24. Government policy favours postage stamp rate designs, which is the principle underlying the SEF. For example, the Ministry of Energy, Mines and Natural Gas (as it then was) filed a letter of support for FEI's initiative to implement common delivery rates. The BCUC noted in its decision on FEI's *Application for Reconsideration and Variance of Commission Order G-26-13 on the FortisBC Energy Utilities' Common Rates, Amalgamation and Rate Design Application*:

> The FEU also provided a Letter of Support for this Reconsideration Application dated April 15, 2013, from the Ministry of Energy, Mines and Natural Gas [as it then was]. That letter states: "Government policy has been to promote access to energy services on a postage stamp rate basis so that all British Columbians benefit from access to services at the lowest average cost."[25]

Government's support for postage stamping is linked to its support for access to natural gas as a low cost energy source. The Ministry identified three benefits to amalgamating the FortisBC gas utilities and moving to postage stamp delivery rates: (1) equality of investment and job creation opportunities, (2) regulatory efficiency, and (3) customer rate impact (the most significant rate impact associated with postage stamping was to reduce the much higher rates on Vancouver Island and the Sunshine Coast).[26] The first and third benefits identified are also associated with the SEF.

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[24] Ex. B-3, BCUC IR1 1.1.

[25] Ex. B-2, BCUC IR1 1.2; Order G-21-14, Reasons for Decision, p. 13.

[26] Ex. B-3, BCUC IR1 1.2.

(e) The SEF Is Similar to BC Hydro's Uneconomic Extension Assistance Fund

25. The concept of the SEF is similar to BC Hydro's longstanding Uneconomic Extension Assistance Fund.[27] BC Hydro is another utility with postage stamp rates, under which equity among otherwise similar customers in various regions is a valued ratemaking objective.

D. EXISTING CUSTOMERS BENEFIT FROM NEW LOAD ADDED UNDER THE SEF

26. Existing FEI customers can benefit from lower delivery rates when new load is added to the system. << >>

27. Over the 2017 to 2019 period, SEF helped 544 new customers attach to the natural gas system. There is a cost to FEI associated with the SEF in the sense that it must fund more of the system extension than would have been the case had the CIAC been larger.[28] However, each outlay comes with a benefit in the form of increased throughput volume (GJs) on the system. More throughput volume on the system means that the annual fixed costs to operate the system are distributed across a higher throughput volume, which lowers the overall system costs to customers (cost per GJ). And while the initial attachment cost is a one-time cost, the throughput benefit is enduring throughout the life of the main extension. The main extensions, once in place, will also pick-up additional load from any subsequent customers who attach in later years.[29]

28. FEI uses a Rate Impact Analysis ("RIA") to assess how existing customers have been impacted by new main extensions at a particular point in time. The following table (as amended)[30] provides the results for that subset of customers added under the SEF program over the three-year pilot period. The data shows that, as expected, existing FEI customers have incurred a small cost to see the SEF participants added as customers to date; however, the cost has been small, representing an average rate increase of 0.01 percent.

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[27] Ex. B-3, BCUC IR1 7.3.

[28] See Ex. B-5, BCSEA IR1 9.1. "There are no incremental ongoing operating expenses for administering the SEF program as it is done by existing FEI employees who support all requests for gas service irrespective of whether any SEF is available or applicable."

[29] Ex. B-6, CEC IR1 1.1.

[30] Ex. B-5-1, BCSEA IR1 2.3 [Amended].

	RIA Results for 2017-2019 Growth Related to Customers Under SEF Program
Average Cost per GJ with Growth	$4.1682
Average Cost per GJ without Growth	$4.1678
Rate Impact per GJ	$0.0004
Percentage of Rate Impact	0.01%
Average Cost per Customer	8 cents per customer per year

29. The fact that the RIA is showing only a small net rate impact of 0.01 percent is particularly notable given that the mains in question are, on average, only approximately 1.5 years old. The analysis is reflecting the entire installation cost, but only a small portion of the throughput benefit that will accrue over the lengthy service life of the main. The analysis also does not reflect potential future customer additions to the SEF main extensions, which could result in further savings to existing customers.[31] Ongoing revenues from the original customer and additional customer attachments to the new mains will further improve the economics, to the point where existing customers may ultimately be better off with the SEF pilot participants as customers than they would have been in the absence of those customers.

