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October 15, 2018

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

Attention: Mr. Patrick Wruck, Commission Secretary and Manager, Regulatory Support

Dear Mr. Wruck:

Re: FortisBC Energy Inc. (FEI or the Company)

Application for Approval of a Change to the System Extension Fund Pilot Program (the Application)

FEI is applying to the British Columbia Utilities Commission (BCUC) for an amendment to improve the System Extension Fund (SEF) pilot program, which was established by the BCUC in its Decision and Order G-147-16 dated September 16, 2016 (the Decision). FEI is seeking a change to the funding rules of the SEF pilot program which will increase the number of customers making positive decisions to access the available pilot program funds, increase the number of customers attaching to the system, and better meet the objectives of the SEF pilot program. For the 2017 funding year, only a portion of the available funds were used, although there were more homeowners interested in connecting to the natural gas system and accessing the fund. FEI has identified a change to the current SEF pilot program which will improve the success of the SEF pilot program and allow it to better meet the needs of all potential participants.

FEI believes that providing more equitable access to the available \$1 million SEF funding to help more new customers desiring to connect to natural gas is necessary. To facilitate more customers moving forward with their connections, FEI is requesting approval to amend the SEF pilot program to allow the SEF to fund 100 percent of the Contribution In Aid of Construction (CIAC), as opposed to the current limit of 50 percent of the CIAC. The reason for the proposed change is discussed further below.

FEI is proposing that all other SEF pilot program conditions and eligibility requirements remain unchanged at this time, including maintaining the maximum SEF funding contribution amount of \$10,000 per customer. FEI believes that the proposed change to the funding rules

will result in more equitable access to the natural gas system, enhance the potential for additional customer attachments, and improve the economics of any affected main.

1. Background

The SEF pilot program is a new initiative that was approved by the BCUC on September 16, 2016, in its Decision in the FEI *2015 System Extension Application* (the 2015 Application). The Decision, among other things, approved the implementation of the SEF pilot program, from January 1, 2017 through December 31, 2020, with a budget of \$1 million per year. The purpose of the SEF is to help eligible homeowners who require a main extension to connect to the FEI natural gas distribution system by giving them access to the SEF pilot program funds to offset the potentially significant contribution the customer may need to pay (the CIAC). In its Decision the BCUC found that the SEF pilot program was in the public interest, and that the \$1 million per year funding was reasonably sufficient and does not impose an excessive cost burden to the overall FEI ratepayers.¹

FEI proposed and designed the SEF to create equity between homeowners facing high CIACs in order to connect to gas, and other homeowners who often do not need to pay a CIAC due to their closer proximity to existing gas mains. The fund partially offsets the cost of CIACs that effectively prevent or deter homeowners from connecting to the natural gas system, thereby limiting their energy options. This approach is consistent with common rates, and provides for increased and more equitable access to the natural gas system. In addition to providing more homeowners with 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 intensity fuel such as oil or propane.

2. SEF Program Evaluation

FEI implemented the SEF pilot program in January 1, 2017. Over the course of its first year FEI observed the benefits of the program along with its limitations. During the first year of the SEF pilot program over 200 eligible homeowners participated in the program receiving a total of \$265,950², of the \$1 million funding available.

The SEF was intended to reduce the financial barrier faced by some homeowners wishing to connect to the gas system and thus to treat customers in a more equitable manner. Some homeowners are located further from an existing main than most customers, and are, therefore, required to pay a higher CIAC in order to obtain natural gas service. In other circumstances the SEF was seen as a way to reduce the cost barrier and see a main extension reach a small group of customers (a cul de sac for example). While the SEF pilot program has assisted many customers by offsetting the cost of their main extension, for many other homeowners the assistance has either been insufficient, or the structure of the program has produced an unintended obstacle in their desire to connecting to gas. In either case, the needed assistance has not been effectively provided. This is more fully explained below.

¹ Decision, pg 51.

² FEI's 2017 Main Extension Annual Report filed on March 28, 2018.

Currently the SEF provides eligible participants with funding of up to 50 percent of the CIAC to a maximum of \$10 thousand per participant. The 50 percent customer contribution was, as indicated in the 2015 Application in the responses to BCUC IRs 1.18.1 (Exhibit B-3) and 2.16.1 (Exhibit B-9), intended to ensure that a customer makes a reasonable financial contribution prior to undertaking construction of a new main extension. FEI now believes that the 50 percent pay provision leaves many homeowners with required contributions that are, even after the SEF contribution is applied toward the CIAC, too expensive to accept.

