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August 27, 2020

Sent via email/eFile

**FEI – SYSTEM EXTENSION APPLICATION**  
**EXHIBIT A-3**

Ms. Diane Roy  
Vice President, Regulatory Affairs  
FortisBC Energy Inc.  
16705 Fraser Highway  
Surrey, BC V4N 0E8  
gas.regulatory.affairs@fortisbc.com

**Re: FortisBC Energy Inc. – Application for Approval of the System Extension Fund on a Permanent Basis – Project No. 1599112 – Information Request No. 1**

Dear Ms. Roy:

Further to your June 29, 2020 filing of the above-noted application, enclosed please find British Columbia Utilities Commission Information Request No. 1. In accordance with the regulatory timetable set out in Order G-198-20, please file your responses on or before **Thursday, September 24, 2020**.

Sincerely,

*Original signed by Ian Jarvis for:*

Marija Tresoglavic  
Acting Commission Secretary

/dg  
Enclosure



FortisBC Energy Inc.  
Application for Approval of the System Extension Fund on a Permanent Basis

**INFORMATION REQUEST NO. 1 TO FORTISBC ENERGY INC.**

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**A. REVIEW OF SEF PROGRAM**

**1.0 Reference: PERMANENT SEF PROGRAM  
Exhibit B-1 (Application), Section 2.3, pp. 4, 8  
Equitability**

On page 4 of the Application, FortisBC Energy Inc. (FEI) states:

FEI believes that there is a clear and significant difference in the availability of natural gas in different parts of its service territory. Many homeowners located further away from existing mains face a financial barrier that is significantly higher than that of those located in denser areas, thereby limiting their access to the natural gas system and their available energy options. The SEF provides assistance to reduce this financial barrier, thereby creating more equitable access to natural gas. Moreover, providing this more equitable access to natural gas for all potential new customers comes at a very modest cost to existing customers with the benefit of increased throughput contributing to lower delivery rates for customers. For all of the reasons above FEI proposes that the SEF program continue on a permanent basis at the existing funding level of \$1 million per year, with the proposed modifications as described in Section 3 to more effectively address the SEF program’s objectives.

Further on page 8 of the Application, FEI states: “This will ensure a more fair and equitable treatment of potential customers in FEI service territory.”

- 1.1 Please explain whether a goal of the System Extension Fund (SEF) program is fair and equitable treatment of potential customers across FEI’s service territory. In your response, please explain why.
- 1.2 Please explain whether FEI’s understanding is that ensuring postage stamp rates is a public policy or government policy.
  - 1.2.1 Please explain whether postage stamp rates apply to the natural gas system in BC in the same way it applies to the electric system.

**2.0 Reference: PUBLIC INTEREST**  
**FEI 2015 System Extension Application Decision and Order G-147-16 dated September 16, 2016, (FEI 2015 System Extension Decision), pp. 50-51**  
**Fuel switching and reducing customer costs**

On page 50 of the FEI 2015 System Extension Decision, the BCUC stated:

The Panel acknowledges FEI’s efforts to provide certain communities, including rural communities, an opportunity to connect to the natural gas system. 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.

Further on page 51 in its Decision, the BCUC directed FEI to provide “switches from higher greenhouse gas (GHG) sources to natural gas (e.g. propane, oil, diesel, gasoline etc...)” in its annual MX Report.

- 2.1 Please summarize FEI’s achievements in switching customers from higher carbon fuels to natural gas over the course of the SEF pilot program.
  - 2.1.1 Please explain how these achievements in fuel switching contribute to FEI’s commitments under the *Clean Energy Act*.
  - 2.1.2 Please explain whether FEI is satisfied with this achievement.
  - 2.1.3 Please explain what achievements FEI can expect in the future in carbon emissions reduction via fuel switching, if the SEF program was made permanent.
- 2.2 Please explain whether customers benefit financially from having access to natural gas as an option for fuel switching from either electricity or higher carbon fuels for heating.
- 2.3 Please explain FEI’s position on whether customers having the option to access natural gas, via a program such as the SEF, is in the public interest.