[31] Ex. B-5-1, BCSEA IR1 2.3 [Amended].

PART THREE: A SIMPLE CHANGE WILL INCREASE THE VALUE CUSTOMERS SEE FROM THE SEF

A. INTRODUCTION

30. While the three-year pilot has confirmed the value of the SEF, a simple adjustment - increasing the level of contribution from 50 percent to 95 percent of a CIAC (up to the same maximum of $10,000) - will enhance the value that customers see from the program. The proposed change will further reduce the disparity among homeowners throughout FEI's service territory when it comes to the cost of connecting to the natural gas system. The SEF will remain fair to existing customers generally.

31. This Part is organized according to the following points:

- First, FEI is only adjusting only one aspect of the SEF program.
- Second, the adjustment improves on the current alignment with postage stamp principles and government policy.
- Third, maintaining available funding of $1 million annually maximizes the potential benefits of the SEF, and FEI customers will be kept whole if the available funding is not exhausted.
- Fourth, the impact of the adjustment on existing ratepayers is fair.
- Fifth, adjusting the maximum funding percentage to 95 percent was the best option to enhance the SEF among the various options that FEI considered.[32]

B. ALL BUT ONE ASPECT OF THE SEF PROGRAM WILL REMAIN UNCHANGED

32. The program, as proposed, retains the key elements that supported the BCUC's finding that the pilot was in the public interest at a reasonable cost to customers. The only change is to increase the level of contribution to 95%, as reflected in the Table 4 below.[33]

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[32] Ex. B-3, BCUC IR1 7.2.

[33] Ex. B-1, Application, p. 7.

Table 4: Summary of SEF Pilot Program Rules and Proposed Amendment

Current Program	Proposed Amendment
Eligibility	
Applicant must be a homeowner	No change
Must be single family home or townhome	No change
Home must be a principal residence	No change
PI must be between 0.2 and 0.8	No change
Cannot participate in Contributory Main model	No change
Total Funding Amount	
Capped at $1 Million per year	No change
Funding Rules	
SEF pays: 50% of CIAC to a maximum of $10,000 per customer	SEF pays: 95% of CIAC to a maximum of $10,000 per customer

C. ADJUSTMENT PROMOTES EQUITABLE TREATMENT OF HOMEOWNERS THROUGHOUT FEI'S SERVICE AREA

33. The proposed adjustment advances the objective of equitable treatment, and in doing so benefits participants and supports government policies in the manner articulated above.

(a) Pilot Showed that the CIAC Size Is Still an Impediment

34. There is a clear rationale to increase the percentage of the SEF funding.

35. Over the three years of the SEF pilot program, 40 percent of homeowners eligible for the SEF declined to proceed with their main extension. The reason given by homeowners who declined to proceed was that even with financial assistance from the SEF toward reducing their required contribution, the remaining required CIAC was still too expensive.[34]

36. It is evident that, from the data during 2017 through 2019, those who declined to participate in the SEF typically faced a comparatively high CIAC, which is well beyond the costs faced by most homeowners who request access to the natural gas system, particularly those in areas where FEI's gas distribution system is more developed.[35] As shown in Table 1, homeowners who declined to accept the SEF offer were presented with a mean CIAC (before

[34] Ex. B-3, BCUC IR 6.1 series and 6.1 and 6.2; Ex. B-6, CEC IR1 6.1.

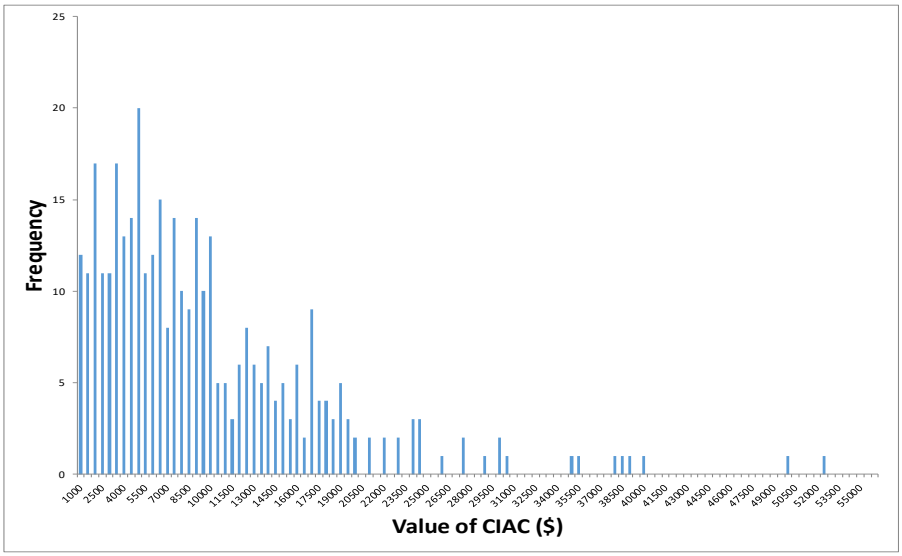
[35] Ex. B-3, BCUC IR1 6.1.1.

