

# **BRITISH COLUMBIA UTILITIES COMMISSION**

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

**BCUC Project No. 1599112**

### **Final Argument of BC Sustainable Energy Association**

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## I. INTRODUCTION

### A. BCSEA Final Argument

1. This is the final argument of the intervener B.C. Sustainable Energy Association (BCSEA) in the Commission’s proceeding regarding the FortisBC Energy Inc. (FEI) System Extension Fund (SEF) Pilot Program Compliance Filing and Application for Approval of the SEF on a Permanent Basis, Project No. 1599112 (the “FEI SEF Application”).
2. This final argument responds to FEI’s October 08, 2020 Final Argument, revised October 13, 2020.<sup>1</sup>

### B. The System Extension Fund Pilot

3. The Commission approved the SEF on a pilot basis for 2017 to December 2020 in Decision and Order G-147-16<sup>2</sup> as part of FEI’s 2015 System Extension Application. The SEF is capped at \$1.0 million per year, to be recovered through natural gas delivery rates of non-bypass customers and included in rate base each year as an offset to contributions in aid of construction. No SEF funds roll over from one year to the next.
4. The Commission directed FEI to report on the SEF as part of its annual Mains Extension (MX) Report. Specifically, the Commission directed FEI to include: Total number of SEF

<sup>1</sup> [https://www.bcuc.com/Documents/Arguments/2020/DOC\\_59394\\_2020-10-13-FEI-Revised-Final-Argument.pdf](https://www.bcuc.com/Documents/Arguments/2020/DOC_59394_2020-10-13-FEI-Revised-Final-Argument.pdf)

<sup>2</sup> BCUC Decision and Order G-147-16,  
<https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/item/180237/index.do>.

applications received, including the breakdown of approved and denied requests; Dollar values of the approved requests; Reasons for denied funding; and Switches from higher greenhouse gas (GHG) sources to natural gas (e.g. propane, oil, diesel, gasoline etc...). In addition, the Commission directed FEI to address the appropriateness of continuation of the SEF pilot program in the June 30, 2020 filing of its updated Rate Impact Analysis (RIA).

### **C. The Application**

5. In the FEI SEF Application, FEI seeks (a) approval of the System Extension Fund on a permanent basis and (b) an increase in the limit on the size of a grant under the SEF from 50% to 95% of an eligible participant's required Contribution in Aid of Construction (CIAC).<sup>3</sup>

### **D. Summary**

6. BCSEA's view is that the System Extension Fund should not be approved on a permanent basis. BCSEA submits that the evidence does not establish that continuation of the SEF would (a) reduce net greenhouse gas emissions in BC, (b) benefit overall customers through increased throughput, or (c) provide material economic and social benefits to remote communities.
7. In the alternative, if the Commission approves the SEF on a permanent basis, then BCSEA's view is that the grant limit should remain at 50% of an eligible participant's CIAC and should not be increased to 95%. Increasing the limit to 95% of a participant's CIAC would substantially eliminate participants' own financial contribution to a system extension. BCSEA submits that this would contradict the premise of the SEF Pilot that participants would share the extension costs with other customers.

## **II. ARGUMENT**

### **A. Continuation of the SEF is not warranted**

8. BCSEA submits that FEI has not established that continuation of the SEF is warranted.
9. First, there is no evidence that the System Extension Fund reduces net GHG emissions in BC.

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<sup>3</sup> The grant maximum would remain at \$10,000 per participant.

10. In approving the SEF Pilot, the Panel stated that “In addition to giving the communities an alternative energy option and making natural gas more accessible, there could be favourable clean energy impact if customers are fuel switching from a high carbon intensive fuel.”<sup>4</sup> This hope was reflected in the requirement to report on switches from higher GHG fuels to natural gas. However, only 21% of the participants in the SEF Pilot switched from a higher-carbon fuel to natural gas.<sup>5</sup> Moreover, FEI is unable to report on the quantity of any associated GHG reductions. Nor is FEI able to report on the net GHG changes due to the SEF Pilot.<sup>6</sup>
11. Second, there is no evidence that the SEF provides – or will provide – a material benefit to the overall FEI ratepayer resulting from increased throughput.
12. In approving the SEF Pilot, the Panel noted “the potential benefit to the overall FEI ratepayer resulting from increased throughput.”<sup>7</sup> However, this has not been resolved by FEI’s evaluation and rate impact analysis. FEI asserts that “It is reasonable to expect that [SEF] mains that continue to generate revenues will, over the lengthy service life of the mains, be modest net contributors of benefits to customers as a whole.”<sup>8</sup> However, BCSEA submits that this essentially restates the hypothesis that the SEF Pilot was intended to test.
13. Third, there is no evidence that the SEF produces a meaningful increase in the number of homeowners located at a distance from existing mains (or, for that matter, located in the Vancouver area) who choose to connect to the natural gas system.
14. FEI acknowledged that it “does not have any insight into how many new customers who received funding from the SEF would have connected in absence of the program.”<sup>9</sup> Further, the number of participants in the SEF Pilot – fewer than 300 per year – is a small fraction of the new residential customer additions outside of the Vancouver area, which FEI says grew from approximately 5,500 annually in 2012 to a maximum of approximately 12,700 per year in 2018.<sup>10</sup>
15. In conclusion regarding whether the SEF should be made permanent, BCSEA submits that FEI has not established that continuation of the SEF is in the public interest under sections