**3.0 Reference: CURRENT CHALLENGE**  
**Exhibit B-1, Sections 3.2, 3.3, pp. 5-7**  
**Applicant statistics**

In Table 2 on page 5 of the Application, FEI provides the SEF Pilot Program results:

**Table 2: SEF Pilot Program Results 2017-2019**

Year	Total SEF Eligible Participants	Actual SEF Participants	% Participated	SEF Funding Provided	% Funding Utilized	SEF Funding Declined	% Declined
2017	374	218	58%	\$ 265,950	27%	156	42%
2018	271	167	62%	\$ 392,716	39%	104	38%
2019	260	156	60%	\$ 318,237	32%	104	40%
Totals	905	541	60%	\$ 976,903	33%	364	40%

Further on page 5 of the Application, FEI states: “As can be seen by Table 2 above, 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 primary 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.”

In Table 3 on page 7 of the Application, FEI provides a comparison of Contributions in Aid of Construction (CIAC) in Vancouver versus outside Vancouver area with the proposed SEF amendment:

**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	\$6,710	\$6,375	\$336

Further on page 6 of the Application, FEI states: “Homeowners eligible for the SEF have typically been presented with CIACs of approximately \$6,700. In contrast, when homeowners in Vancouver and surrounding communities request natural gas service their proximity to the gas distribution system means that a CIAC is typically not required.”

- 3.1 Please provide the range of CIACs required by homeowners under the SEF program, including maximum and minimum CIAC.
- 3.2 Please provide statistics on every SEF Application, in table form, including date received, CIAC amount, customer portion of CIAC, geographical location (city or town) of Applicant, status (approved, denied, withdrawn), and reasons, if applicable.
  - 3.2.1 Please state what proportion of SEF program applicants FEI would classify as urban or rural. In your response, please indicate how FEI determines whether a geographical location is urban or rural.
- 3.3 Please provide information and statistics on any applicants who attempted to access the SEF but did not meet the SEF qualification criteria. In your response, please identify how many potential applicants did not meet the criteria, which criterium the applicant did not meet, and identify any patterns.
- 3.4 Please explain whether FEI has received any complaints from potential customers regarding ineligibility for the SEF or accessing the SEF.

**4.0 Reference: TARIFF PAGES  
Exhibit B-1, Appendix A, p. 5  
FEI 2015 FEI System Extension proceeding, Exhibit B-3, BCUC IR 18.3  
Prioritization of SEF Program Applicants**

On page 5 of the Appendix A to the Application, FEI states: “the determination of eligibility will be made by FortisBC Energy in its sole discretion, acting reasonably.”

In response to BCUC Information Request (IR) 18.3 in the 2015 FEI System Extension proceeding, FEI explained its prioritization process for SEF funding: “The Company proposed a “priority” as a means of managing SEF funding requests in the event funding requests exceed the \$1.0 million cap. Should FEI have to decide between eligible customers’ requests, the Company’s preference would be to provide funding to the customer with the highest potential of benefiting the system with additional customer attachments at some point in the future. More attachments to the system mean more potential benefits to FEI’s customers, all else being equal.”

- 4.1 Please explain, in the event funding requests exceed the \$1.0 million cap, whether FEI would prioritize customer funding requests as described in the preamble. If not, please explain how customers would be prioritized for SEF funding.

- 4.1.1 Please explain how this funding prioritization would be communicated to applicants.
- 4.2 Please explain whether FEI would perform any prioritizations of funding requests in the event the \$1.0 million funding cap was not exceeded.
- 4.2.1 If not, please confirm whether funding requests are managed in a “first come first served” queue order.

**5.0 Reference: SEF PROGRAM PROPOSED MODIFICATIONS  
Exhibit B-1, Section 3.2, p. 5  
Current Challenge**

On page 5 of the Application, FEI states that even though many homeowners qualified for the SEF, a large number still declined to proceed with their connection due to cost and declined the SEF. As a result, FEI submits that not all the available \$1 million funding for the SEF pilot program has been used or disbursed to eligible customers.

Table 2 on page 5 of the Application shows the number of SEF eligible participants who declined SEF funding by year as follows:

- 2017: 156 declined
- 2018: 104 declined
- 2019: 104 declined

- 5.1 Please provide the total amount of SEF funding, which would have been provided in each year from 2017 to 2019, had the above-noted SEF eligible participants not declined SEF funding.