SEF) of nearly $9,500 and a median of over $7,000.[36] Even after the SEF funding assistance was accounted for, these homeowners perceived that the cost to proceed with their desired connection to the natural gas system was too costly. The distribution is shown in Chart 1.

Table 1: Summary Statistics for Homeowners Who Declined the SEF

	Number	Mean	Median	Range
CIAC	364	$ 9,425	$ 7,240	$ 52,200
Funding Offered	364	$ 4,355	$ 3,620	$ 9,965

Chart 1: Distribution of CIACs of homeowners who declined the SEF



37. As can be seen by Table 3 below, if FEI's proposed amendment to the SEF to allow up to 95 percent funding contribution to the CIAC were approved, the average homeowner's portion of the connection cost would be reduced to $335 in less dense service areas of the province.[37]

Table 3: Comparison of CIACs in Vancouver Area vs. Outside Vancouver Area with the SEF Portion Amended as Proposed to up to a maximum of 95%

Participant location	Required CIAC	SEF Portion	Homeowner Portion
Vancouver Area	Approx. $ 0	$ 0	$ 0
Non Vancouver Area	$ 6,690	$ 6,356	$ 335

The percentage adjustment addresses the cost impediment.[38]

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36 Ibid.

37 Ex. B-2, Evidentiary Update, p. 7.

38 Ex. B-3, BCUC IR1 6.2.

D. THE CURRENT AVAILABLE FUNDING ($1 MILLION) REMAINS APPROPRIATE

38. The evidence discussed below demonstrates the appropriateness of retaining $1 million of available funding for the SEF. Sufficient demand exists and reducing the budget would be counterproductive.[39] The BCUC accepted the $1 million available funding for the pilot, finding that it did not impose an unreasonable cost on existing customers. FEI's regulatory treatment of the costs will keep customers whole in the event that some available funds go unspent.

(a) Sufficient Demand Exists to Warrant Retaining the Current Available Funding

39. There is every reason to expect that the proposed adjustment to 95 percent will significantly increase participation levels and result in the $1 million available funding being distributed each year.

- Although the SEF was underspent during the pilot period, the evidence is clear that it was not for lack of interest. There were many potential participants during the SEF pilot who expressed interest in participating but ultimately declined, citing prohibitively high cost even after accounting for SEF funding.[40]

- FEI provided calculations based on the scenario that all eligible customers under the pilot accepted the offer of funding based on the proposed 95 percent funding rule. In that case, the annual spend of the SEF would have exceeded the total annual budget of $1 million in all three years of the pilot phase.[41]

- FEI also used data collected during the SEF pilot period to estimate the probability that an eligible homeowner would either accept the offer and proceed with a main extension, or decline and not proceed, as determined by the magnitude of the remaining homeowner portion of the CIAC after accounting for any SEF funding.[42] FEI forecasts that under the proposed funding rules the SEF could reasonably be expected to use $1 million annually.[43]

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[39] Ex. B-6, CEC IR1 7.4.
[40] Ex. B-1, Application, p. 6.
[41] Ex. B-3, BCUC IR1 8.3.
[42] Ex. B-3, BCUC IR1 7.5.
[43] Ex. B-3, BCUC IR1 7.5.

