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British Columbia Utilities Commission
6th floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Erica Hamilton
Commission Secretary

Dear Sirs/Mesdames:

Re: Final Submission of FortisBC Energy Inc.
2015 System Extension Application

We enclose FortisBC Energy Inc.'s Reply Submission in respect of the above mentioned matter.

Hardcopies will follow by courier.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by Matthew Ghikas]

Matthew Ghikas

MG/tm
Enc.

BRITISH COLUMBIA UTILITIES COMMISSION
IN THE MATTER OF THE UTILITIES COMMISSION ACT (THE “ACT”)
R.S.B.C. 1996, CHAPTER 473
and
FORTISBC ENERGY INC.
2015 SYSTEM EXTENSION APPLICATION

Reply Submission of FortisBC Energy Inc.

December 17, 2015

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PART ONE: INTRODUCTION

1. This Application is one of those notable occasions where there is unanimity regarding the merits of a utility initiative. After extensive consultation and workshops to discuss the objectives and components of the MX Test, all participants have emerged united in their conviction that the MX Test must be adjusted to ensure that it is fairer to new customers. Everyone agrees that conservative parameters of the MX Test are resulting in potential customers paying more than their fair share to access natural gas service.

2. The three “traditional” interveners (BCOAPO, CEC and BCSEA-SCBC) and PNG concur with FEI that changes are appropriate to reflect accepted ratemaking principles. For the “non-traditional” interveners in this process, the imperative to re-calibrate the MX Test goes much deeper. They characterize this Application as being about access to an affordable and clean-burning source of energy. It speaks volumes that parties unfamiliar with the regulatory process have invested their own time, effort and money over the course of nearly two years to engage in initial consultation with FEI, attend four stakeholder workshops, register as interveners, read the Application and file written submissions. They are unequivocal in their support for the Application.

3. These Reply Submissions highlight areas of agreement and address a limited number of areas where BCOAPO, CEC and BCSEA have different views on the appropriate way to restore the balance between new and existing customers.¹

¹ FEI’s silence on particular points should not be interpreted as agreement.

PART TWO: THE CONSENSUS

4. The consensus among participants in this proceeding is that the current MX Test parameters favour existing customers at the expense of new customers. Interveners have expressed that view in different ways, with some citing rate design principles and others citing the economic and social importance of access to natural gas. Either way, the implication is the same. FEI submits that it is both just and reasonable and in the public interest to alter the MX Test to better recognize the benefits associated with new connections and reduce unnecessary obstacles for potential new customers to access natural gas.

A. FAIR TREATMENT OF EXISTING AND NEW CUSTOMERS

5. The fact that the MX Test is a rate construct suggests that, whatever public interest considerations might be invoked to inform the design of the MX Test, it must always treat new and existing customers fairly and without undue discrimination. Consistent with this approach, the Commission has stated that system extension policies are intended to promote the fair and equitable treatment of new and existing customers *via* a before-the-fact examination of expected costs and benefits associated with extensions.²

6. BCOAPO, CEC and BCSEA-SCBC (which are referred to for convenience as the three “traditional” interveners) concur with FEI that changes are appropriate to reflect accepted ratemaking principles. BCOAPO’s view is that existing ratepayers are receiving an “undue benefit from the attachment of new customers.”³ CEC agrees and maintains that FEI’s proposals do not go far enough to restore balance. BCSEA-SCBC also supports rebalancing of

² On page 19 of the decision for the 2007 *System Extension and Customer Connection Policies Review*, the Panel stated: “the primary purpose of extension and connection policies is to promote fair and equitable treatment of customers and, more specifically, to ensure that existing customers are not adversely affected by the addition of a new customer or customers.”

http://www.bcuc.com/Documents/Guidelines/2007/DOC_15386_1996_UTILITY_SYSTEM_EXTENSION_TEST_GUIDELINES.PDF

³ BCOAPO Submission, para. 2.

the MX Test parameter changes, citing the need to achieve a “fairer and more accurate allocation of costs”.⁴