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<sup>4</sup> Decision and Order G-147-16, p.50.

<sup>5</sup> Exhibit B-3, BCUC IR1 2.1.

<sup>6</sup> Exhibit B-5, BCSEA IR1 4.2, 4.3.

<sup>7</sup> Decision and Order G-147-16, p.51, underline added.

<sup>8</sup> Exhibit B-5-1, BCSEA IR1 2.3.

<sup>9</sup> Exhibit B-5, BCSEA IR1 1.1.

<sup>10</sup> Exhibit B-5, BCSEA IR1 1.2.

28 to 30 of the UCA. The System Extension Fund has not achieved the stated purpose to “create greater equity between new residential customers in lower density areas with those in more urban areas.”<sup>11</sup> There is no demonstrated need for the System Extension Fund. Even outside the Vancouver area, thousands of new single-family residential customers are connecting to the FEI system despite the few hundred who connect with support from the SEF. Further, there is no evidence that the SEF reduces net GHG emissions in BC.

16. From a rates perspective, BCSEA submits that a permanent SEF would be unduly discriminatory under sections 59 to 61 of the UCA. The 2016 Panel approved the SEF as a pilot on the basis that the Fund’s “subsidization and discrimination to favour a targeted group of customers” was not unduly discriminatory “given the potential benefit to the overall FEI ratepayer resulting from increased throughput.”<sup>12</sup> However, the results of the assessment do not show that the SEF actually provides a long-term net benefit to FEI customers.

#### **B. The 50% grant limit should not be increased**

17. If the Commission decides to make the SEF permanent, then BCSEA submits that the grant limit should remain at 50% of an eligible participant’s CIAC and should not be increased to 95%.
18. First, as stated above, increasing the limit to 95% of a participant’s CIAC would be contrary to the concept that SEF participants would share the extension costs with other customers, as it would substantially eliminate participants’ financial contribution to the system extension.
19. Second, increasing the limit from 50% to 95% would provide a financial windfall to those who would have participated in the SEF with a 50% limit, with no corresponding benefit to other customers.<sup>13</sup> FEI has not provided an estimate of how many people would participate in the SEF if it had a 95% limit who would not have connected if the SEF had a 50% limit (or was not available at all). Increasing the limit from 50% to 95% would increase the average subsidy per participant with no analysis to support a conclusion that this would be cost effective.

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<sup>11</sup> Decision and Order G-147-16, p.46, citing Exhibit B-1 [in that proceeding], p. 63.

<sup>12</sup> Decision and Order G-147-16, p.51, underline added.

<sup>13</sup> BCSEA notes that eligibility for the SEF is not based on an individual’s ability to afford to pay a CIAC: Exhibit B-5, BCSEA IR1 7.3.

20. Third, an unspent balance remaining in the annual SEF budget is not a problem for FEI or for FEI's overall ratepayers. Unspent funds do not 'go to waste.' An unspent balance means the \$1-million per year allocation was higher than necessary in the given year. As the SEF Pilot spending did not exceed \$400,000 in 2017, 2018 or 2019, BCSEA submits that a more reasonable response would be to reduce the annual allocation, say to \$500,000, if the SEF is to continue.
21. In conclusion, BCSEA opposes an increase in the grant limit from 50% to 95% of a participant's CIAC, for the reasons set out above.

### III. CONCLUSION

22. In BCSEA's view, the System Extension Fund should not be approved on a permanent basis. If the SEF is allowed to continue, then BCSEA submits that the grant limit should remain at 50% of a participant's CIAC. It would be preferable to reduce the annual allocation for the SEF than to boost the spending with no analysis that it would be cost-effective to do so.

All the above is respectfully submitted.

William J. Andrews



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and

Matthew J. Jackson



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