40. Increasing the likelihood that qualifying households will decide to connect is more consistent with the SEF program objective of promoting equitable treatment of customers across FEI's service territory than leaving the cost barrier in place and reducing the budget to reflect the sub-optimal result.[44]

(b) FEI's Approach to Distributing a Limited Pool of Funds Is Fair and Practical

41. FEI intends to use a "first come, first served" approach to accessing the $1 million available annual funding.[45] In the event that the SEF funding requests received in a given year reach the maximum annual funding amount of $1 million, FEI will close the program to new participants until January 1 of the following year.[46] FEI's evidence was that this is more practical than trying to prioritize customers that will add more load. Homeowners are often operating on a timeline that would preclude FEI holding up SEF applications to allow for load-based prioritization. FEI observed: "Delaying the decision on SEF funding could end up resulting in the homeowner having no alternative but to adopt an energy solution other than natural gas."[47]

42. The current steps that FEI's Energy Solutions Managers undertake when processing inquiries about main extensions is well suited to communicating whether the SEF funding is still available.[48] FEI added:

> FEI recognizes that, depending on the number of new customers proceeding with a main extension project and the amount of SEF funding each qualifies for, the SEF funding requests could exceed the available $1 million in any given year. However, FEI believes that such a situation, if it is to occur, is more likely to happen closer to the end of a year. If that was the case, FEI may be able to work with these SEF participants to determine if some main extension projects could be delayed to the following year when additional funding becomes available. In any event, if permanent approval of the SEF program is granted, FEI will continue to report to the BCUC on performance of the program in its annual Main Extension report and will include discussion on any such concerns or issues that

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44 Ex. B-3, CEC IR1 7.4.
45 Ex. B-3, BCUC IR1 4.1.
46 Ex. B-3, BCSEA IR1 8.2.
47 Ex. B-3, BCUC IR1 4.1.
48 Ex. B-3, BCUC IR1 4.1.1.

may emerge. Additionally, FEI may apply for amendments to the program design or rules in future if needed.[49]

(c) Any Underspending of Annual Available Funding Would Be Trued-Up to Keep Customers Whole

43. FEI's regulatory treatment of the SEF will be to ensure only the actual amounts distributed to customers are collected in rates. That is, although the expectation on a forecast basis will be that the full amount of the SEF will be utilized, once actual funding has been provided, FEI will "true-up" the funding amounts that are included in rate base to the actual amounts. Thus, even if annual funding requests are less than the $1 million cap, customers are kept whole. The "true-up to actuals" exercise would occur through FEI's Annual Review process.[50]

E. THE COST TO RATEPAYERS OF CHANGING TO 95% IS MINIMAL AND FAIR

44. The results of the analysis shown in the response to BCUC IR1 8.3 demonstrate that the overall rate impact of changing the funding rule from 50 percent to 95 percent is minimal, even in the maximum rate impact case where it is assumed that everyone would accept the offer and the SEF program would spend the full $1 million each year.[51] FEI considers these results to potentially overstate the rate impacts because they include the impacts from the customers using the SEF program directly, but do not include the benefits associated with subsequent customers that connect as a result of the new mains added under the program. FEI stated that "The impact on existing customers will be less if additional customers attach to the system in the future as a result of the SEF program."[52]

45. In other words, the rate implications are essentially the same as when the BCUC found $1 million per year of SEF pilot funding did not impose an excessive cost burden to the overall FEI ratepayers.[53] And the potential exists with the proposed modification to fully realize the types of benefits that the BCUC considered and endorsed in the pilot.

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[49] Ex. B-6, CEC IR1 7.3.
[50] Ex. B-3, BCUC IR1 7.5.
[51] Ex. B-3, BCUC IR1 8.3 and 8.3.1.
[52] Ex. B-3, BCUC IR1 8.3.
[53] Ex. B-3, BCUC IR1 2.3 and 8.3.

F. THE PROPOSED ADJUSTMENT IS PREFERABLE TO OTHER APPROACHES CONSIDERED

46. FEI considered various approaches to enhance the ability of the SEF program to achieve its objectives, such as:

1. Different percentages such as 75%, 80%, 85%, 90%, and 100%;
2. Increasing the per customer maximum funding amount;
3. Eliminating the lower PI threshold;
4. Reducing the CIAC to a target dollar amount; and
5. Various combinations of the above.[54]

Adjusting the maximum funding of a homeowner's CEC from 50 percent to 95 percent is the best option, for the reasons discussed below.