**6.0 Reference: TECHNICAL ISSUES  
Exhibit B-1, Section 3.2, p. 5; Appendix A, Section 12.11;  
FEI 2015 FEI System Extension proceeding, Exhibit B-6, CEC IR 48.1, 48.2  
Participation in Contributory Main refund model**

On page 5 of the Application, FEI states:

There are two aspects of the SEF pilot program results which FEI believes can be improved. First, even though many homeowners qualified for the SEF, a large number still declined to proceed with their connection due to cost. Second, as a result of homeowners declining to proceed with their main extension, not all of the available \$1 million funding for the SEF pilot program has been used or disbursed to eligible customers, even though the financial assistance has been available...The primary 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. [Emphasis Added]

FEI states the following in the *Blacklined tariff pages* provided in Appendix A of its Application: “Customer[s] who provide a contribution in aid of construction for a Main Extension and who receive funding from the System Extension Fund will not be eligible for a refund as set forth in Section 12.8 (Refund of Contributions).”

In response to Commercial Energy Consumers Association of BC (CEC) IR 48.1 in the 2015 FEI System Extension proceeding regarding the contributory main refund, FEI stated the following:

The Company proposed forgoing the option to get a contributory refund to facilitate customer choice. With access to the SEF, eligible customers would have the choice of either a) providing the full CIAC and potentially receiving a future contributory refund or

b) accessing the SEF and forging a future contributory refund. FEI also believes that it will be easier to administer the SEF. In the event that a customer were to receive SEF funding, the main would not be designated a contributory main and future customers would therefore not be required to provide a contribution.

The Company would not be opposed to exploring the option of providing a contributory refund, since, as will be described in the response to CEC 1.48.2, there would be no rate impact in doing so.

In response to CEC IR 48.2 from the same proceeding, FEI stated:

There would be no rate impact if the Company were to provide refunds to SEF customers based on their contributions since the all refunds are funded by the contributions of future customers connecting to the main. In other words, the Company is simply brokering refunds between the original customer(s) providing the CIAC and future customer(s) that are required to provide a pro-rata share of the CIAC.

- 6.1 Please list all the reasons given for declining the SEF for those homeowners who qualified for the SEF but chose not to proceed. In your response, please indicate how many applicants gave each particular reason.
  - 6.1.1 Please provide any relevant commentary regarding the reasons provided for declining the SEF (e.g. high or low prevalence of a specific reason, unique circumstance of a reason, additional details provided by customers, etc.). In your response, please discuss whether the relative amount of CIAC for the customer who declined to participate in the SEF was higher than the average SEF CIAC.
- 6.2 Please discuss how the proposed modifications to the SEF address any of the reasons given for declining the SEF, other than the primary reason described in the preamble.
  - 6.2.1 If some reasons for declining the SEF are not addressed by the proposed modifications, please discuss why not.
- 6.3 Please discuss whether FEI considered amending this eligibility criteria to allow customers to participate in the Contributory Main refund model as part of its current Application.
  - 6.3.1 If yes, please explain why FEI did not include this eligibility criteria as part of its application
  - 6.3.2 If not, please explain why not.
- 6.4 Please explain whether any customers who declined FEI's offer to participate in the SEF program chose to access the Contributory Main refunding mechanism to establish service. If yes, please explain how many and under what circumstances.

"In the event that a customer were to receive SEF funding, the main would not be designated a contributory main and future customers would therefore not be required to provide a contribution."

- 6.5 In response to the quote in the preamble above, please discuss whether FEI has experienced or expects greater customer connections as a result of mains extended via the SEF program, since future customers who wish to connect to such mains will not be required to provide a contribution.