B. ACCESS TO AN AFFORDABLE ENERGY SOURCE

7. Sections 29 and 30 of the UCA do invoke the public interest, and broader social and economic considerations are relevant to the extent that they can be accommodated by just and reasonable rate constructs. The submissions and letters of comment filed by the City of Port Alberni (“Port Alberni”), the District of Saanich (“Saanich”), the Greater Victoria Chamber of Commerce (“GVCC”), Peace River Regional District Electoral Area “B” (“PRRD”), CEC, BCOAPO, the MLA for Boundary-Similkameen, the Seabird Island Band, the Regional District of Okanagan-Similkameen, and the Vancouver Island Economic Alliance (“VIEA”) demonstrate that there is a strong desire across a wide spectrum of stakeholders for greater access to natural gas as a means of reducing heating costs, spurring economic development and switching from higher carbon fuels. For instance:

- **Port Alberni:** “The City supports any efforts that will allow residents the opportunity to have a choice in how to select the most efficient and cost effective way to heat their homes. In Port Alberni there are more than 3,500 homes within 50m of current natural gas mains.”⁵
- **Saanich:** “With the recent reductions in the price of natural gas on Vancouver Island we expect Saanich residents will seriously consider transitioning from oil based products to natural gas. It is our understanding that this application will facilitate that process by lowering the connection fees. Saanich currently has up to 14,000 homes within fifty metres of existing gas mains and the District of Saanich supports this application.”⁶

⁴ BCSEA-SCBC Submission, p.1.

⁵ Exhibit E-1.

⁶ Exhibit E-2.

- **GVCC:** “Potential customers are both residential and business, scattered throughout Greater Victoria, some literally across the street from current natural gas customers. The high cost to potential customers is a significant barrier to expansion of gas service delivery throughout the region, if not B.C. These barriers can restrict economic development initiatives, particularly the revitalization of established neighbourhoods as well as attraction of new manufacturing industries.”⁷
- **PRRD:** “The application, if approved, will allow our rural northern residents and businesses the opportunity to have a choice in how they heat their homes, shops and businesses. The use of natural gas will reduce greenhouse gas emissions (residents and businesses presently use wood, diesel or propane). It will increase energy efficiency and, last but not least, improve the economy of our region.”⁸
- **CEC:** “The CEC submits that the public interest includes providing warm, comfortable space and water heating at reasonable cost to those people in the province of BC who desire it, whether they are existing or new customers.”⁹
- **BCOAPO:** “The much lower relative cost of natural gas – both as compared to alternative fuels and as compared to real 1996 dollars – provides a rationale for supporting expansion of the domestic natural gas grid, provided it can be done without undue detriment to existing customers.”¹⁰
- **Linda Larson, MLA for Boundary-Similkameen:** “Our constituency office services 17 rural communities, Regional Districts and Irrigation Districts. Many of these do not have access to affordable heating options. Our constituents want to be able to choose their energy source and access to natural gas saves money on the total cost of utility bills. Heating and hot water are the highest energy

⁷ Exhibit E-3.

⁸ Exhibit C5-2.

⁹ CEC Final Submissions, para. 28.

¹⁰ BCOAPO Final Submissions, para. 5.

requirements in homes, and natural gas is less expensive to use in comparison to heating oil, propane and electricity.”¹¹

- **Regional District Okanagan-Similkameen:** “I represent small communities in the Interior of BC where the winters are very cold and without natural gas, our main source of heat is electricity, wood, or propane. In our area we are in a two tier electricity system where if we use over 800 kw hours per month then we pay a 50% increase after that. This makes electricity outrageously expensive as compared to natural gas but yet a lot of our areas cannot get natural gas.... Having access to natural gas could greatly benefit our residents and businesses in our communities and also in our many First Nations Communities as well. Other benefits are reducing the fire risks and the smog from our many wood burning stoves.”¹²
- **VIEA:** “Thus, on behalf of the vitality of the entire Island economy, we advocate for greater accessibility to affordable energy—and specifically, to the affordable gas utility made possible by the recent amalgamation of the FortisBC business units—a process that we also supported. In fact, we see that this present application is simply a logical extension of the process of amalgamation.”¹³

8. These comments mirror discussion at stakeholder workshops, captured in the consultation materials attached to the Application and in the Guiding Principles that FEI used to shape its proposals. The positions of the “non-traditional” interveners also echo economic, social and environmental aspects of government policy.

9. These public interest outcomes flow from the Commission adjusting the MX Test rate construct to ensure that it remains just and reasonable and not unduly discriminatory.

¹¹ Exhibit C7-1.

¹² Final Submission.

¹³ Final Submission.

PART THREE: REPLY REGARDING SPECIFIC ASPECTS OF FEI'S MX TEST PROPOSAL

10. Although there is unanimity on the need to make the MX Test fairer to new customers, there are a limited number of instances where the positions of BCOAPO, CEC and BCSEA-SCBC depart from FEI's proposal. FEI addresses these below.