(a) FEI Determined that Increasing the Funding Level Percentage Had Advantages Over Other Approaches

47. FEI explained that, among the approaches identified that were considered, increasing the funding percentage had a number of advantages:

> FEI believes that the most effective way of achieving the objective of the SEF program is to reduce the considerable cost of the CIAC faced by potential customers who are located further from existing mains when seeking access to natural gas. Ultimately, based on feedback from the potential SEF participants who declined to proceed with their main extensions over the period from 2017 to 2019, FEI believes that having the SEF contribute a larger portion of the CIAC that occurs under the pilot is the most consistent with the objective of the program and the Guiding Principles identified in FEI's 2015 System Extension Application and is the simplest for potential customers to understand and for FEI to administer.[55]

Increasing the Per Customer Maximum Above $10,000 Would Be Less Effective

48. FEI explained that increasing the per customer maximum funding amount above $10,000 would be less effective at reducing the barrier presented by the CIAC than increasing the contribution percentage. Increasing the threshold would affect a relatively small number of

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[54] Ex. B-3, BCUC IR1 7.2; Ex. B-6, CEC IR1 6.1.

[55] Ex. B-3, BCUC IR1 7.2.

homeowners, and the SEF could still leave a significant cost barrier for most of those customers. Adjusting the percentage upwards would have a greater impact on more households.[56]

Changing the PI in the MX Test Would Not Address the Fundamental Reasons Why Homeowners Declined to Participate

49. The current SEF eligibility requirement is that a customer must have a PI of 0.2 under the MX Test.[57] FEI explained that "modifying the PI threshold would not sufficiently address the primary issue of cost of their CIAC, as expressed by SEF applicants who declined participation over the pilot period."[58] It added:

> Amending the PI requirement could mean either raising or lowering it. Raising the PI threshold above 0.2 would have the effect of reducing the number of potential SEF participants, while simultaneously not reducing the cost of the CIAC beyond what has been offered by the SEF program to date. Similarly lowering the PI requirement below 0.2 also would not reduce the cost of the CIAC, though it would increase the number of homeowners eligible to participate. In practice, however, this is not likely to translate into any significant increase in SEF participation or funding granted. PI scores of less than 0.2 are typically associated with projects that have very expensive main extensions, or that have very limited natural gas consumption. In either case, FEI believes that few such potential customers would find the financial assistance provided by the SEF in its current form to be sufficient enough to justify proceeding with a main extension. In the case of very expensive main extensions, a significant cost would likely still remain, while in the case of limited natural gas consumption, customers may perceive paying any amount of CIAC to be unreasonable if they simply want to install a gas barbeque for example.[59]

95% Funding Level is Preferable to Reducing CIAC to Target Dollar Amount

50. FEI explained why it did not pursue reducing the CIAC to a target dollar amount:

> Reducing the CIAC to a target dollar amount can be an effective approach if the target dollar amount for what the homeowner would have to pay is low enough to encourage many more homeowners to participate. This approach is very similar to the current proposal in that it directly addresses the cost barrier by significantly increasing the proportion of the CIAC paid for by the SEF. This approach would, however, render certain homeowners effectively ineligible to

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[56] Ex. B-3, BCUC IR1 7.2.

[57] FEI provided an example of how the calculation works in Ex. B-3, BCUC IR1 7.1.1.

[58] Ex. B-3, BCUC IR1 7.1.

[59] Ex. B-3, BCUC IR1 7.1.

> participate if their CIAC is below the target dollar amount. FEI ultimately believed that the current proposal was the simpler approach.[60]

(b) FEI Considered Multiple Funding Level Percentages - 95% is Optimal

51. The evidence shows that, among various funding level percentages considered, the proposed 95 percent level is optimal. It is the most effective approach to achieving the objectives of the program within the constraints of the available funding.