**B. PROPOSED CHANGES**

**7.0 Reference: SEF PROGRAM PROPOSED MODIFICATIONS  
Exhibit B-1, Sections 1, 3.3, pp. 1, 6–7  
FEI 2015 System Extension Application proceeding, Exhibit B-3, BCUC IR 18.1  
Proposed Change**

On page 6 of the Application, FEI states that it is requesting approval to amend the funding rules for the SEF framework to allow the SEF to fund a maximum of 95 percent of the CIAC. As summarized in Table 4 of the Application, FEI states: “All other program terms and conditions would remain the same as currently with the SEF pilot program.” [Emphasis Added]

In response to BCUC IR 18.1 in the 2015 System Extension Application proceeding, FEI stated:

The Company believes that the P.I. requirement of 0.2 is a reasonable threshold. A PI requirement of 0.2 means that the customer’s consumption and resulting revenue would at least cover 20% of the cost of the main extension, with the remaining 60% of cost (to get the PI to 0.8) to be shared between the customer through a CIAC, and the Company’s ratepayers through the proposed SEF. An eligible customer could receive up to 50% of the CIAC through the SEF. For example, to reach an individual 0.8 PI threshold, a customer with a PI of 0.2 would be required to pay a CIAC of 0.6 (i.e. 0.8 minus 0.2). In this example,  $0.6 \times 50\% = 0.3$ . Therefore, the customer contributes a CIAC amount to reach a minimum PI of 0.5 (0.2 + 0.3). The Company believes a PI of 0.5 represents a reasonable minimum CIAC, especially when the customer may have to forgo a potential refund from a contributory main. [Emphasis Added]

7.1 Considering FEI’s responses to BCUC IR 18.1 in the 2015 System Extension Application proceeding, please explain why a PI requirement of “between 0.2 and 0.8” (as shown in Table 4) continues to be a reasonable threshold for the SEF program as proposed on a permanent basis. Did FEI consider amending the PI requirement in this Application considering its request for amended SEF funding rules? Please explain why or why not and discuss the factors which were considered.

7.1.1 Please update the calculation provided in FEI’s response to BCUC IR 18.1 in the 2015 System Extension Application proceeding using a minimum PI requirement of 0.2 and 95 percent SEF funding rule as proposed. Does FEI consider this level of PI to be a reasonable minimum? Please explain why or why not.

On page 6 of the Application, FEI explains that its proposal to amend the SEF funding rules to contribute up to 95 percent of the CIAC is to “better achieve the objective of more equitable access to natural gas across FEI’s service areas.” FEI submits that the achievement of this objective is illustrated in Table 3, as follows:

**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	\$6,710	\$6,375	\$336

FEI states:

As can be seen by Table 3, 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 to the connection cost would be reduced to \$336 in less dense areas service areas of the province, bringing it in much closer alignment with homeowners costs in the dense Vancouver area.

In the 2015 System Extension Application proceeding, FEI cited the British Columbia Hydro and Power Authority's (BC Hydro) Uneconomic Extension Fund as precedent to support FEI's SEF proposal.<sup>1</sup>

- 7.2 Please explain why FEI proposes to amend the SEF funding rules to contribute up to 95 percent of the CIAC as opposed to some other percent (e.g. 90 percent, 100 percent, or other).
- 7.3 Please compare and contrast the proposed SEF funding rule to BC Hydro's Uneconomic Extension Fund. In FEI's view, should FEI and BC Hydro's funding rules for a similar program be the same? Please explain why or why not.
- 7.4 Please discuss what factors were considered with respect to what the "Homeowner Portion" of a Required CIAC should be in dollars, if any, for less dense service areas. For example, did FEI consider that there should be a minimum floor or ceiling amount, in dollars, which is a reasonable amount? If yes, what is the reasonable range and why?
  - 7.4.1 Please explain whether FEI has had any feedback from customers on what a reasonable "Homeowner Portion" of Required CIAC should be, in dollars. Please provide data and examples, if applicable.
- 7.5 Please explain and provide a forecast for the percentage of SEF funding which FEI expects would be utilized under the proposed SEF funding rules.

**8.0 Reference: SEF PROGRAM PROPOSED MODIFICATIONS**  
**Exhibit B-1, Section 2.1, pp. 1–2**  
**2015 System Extension Application proceeding, Exhibit B-1, Appendix A, p. 25**  
**FEI 2015 System Extension Decision), pp. 16–17**  
**FEI and FortisBC Inc. (collectively, FortisBC) Application for Approval of a Multi-Year Rate Plan for the Years 2020 through 2024 Decision (FortisBC MRP Decision), p. 36**  
**Exhibit A2-1, Rate Impact Analysis (RIA)**  
**Rate Impacts of the SEF Program**

On page 2 of the Application, FEI states "[it] has updated the rate impact estimate for continuation of the SEF program on a permanent basis, following the same methodology as was used during the 2015 proceeding, and confirms that the ongoing rate impact estimate remains the same." [Emphasis Added] The rate impact of the SEF at \$1 million was forecast to be modest at \$0.001 per GJ in the 2015 System Extension Application proceeding.