Over the first year of operation of the SEF pilot program, FEI noted that many homeowners, when offered the opportunity to participate in the SEF, ultimately declined to take advantage of the offer because they considered the required contribution, even after SEF funding would have been provided, to be prohibitively expensive. FEI collected information on a representative sample of 50 such homeowners. An analysis of the data showed that the average required contribution (CIAC less SEF assistance) of these homeowners was \$4,230. Conversely the average required contribution of homeowners who did participate in the SEF was \$1,236. The non participants were faced on average with a cost that was nearly 3.5 times that of SEF pilot program participants. FEI now believes that there are many other homeowners who, like the 50 in the sample set, face higher than anticipated CIACs. The net cost to these potential customers is simply too great when only 50 percent of their CIAC is covered by the SEF. The current offering has been rejected by many potential participants as being insufficient and, without change, we can expect that many more otherwise eligible homeowners will similarly choose not to proceed with a main extension and, as a result, the SEF will remain underutilized.

FEI also notes that the SEF was intended to complement the existing main extension process and contributory main model. However, rather than complement these, the current structure of the SEF model forces potential customers to make a difficult choice, neither of which may be appealing. This is related to the way the current funding model for the SEF operates in relation to the contributory main, and occurs where more than one home could ultimately benefit from the new gas main. As proposed by FEI in the 2015 Application and as approved by the BCUC in its Decision, the SEF participants are precluded from also participating in the contributory main model. The contributory main model allows customers requesting a main extension to receive a pro rata refund of some or all of their CIAC as additional customers connect to the new main, over a five-year period. FEI has identified that this exclusion with the current SEF funding model creates a strong barrier or disincentive for homeowners to proceed with their main extension.

To demonstrate the issue, FEI provides the following example. A semi-rural neighbourhood wherein one homeowner, located at some distance from an existing main, would like natural gas service for their home. Several other homes lie between the homeowner requesting the service and the existing main. The required main is determined to be uneconomic (Main Extension (MX) test result is less than 0.8³) and a considerable CIAC is required.

In the existing contributory model the customer has two choices:

³ The MX test result, or PI score, is the ratio of the Net Present Value of Cash Inflows to the Net Present Value of Capital cost of any new main extension.

1. Pay the full CIAC upfront and potentially receive a pro rata refund of the CIAC if any other homeowners decide to connect to the main within the following five-year period whereby the other homeowners pay a portion of the original CIAC; or
2. Decide to not connect to the natural gas system as the cost is too high.

Under the contributory model, the initial customer takes the risk that other customers will, at a later date, pay a portion of the CIAC to connect, thereby reducing the initial customer's contribution. There is no guarantee that any other homeowners will, in fact, connect and in practice where any cost beyond the standard \$15 Application Fee⁴ is required, most other homeowners will choose to simply wait out the initial five-year period and connect thereafter by simply paying only the Application Fee. In these cases FEI must limit its forecast of subsequent attachments in the MX test, which in turn results in a higher CIAC for the initial customer. This negative feedback loop often results in a main extension not moving forward as the costs are deemed too high by any potentially interested customers.

The implementation of the SEF pilot program introduced a third option for customers:

3. Apply for SEF assistance to offset 50 percent of the CIAC cost and pay the remaining 50 percent themselves (or more if the CIAC exceeds \$20 thousand).

Under this option, 100 percent of the CIAC is paid off upfront (50 percent by the SEF to a maximum of \$10 thousand per customer and the initial customer paying the remaining CIAC balance). In practice this means that neighbouring homeowners who later choose to connect to the gas system can do so simply by paying the Application Fee. Normally, reducing the cost for future customers to connect has beneficial consequences in the calculation of the MX test, such as improving Profitability Index (PI) scores and reducing the CIACs as FEI is able to forecast these additional connections, and their gas load, in the MX test. In the context of the SEF pilot program, however, FEI has observed that there are unintended consequences. While the first customer would receive assistance from the SEF pilot program, they would also pay the remaining CIAC and have no opportunity to recover any of their contribution by the attachment of additional customers in future, as would occur under the original contributory model. Therefore, the original customer that receives SEF assistance effectively subsidizes, at significant personal cost, access to the gas system for their neighbours. Naturally this strikes many potential SEF participants as unfair and, as a result, they simply choose not to proceed.