A. THE DCF TERM SHOULD BE EXTENDED TO 40-YEARS

11. All parties support extending the DCF term to more fairly recognize in the MX Test the benefits (revenues) that flow from new extensions. Most interveners, including BCSEA and the "non-traditional" interveners, expressly support FEI's 40 year proposal. BCOAPO "does not object" to 40 years, but identifies 30 years as a "more cautious approach".¹⁴ CEC seeks a 50 to 65 year DCF term, longer than FEI has proposed.¹⁵ PRRD also stated that a term longer than 40 years would be appropriate.

12. In specific response to BCOAPO, FEI's 40 year proposal is already a "cautious approach". Forty years is well short of the expected service life of mains. FEI's proposal will (as CEC observes) still understate the expected benefits of new extensions, and a 50-65 year DCF term would be most consistent with the Commission Guidelines. FEI had proposed 40 years as a reasonable middle ground in the circumstances. A term shorter than 40 years would give insufficient recognition to the present significant imbalance favouring existing customers.

B. CUSTOMER ADDITION HORIZON SHOULD BE 10 YEARS IN SOME CIRCUMSTANCES

13. There is unanimity among stakeholders that the customer addition horizon is too short. BCOAPO and BCSEA support FEI's proposal. BCOAPO and CEC¹⁶ both observe that the evidence supports increasing the horizon to 10 years as a matter of course. CEC proposes the use of a ten year term for all main extension projects and adds that "the entire project life should be considered where there is evidence that it exceeds 10 years."¹⁷

¹⁴ BCOAPO Submission para. 2.

¹⁵ CEC Submission, para. 70.

¹⁶ CEC Submission, para. 81.

¹⁷ CEC Submission, para. 83.

14. BCOAPO expresses concern about the cost of a process required to proceed on a case by case process.¹⁸ For clarity, FEI's proposal is to report on extensions where a 10 year period has been used, rather than applying for approval in advance (as BCOAPO appears to assume). Compliance reporting in the manner proposed by FEI can be done efficiently. FEI agrees with BCOAPO that obtaining advance approvals would be onerous and inefficient.

15. FEI's proposal to proceed with a 10 year horizon on a more limited basis was founded on a (possibly mistaken) belief that stakeholders would generally prefer to move towards the more appropriate 10 year period in an incremental manner. FEI stands by its proposal, but would also support CEC's position. CEC's proposal would promote further efficiency and consistency in the application of the MX Test. FEI agrees with BCOAPO and CEC that there is sufficient evidence on the record for the Commission to make a determination on the use of a ten year horizon for all main extension projects.¹⁹

C. IMPLEMENTATION OF A SLIDING OVERHEAD SCALE

16. All interveners support FEI's proposal to more accurately reflect overhead costs.

17. CEC advocates an additional change. It asks the Commission to "direct FEI to include only variable overhead costs for a new extension and not include any 'direct overhead' or general planning costs...".²⁰ The effect of this suggestion, other things being equal, would be to increase the PI of an extension. FEI outlined its rationale for its direct overhead practices in its response to CEC IR 2.8.4, and the Company's proposal is reasonable. There may be merit in CEC's proposal as an additional future step, and FEI will explore CEC's suggestion following the conclusion of this proceeding. In the meantime, the Commission should decide this Application based on the evidence before it. The potential for future refinements should not hold up changes critical to rebalancing the MX Test.

¹⁸ BCOAPO Submission, para. 7.

¹⁹ CEC IR 2.12.1.

²⁰ CEC Submission, para. 104.

D. ENERGY EFFICIENCY CREDITS SHOULD BE DISCONTINUED

18. All interveners apart from BCSEA-SCBC support the discontinuance of Energy Efficiency Credits. BCSEA-SCBC correctly notes²¹ that FEI's proposal to discontinue the credits is based only on administrative efficiency, with energy efficiency matters being well-addressed through FEI's EEC program. Administrative efficiency and the emergence of a more mature DSM program are valid reasons for proposing the discontinuance of the energy efficiency credits.