Among other things, on page 25 of Appendix A to the Application, in the 2015 System Extension Application proceeding, FEI stated the following with respect to the 2015 RIA methodology:

... O&M expenses also increase as a result of new customer. Under the recently approved PBR mechanism, the Commission has determined that is it appropriate for FEI to increase O&M by one-half of the annual rate of growth in customers... to reflect the PBR Decision, O&M costs associated with new customers added during the growth period was therefore set at one-half of the 8.8% growth rate... [Emphasis Added]

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<sup>1</sup> FEI 2015 System Extension Decision and Order G-147-16 dated September 16, 2016, p. 47.

On pages 16 to 17 of the FEI 2015 System Extension Decision, the BCUC stated:

The Panel finds it appropriate for FEI's estimate of incremental capital cost associated with new customers to include an estimate of the impact of new customers on sustainment capital. In the absence of FEI preparing a more refined estimate, the Panel accepts an estimate using 50 percent of the growth rate of average number of customers... Using 50 percent of the customer growth rate is also consistent with the approach used in the RIA to estimate the incremental operation and maintenance (O&M) associated with new customers...The Panel accepts the use of the rate impact analysis, modified to include an estimate of sustainment and other capital, as an appropriate mechanism... [Emphasis Added]

On page 36 of the MRP Decision, the BCUC stated:

**The Panel directs FortisBC to set the growth factor multiplier [for O&M] at 75 percent.** In making this determination, the Panel is setting a formula that it views to be a reasonable proxy for the impact of customer growth on O&M expenditures. [Emphasis Added]

8.1 Please explain whether FEI's assessment of the ongoing rate impact estimate of the permanent SEF program is impacted by: 1) the modification to the RIA directed on page 17 of the System Extension Decision (i.e. the inclusion of sustainment capital using 50 percent of the growth rate of average customers); and 2) the updated growth factor for O&M directed on page 36 of the FortisBC MRP Decision (i.e. 75 percent); and 3) using a 75 percent of the growth rate of average customers for sustainment capital to be consistent with the update growth factor for O&M in the FortisBC MRP Decision. Please explain why or why not.

8.1.1 To the extent possible, please provide a calculation of the ongoing rate impact estimate of the permanent SEF program based on the changes noted above.

In Exhibit A2-1 in the FortisBC MRP proceeding, FEI filed an updated RIA for two time frames: 1) Years 2015-2019; and 2) Years 2017-2019.

In Appendix B (page 6) of Exhibit A2-1, EES Consulting (EES) stated:

The cost for these capital items was \$284 million for the 2015-2019 period and \$200 million for the 2017-2019 period. Note that this reflects only the costs paid for by the utility and does not include any contributions in aid of construction (CIAC) paid for by the customer.

8.2 For clarity, please explain whether SEF funding provided is considered a cost paid for by the utility or the customer.

8.3 To the extent that SEF funding provided is considered a cost paid for by the utility (i.e. it is included in the RIA), please discuss and provide the calculations for how the updated RIA for the two time frames in Exhibit A2-1 would be impacted by the following:

- i. If the proposed SEF funding rule (i.e. 95 percent of the CIAC, instead of 50 percent) had applied to those homeowners who participated in the SEF pilot program; and
- ii. If the proposed SEF funding rule had applied, instead of 50 percent, to every SEF eligible applicant. Please state and provide any assumptions related to the percentage of homeowners who would accept funding from the SEF with the higher funding rule.

- iii. If the proposed SEF funding rule had applied, instead of 50 percent, to every SEF eligible applicant had every applicant participated.

Please specify in the above calculations whether modifications to the RIA directed by the BCUC on page 17 of the FEI System Extension Decision and the updated growth factor for O&M directed on page 36 of the FortisBC MRP Decision have been applied. If not applied, please explain why not.

- 8.3.1 Please provide the sensitivity of the above-updated RIA results to alternative SEF funding rules (e.g. 90 percent).