52. FEI observed that any increase in the percentage of the CIAC payable by the SEF versus the current 50 percent provision under the pilot program will improve the performance of the program. However, if the SEF were to pay a smaller portion than the proposed 95 percent, the SEF program would be less effective at contributing to greater equity among eligible homeowners who request access to natural gas.[61]

53. Retaining a larger disparity in the cost of connecting also has implications for the extent to which natural gas is a realistic energy option for customers outside of the Vancouver area. FEI noted that, at a lower percentage, fewer interested homeowners would proceed with their main extension project:

> There is no clear threshold that defines a point up to which homeowners are willing to pay a CIAC to connect, and above which they are not. Individual customers show significant variation in the CIACs that they agree to pay. Some decline to pay as little as $100, while others pay significantly more (in the tens of thousands) in order to access natural gas. It is clear, however, that on a global basis, the greater the cost of a CIAC, and the resulting homeowner portion after SEF funding has been applied, the less a homeowner is likely to proceed with a main extension.[62]

54. FEI expressed its conviction that "the data it has collected on homeowners that participated and declined to participate in the SEF program provides for a good foundation to determine the level of financial support the SEF should provide on a go-forward basis."[63] FEI provided, by way of example, the anticipated results of reducing the percentage to 70 percent:

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[60] Ex. B-3, BCUC IR1 7.2.

[61] Ex. B-3, BCUC IR1 7.2.

[62] Ex. B-3, BCUC IR1 6.1.1. See also Ex. B-3, BCUC IR1 7.2.

[63] Ex. B-3, BCUC IR1 7.4.1.

> FEI expects that, based on customer feedback, the smaller the proportion of the CIAC paid for by the SEF, the more likely that potential customers will still not proceed with a main extension. For example, using the same forecast assumptions as provided in the response to BCUC IR1 7.5, if the funding rule was set to pay 70 percent of the CIAC, FEI expects that approximately 35 fewer homeowners would accept the offer of SEF assistance leaving 40 to 50 percent of the programs annual $1 million amount still available. While in theory one could reduce the SEF available amount to $500-$600 thousand to reflect a lower level of disbursements, FEI explains in response to CEC IR1 7.4 why this would not be consistent with the objectives of the program. Moreover, as discussed in the response to BCUC IR1 7.5, the regulatory treatment that FEI intends to use will involve a true-up so that even if the annual SEF funds granted are less than the $1 million available, customers are kept whole. Therefore, FEI concluded that 95 percent SEF funding towards a customer's CIAC, as proposed, is the appropriate amount which supports the program objectives. It is also most likely to use the $1 million available amount annually without the funds being depleted early in a year.[64]

55. There is little reason from a ratepayer impact perspective to compromise the efficacy of the program. The results of the analysis shown in the response to BCUC IR1 8.3 demonstrate that the overall rate impact of changing the funding rule from 50 percent to 95 percent is already minimal.[65]

56. FEI also considered having the SEF fund 100 percent of the participant's CIAC, as FEI had proposed in a 2018 filing. Funding at the 100 percent level would further enhance equity among customers throughout FEI's service area. For those customers who can avail themselves of the SEF program funding, a 100 percent funding level would also remove the CIAC as a barrier to taking natural gas. However, FEI observed that "with the benefit of additional years of participation data, FEI believes at this funding level the annual $1 million available SEF funding would be exceeded prior to the end of each year."[66] Thus, 95 percent is a better funding level if the available funding is to be limited to the current $1 million.

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[64] Ex. B-6, CEC IR1 6.2.

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

[66] Ex. B-3, BCUC IR1 7.2.

(c) Increasing the Percentage to 95% Makes Participation in Contributory Main Refund Model Unnecessary

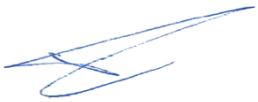
57. FEI has not proposed changes to the SEF program to allow customers to access both the SEF and the contributory main refund model concurrently.[67] The proposed change to the SEF is a more direct, and less complex, means of addressing the financial barrier presented by a CIAC for customers in certain parts of FEI's service area.[68] FEI indicated that it is not opposed to considering further amendments to the SEF program eligibility in the future. However, the additional information that will flow from approving the proposed amendments would be beneficial before such changes are considered. FEI will know whether homeowners continue to express concern about not being eligible for both programs.[69]

PART FOUR: CONCLUSION AND ORDER SOUGHT

58. FEI proposed and designed the SEF, and the BCUC approved the pilot, in an effort to promote equitable treatment of homeowners respecting access to natural gas as an energy option throughout FEI's service territory. The pilot proved out the value of the SEF. The proposed adjustment will only enhance the effectiveness of the program and the value it brings to customers.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: October 8,2020



Matthew Ghikas

[67] Ex. B-3, BCUC IR1 6.2.

[68] Ex. B-3, BCUC IR1 6.3 and 6.5.

[69] Ex. B-3, BCUC IR1 6.3.