FEI believes that the issues described above can be effectively addressed with a minor amendment to the SEF pilot program funding rules.

3. Proposed SEF Pilot Program Modification

FEI recommends making a minor modification to the SEF funding rules while keeping all other SEF pilot program characteristics unchanged. The following table provides a summary of the current SEF pilot program along with identifying the proposed change.

⁴ A reduction to the Application Fee from \$25 to \$15 is effective November 1, 2018, pursuant to Order G-135-18 and Decision dated July 20, 2018, in the FEI 2016 Rate Design Application.

Table 1: 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: 100% of CIAC to a maximum of \$10,000 per customer

FEI believes that modifying the SEF funding rules to allow it to cover 100 percent of the CIAC to a maximum of \$10 thousand per customer will address the issues discussed in Section 2 as follows:

1. Paying 100 percent of the CIAC (up to a maximum of \$10 thousand per customer) most effectively overcomes the financial barrier presented by a CIAC. This is especially true in the case of those homeowners with higher cost CIACs who typically decline to participate as the financial support provided under the current program is not found to be sufficient.
2. With the SEF paying 100 percent of the CIAC then all potential customers who may connect to the new main extension are provided equal support and access to natural gas. The first customer is not forced to pay more which, in effect, subsidizes the access of their neighbours.
3. By paying 100 percent of the CIAC at the outset, it becomes much more likely that additional homeowners will choose to connect to the natural gas system within the first five years. As such, FEI can more reasonably forecast future customer additions to any new main, which would be reflected in the MX test result, reducing the CIAC, and ensuring more equitable and fair access to natural gas for customers.

The proposed change to funding rules will improve customers' access to the available SEF funds, enabling more eligible homeowners to participate and benefit from the SEF pilot program and increase the funding assistance provided to homeowners, particularly those facing high-cost main extensions.

4. Conclusion and Approvals Sought

In summary, while FEI is generally pleased with the SEF pilot program, it believes that the

pilot program should be amended as proposed to better assist potential customers and fulfill its intended purpose. The current funding provisions have left, and will continue to leave, many potential participants with required contributions that are not affordable for them. In addition, many would-be participants are put in the position of having to choose between subsidizing their neighbours, paying the full CIAC, or simply foregoing any connection to the natural gas system.

FEI, therefore, seeks approval from the BCUC to change the funding rules for the SEF pilot program to allow the SEF to fund 100 percent of the CIAC to a maximum of \$10 thousand per customer. FEI believes that the proposed change will improve participation in and the effectiveness of the SEF pilot program by reducing the significant financial barrier faced by some potential customers and ensuring more fair and equitable treatment of customers. FEI proposes that the change to the SEF pilot program funding rules be implemented on the first of the month following a BCUC decision, if approved.

A draft form of order sought is provided in Appendix A.

If further information is required, please contact Jason Wolfe, Director, Energy Solutions at 604-592-7516.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachment

Appendix A
DRAFT ORDER



ORDER NUMBER

G-xx-xx

IN THE MATTER OF

the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Energy Inc.

Application for Approval of a Change to the System Extension Fund Pilot Program

BEFORE:

[Panel Chair]
Commissioner
Commissioner

on Date

ORDER

WHEREAS:

- A. On October 15, 2018, FortisBC Energy Inc. (FEI) filed an application with the British Columbia Utilities Commission (BCUC) for approval of a change to the System Extension Fund (SEF) pilot program funding rules to allow the SEF to fund 100 percent of the Contribution In Aid of Construction to a maximum of \$10 thousand per customer (Application);
- B. By its Decision and Order G-147-16, dated September 16, 2016, the BCUC approved the establishment of the SEF pilot program to improve equity for customers desiring to connect to the natural gas system by offsetting the potentially significant contribution required for some customers to connect to connect;
- C. The BCUC has completed its review of the Application and finds that approval is warranted.

NOW THEREFORE the BCUC orders as follows:

- 1. FortisBC Energy Inc. is approved to change the funding rules for the System Extension Fund (SEF) pilot program to allow the SEF to fund 100 percent of the Contribution in Aid of Construction to a maximum of \$10 thousand per customer.
- 2. FEI is to implement the change effective the first of the month following the date of this order.

DATED at the City of Vancouver, in the Province of British Columbia, this (XX) day of (Month Year).

BY ORDER

(X. X. last name)
Commissioner