E. CONSUMPTION VALUE INPUT

19. All interveners, apart from BCOAPO, support FEI's proposal to continue to use Residential End Use Study ("REUS") consumption values in the MX Test. BCOAPO states: "Although FEI agrees new customers will not in fact consume fuel at the rate of existing customers, it has built the assumption that they will do so into the MX Test."²² BCOAPO is characterizing FEI's approach inaccurately. The consumption value is not an assumption about the expected consumption of new customers. It is, as CEC acknowledges²³, a tool to ensure the equitable treatment of new and existing FEI customers. EES Consulting's evidence in this regard is discussed at paragraph 29 of FEI's Final Submissions. They state, in part: "These average use numbers are not intended to reflect the use of customers in the future but rather reflect the average usage of all customers on the system. That allows new customers to be treated equitably compared to existing customers."

F. SERVICE LINE COST ALLOWANCE (SLCA) SHOULD BE UPDATED

20. BCSEA and the "non-traditional" interveners support the adoption of FEI's SLCA proposal. BCOAPO does not object to FEI's proposal to update the SLCA and characterized as

²¹ BCSEA-SCBC Submission, p.3.

²² BCOAPO Submission, para. 15.

²³ CEC states at para. 48, for instance: "The CEC submits that using average consumption per appliance is the equivalent of applying a postage stamp principle across all customers...".

reasonable FEI's use of UPC data from 2008 to 2014.²⁴ Using a seven year rolling average, as opposed to a shorter period, makes good sense to ensure reliability of data.

21. CEC is the only intervener to oppose FEI's SLCA proposal. It characterizes the SLCA methodology as "overly conservative" (i.e., imbalanced in favour of existing customers) and states that "...calculating consumption by chronological time frames is the antithesis of postage stamp principles..."²⁵. CEC has proposed a new methodology to derive the SLCA. FEI submits that, while there may be merit in exploring the future potential for less conservative SLCA methodologies that are more aligned with postage stamp principles, FEI's proposal is a practical and efficient solution that is consistent with the methodology previously approved by the Commission.

22. The CEC also submitted that it would be appropriate to develop a commercial SLCA.²⁶ While FEI has not proposed a separate commercial SLCA, it is willing to provide a commercial SLCA value to the Commission and interveners along with a discussion of the implications of the concept if the Commission considers it appropriate for FEI to do so. FEI submits that consideration of CEC's idea, irrespective of its potential merit, should not delay the implementation of FEI's present proposals.

23. The CEC also recommended that FEI "...include commercial consumption in the overall determination of the MX Test." The MX Test does use commercial consumption for commercial customers.

G. SYSTEM EXTENSION FUND IS APPROPRIATE AND JUST AND REASONABLE

24. Among FEI's proposals, the System Extension Fund appears to have generated the greatest concern. It is unequivocally supported by those parties, such as the Seabird Island Band and representatives of small communities, seeking access to natural gas for compelling social, economic and environmental reasons. BCSEA-SCBC and BCOAPO are opposed to funding

²⁴ BCOAPO Submission, p.6.

²⁵ CEC Submission, p.27.

²⁶ CEC Submission, p.28.

what they refer to as “uneconomic” extensions.²⁷ CEC prefers a mechanism accessible to commercial customers.²⁸ FEI addresses those submissions below.

(a) Response to BCOAPO and BCSEA-SCBC

25. An extension with a PI of 0.2 should not be labelled “uneconomic”, since the PI is determined *ex ante* based on conservative parameters (including accounting for revenues from a relatively small portion of the economic life of the assets). The revenue benefit from particular extensions may well turn out to exceed the costs over the full life of the asset. In any event, FEI’s evidence was that the overall rate impact associated with the Fund would be minimal. FEI has addressed in its initial Submissions the rate design rationale for the Fund. The Company relies on those submissions in response to BCOAPO and BCSEA-SCBC’s rate design arguments.

26. BCSEA-SCBC and BCOAPO distinguish FEI’s proposal from BC Hydro’s fund on the basis that electricity is a practical necessity (per BCSEA-SCBC)²⁹ and there are substitutes for natural gas (per BCOAPO).³⁰ The submissions of “non-traditional” interveners in this process suggest that BCSEA-SCBC and BCOAPO are underestimating the importance of access to a lower cost, cleaner energy source in more remote communities.

27. BCOAPO’s concern that the existence of the Fund will only be useful to a small number of customers “in the know” is unwarranted. FEI will make the existence of the Fund known to any qualifying customer that enquires about the potential to obtain gas service. FEI wants qualifying customers to have access to gas.

28. BCOAPO also suggested that transferring what would have been CIAC into rate base would result in a larger return for shareholders. The incremental earnings associated with

²⁷ BCSEA-SCBC Submission, p.3.

