



**ORDER NUMBER**

**G-53-19**

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:**

K. A. Keilty, Commissioner

on March 13, 2019

**ORDER**

**WHEREAS:**

- A. On October 15, 2018, FortisBC Energy Inc. (FEI) filed an application requesting 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 (CIAC) to a maximum of \$10,000 per customer (Application). FEI has stated that the proposed change will improve participation in and the effectiveness of the SEF pilot program by reducing the financial barrier faced by some potential customers;
- B. The British Columbia Utilities Commission (BCUC) approved the establishment of the SEF pilot program in its decision on the FEI 2015 System Extension Application proceeding dated September 16, 2016 (2016 System Extension Decision). The SEF pilot program was approved for four years commencing in 2017 through December 31, 2020 to assist single-family residential homeowners primarily in lower density (rural), to pay for upfront CIAC;
- C. Under the current SEF pilot program, customers must meet a minimum Profitability Index ratio of 0.2 in the Mains Extension Test and are not eligible for a contributory main refund. The SEF provides eligible participants with funding of up to 50 percent of the CIAC to a maximum of \$10,000 per participant;
- D. By letter dated December 13, 2018, the BCUC requested that FEI file supplemental information regarding the Application and provide notice of the Application and supplemental information to all registered interveners in the FEI 2015 System Extension Application proceeding. The BCUC also requested stakeholder comments on the Application and supplemental information;
- E. On January 21, 2019, the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization et al. (BCOAPO) provided comments regarding the Application;
- F. On January 30, 2019, FEI submitted its response to BCOAPO's comments; and

G. The Panel has reviewed the Application, the supplemental information and all submissions and finds that approval of the Application is not warranted.

**NOW THEREFORE** for the reasons attached as Appendix A to this order, the BCUC denies FEI's request for approval of a change to the SEF pilot program funding rules to allow the SEF to fund 100 percent of the CIAC to a maximum of \$10,000 per customer.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 13th day of March 2019.

BY ORDER

*Original signed by:*

K. A. Keilty  
Commissioner

Attachment

FortisBC Energy Inc.  
Application for Approval of a Change to the System Extension Fund Pilot Program

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**REASONS FOR DECISION**

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**1.0 Background**

On October 15, 2018, FortisBC Energy Inc. (FEI) filed an application requesting 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 (CIAC) to a maximum of \$10,000 per customer (Application). FEI has stated that the proposed change will improve participation in and the effectiveness of the SEF pilot program by reducing the financial barrier faced by some potential customers.

The British Columbia Utilities Commission (BCUC) approved the establishment of the SEF pilot program in its decision on the FEI 2015 System Extension Application proceeding dated September 16, 2016 (2016 System Extension Decision). The SEF pilot program was approved as a four-year pilot program commencing in 2017 through December 31, 2020 to assist single-family residential homeowners, primarily in lower density (rural) areas to pay for upfront CIAC.

In the 2016 System Extension Decision, the BCUC stated that since the SEF pilot program was a fairly new initiative for natural gas customers, a limited rollout pilot is appropriate and will allow FEI sufficient time to assess whether this new program should be continued or expanded in the future.<sup>1</sup> The BCUC also directed FEI to report annually on the SEF pilot program's performance and to address the appropriateness of its continuation in the June 30, 2020 filing of FEI's updated Rate Impact Analysis (RIA)<sup>2</sup>. The 2016 System Extension Decision capped the SEF at \$1,000,000 per year and directed that unused funds will not roll over from one year to the next.

In the FEI 2015 System Extension Application proceeding, FEI provided a forecast of the SEF funding and the expected number of customers to receive the SEF, stating:

It is likely SEF eligible customers will receive funding if requested, similar to BC Hydro's [British Columbia Hydro and Power Authority] funding situation. Using a simple comparative estimation and assuming that the SEF had similar initial usage as BC Hydro's UEA of 19% to 99% (from 1996 to 2003) of the total available funds, FEI estimates SEF funding of \$0.19 million to \$0.99 million per year from 2016 to 2020 as the program is introduced to customers.<sup>3</sup>

Under the current SEF pilot program, customers must meet a minimum Profitability Index ratio of 0.2 in the Mains Extension Test and are not eligible for a contributory main refund. The SEF provides eligible participants with funding of up to 50 percent of the CIAC to a maximum of \$10,000 per participant.