²⁸ CEC Submission, para. 144.

²⁹ BCOAPO Submission, para. 26; BCSEA-SCBC Submission, p.3.

³⁰ BCOAPO Submission, para. 24.

a \$1 million fund would be immaterial to FEI, whereas the economic and social benefit to more remote communities would be material.

(b) Response to CEC

29. CEC favours a “social discount or reduction to the financial discount that is available to all customers”, and suggests that the Fund is unduly discriminatory because it is only available to residential customers.³¹ FEI submits that the proposed Fund is consistent with the UCA. It treats residential and commercial customers differently, but not unduly so. There is a public interest rationale for prioritizing residential customers that need access to lower cost heating options.

H. CEC’S OTHER PROPOSALS TO MAKE NATURAL GAS MORE ACCESSIBLE

30. CEC has proposed other changes to the MX Test parameters that would remove barriers to potential customers accessing natural gas. CEC’s proposals include changing the aggregate PI to 1.0³² and implementing a social discount rate.³³ FEI submits that further evaluation would be required to consider the legality, feasibility and implications of introducing a social discount rate. FEI acknowledges that CEC’s position on the PI is not unreasonable (it was 1.0 until 2007 when it was changed to 1.1). However, FEI’s proposal in this Application to maintain the current aggregate PI in conjunction with other changes to the MX Test is also reasonable and has the support of all other interveners. FEI submits that the Application should be approved as proposed.

³¹ CEC Submission, paras. 150 and 151.

³² CEC Submission, para. 111.

³³ CEC Submission, para. 151.

PART FOUR: REPLY REGARDING MX REPORTING

31. Among the interveners in this proceeding, BCOAPO is alone in opposing FEI's proposal to revisit the MX Reporting.³⁴ BCOAPO's counter-proposal for FEI to report on individual extensions is even more onerous than what is required today, and would come with additional time and cost. BCOAPO has offered little in the way of a rationale for why such intensive reporting is now appropriate for extensions that average \$11,600 and comprise a relatively small amount of FEI's capital spend. BCOAPO's proposed reporting is inconsistent with the principles articulated in the Core Review. It is unnecessary for the proper oversight of FEI. FEI's proposals are in the best interests of FEI's customers and stakeholders.

32. CEC advocates limited reporting, which would include only the results of the Ratepayer Impact Analysis and the aggregate PI. There is considerable merit in reporting only at the aggregate PI level, but FEI has committed to report any non-compliance with the 0.8 PI requirement. Paragraph 94 of FEI's Final Submissions provides further information on the content of FEI's proposed annual reporting.

33. CEC suggests that reporting could occur in Annual Reviews under PBR, rather than by compliance filing.³⁵ FEI submits that MX Reporting should remain compliance reporting. Compliance reports like the MX Reporting are filed separately from revenue requirements proceedings for good reasons. For instance, the timing of revenue requirements applications (with the exception of Annual Reviews filed during a PBR term) is uncertain and can often span multiple years. Compliance activities are generally addressed directly between the Commission and the utility for administrative efficiency, in the recognition that the Commission always has the ability to initiate a more formal process if required. Addressing the MX Test as part of the more involved Annual Review processes will undermine the efficiency gains associated with FEI's proposals.

³⁴ CEC "agrees the current reporting structure is overly onerous and does not provide the appropriate information" and supports using the Ratepayer Impact Analysis: Submission, paras. 155 and 157. BCSEA-SCBC takes no position: Submission, p.4.

³⁵ CEC Submissions, para. 158.

34. Undertaking the Ratepayer Impact analysis every year is too frequent for the reasons described in the response to BCUC IR 2.34.1 through 2.34.2.1.

PART FIVE: CONCLUSION AND ORDER SOUGHT

35. All participants in this proceeding agree that the MX Test favours existing customers at the expense of new customers and needs to be changed. FEI's proposals strike a more equitable balance between the interests of existing and new customers. Stakeholder submissions in this proceeding underscore the potential benefits associated with energy choice and removing unnecessary impediments to access an affordable energy source. FEI's proposed approach to MX Reporting is in the interests of all concerned. FEI submits that the Application should be approved as proposed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated:

December 17, 2015

[original signed by Matthew Ghikas]

Matthew Ghikas

FASKEN MARTINEAU DUMOULIN LLP

Counsel for FortisBC Energy Inc.