On March 28, 2018, pursuant to the 2016 System Extension Decision, FEI filed the results of the SEF pilot program for the first year of its four-year pilot. In the report, FEI noted the SEF is not currently functioning as intended in utilising the \$1,000,000 available to assist eligible customers in offsetting the cost of a main

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<sup>1</sup> FortisBC Energy Inc. 2016 System Extension Decision dated September 16, 2016, p. 51.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid., Exhibit B-3, BCUC IR 1.17.3.

extension. Further, FEI stated that they intended to propose changes to the SEF rules in view of improving customer access to the available funds.<sup>4</sup>

By letter dated December 13, 2018, the BCUC requested that FEI file supplemental information regarding the Application (Supplemental Information) and provide notice of the Application and Supplemental Information to all registered interveners in the FEI 2015 System Extension Application proceeding. The BCUC also requested stakeholder comments on the Application and Supplemental Information.

## 2.0 FEI's Request for a Change to the SEF Pilot Program

FEI explains that the 50 percent customer contribution towards the CIAC established in the SEF pilot program was intended to ensure that a customer makes a reasonable financial contribution prior to undertaking construction of a new main extension. However, FEI now believes that the 50 payment requirement results in required contributions that are too expensive for many homeowners to accept, even after the SEF contribution is applied toward the CIAC.<sup>5</sup>

FEI states that the SEF does not complement the existing mains extension process because SEF participants are precluded from also participating in the contributory main model. This 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 submits this exclusion with the current SEF funding model creates a strong barrier or disincentive for homeowners to proceed with their main extension.<sup>6</sup>

FEI believes the fundamental reason that many homeowners decide not to access the funds available from the SEF is due to the current 50 percent funding model not sufficiently addressing the high cost of the CIACs. FEI submits that modifying the SEF funding rules to allow it to cover 100 percent of the CIAC (to a maximum of \$10,000 per customer) will improve the SEF's performance as follows:

- Paying 100 percent of the CIAC most effectively overcomes the financial barrier presented by a CIAC as evidenced by the fact that participating homeowners in 2018 received on average \$2,351 from the SEF while those who chose not to participate would have received on average \$4,344, suggesting that they faced a much higher average CIAC;
- 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 so that the first customer no longer subsidizes their neighbours' access to the gas system; and
- 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. This would allow FEI to more reasonably forecast future customer additions to any new main, which would be reflected in the Main Extension Test result, reducing the CIAC, and ensuring more equitable and fair access to natural gas for customers.<sup>7</sup>

FEI states that during the first year of the SEF pilot program commencing in January 2017, 218 eligible homeowners participated in the program receiving a total of \$265,950 or 27 percent of the \$1,000,000 annual

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<sup>4</sup> FortisBC Energy Inc., Mains Extension Annual Report for the Year Ended 2017, Section 5, p. 10.

<sup>5</sup> FortisBC Energy Inc. Application for a Change to the System Extension Fund Pilot Program, Exhibit B-1, p. 3.

<sup>6</sup> Ibid., Exhibit B-1, p. 3.

<sup>7</sup> Ibid., Exhibit B-2, pp. 3-4.

approved cap.<sup>8</sup> During the second year of the SEF pilot program in 2018, 167 eligible homeowners participated in the program receiving a total of \$392,715 or 39 percent of the \$1,000,000 annual approved cap.<sup>9</sup>

### 3.0 Intervener's Submission and FEI Reply

On January 21, 2019, the British Columbia Public Interest Advocacy Centre representing British Columbia Old Age Pensioners' Organization et al. (BCOAPO) provided comments regarding the Application and Supplemental Information. BCOAPO submits there is no evidence to support FEI's belief "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."<sup>10</sup>

On January 30, 2019, FEI replied to BCOAPO's comments stating "that many of BCOAPO's comments tend to reargue the merits of the SEF as previously approved by the BCUC."<sup>11</sup> Further, FEI reiterates that the proposal to adjust the SEF funding rules to allow 100 percent funding of the CIAC would allow more residents to attach to the system that otherwise would not; which in turn will fulfill the purpose of the SEF and increase the benefits from the program.

BCOAPO was the only party to file any comments on the Application.

### 4.0 Panel Determination

**The Panel denies FEI's request for approval of a change to the SEF pilot program funding rules to allow the SEF to fund 100 percent of the CIAC to a maximum of \$10,000 per customer.**

**The Panel finds the actual SEF funding provided to customers of 27 percent in 2017 and 39 percent in 2018 is reasonable compared to the estimates provided by FEI in the 2015 System Extension Application proceeding.** The Panel acknowledges that for the first two years of the four-year pilot, the total SEF usage was less than the \$1,000,000 annual approved cap. However, the issue of lower participation in the SEF pilot program in the early years of the program was already considered in the FEI 2015 System Extension Application proceeding. The estimates provided by FEI indicated that SEF funding would increase from 19 percent to 99 percent of the annual \$1,000,000 annual approved cap in the first four years after introduction of the SEF program.<sup>12</sup> The actual SEF usage in 2017 and 2018 is tracking reasonably well compared to this expectation and has increased since the program was first introduced to customers. Lower usage of the SEF in the early years is also consistent with the 2016 System Extension Decision finding that establishing the SEF on a pilot basis is in the public interest provided that the costs borne by overall ratepayers are reasonable and does not impose an excessive cost burden to overall FEI ratepayers.<sup>13</sup>

**The Panel finds that FEI has not provided sufficient evidence to support its current proposal that the CIAC should now be funded 100 percent by the SEF, requiring no financial contribution by the customer.** In the FEI 2015 System Extension Application proceeding, FEI modeled its SEF proposal considering the features of BC

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<sup>8</sup> Ibid., Exhibit B-1, p. 2.

<sup>9</sup> Ibid., Exhibit B-2, p. 1.

<sup>10</sup> Ibid., Exhibit E-1, p.1

<sup>11</sup> Ibid., Exhibit B-3, p.1

<sup>12</sup> FortisBC Energy Inc. 2015 System Extension Application, Exhibit B-3, BCUC IR 1.17.3.

<sup>13</sup> FortisBC Energy Inc. 2016 System Extension Decision dated September 16, 2016, p. 51.

Hydro's Uneconomic Fund which included a requirement for the customer to pay a portion of the costs.<sup>14</sup> FEI also explains in the Application that the 50 percent customer contribution towards the CIAC was intended to ensure that a customer makes a reasonable financial contribution prior to undertaking construction of a new main extension.<sup>15</sup> In the Application and Supplemental Information, FEI has not adequately addressed the reasons for moving from 50 to 100 percent funding.

**The Panel also finds that further process is required to review FEI's proposal and that it would be more appropriate from a regulatory efficiency perspective to complete the review towards the end of the SEF pilot program period.** In the 2016 System Extension Decision, the BCUC determined that the four-year pilot period allowed FEI sufficient time to assess whether the new program should be continued or expanded in the future and directed FEI to address the appropriateness of continuation of the SEF pilot program in the June 30, 2020 filing of its updated RIA. Further, BCOAPO, the only intervener to comment on the Application and Supplementary Information, is not supportive of FEI's proposal. In order to adequately review any proposal to modify the SEF pilot program and allow for participation of impacted parties, further process is required. The Panel considers that a review is best done towards the end of the four-year pilot, consistent with the 2016 System Extension Decision. Further, this review process would best be informed by the June 30, 2020 filing of FEI's updated RIA since it will reflect the impact of the SEF pilot program as well as the other changes to the main extension process resulting from the 2016 System Extension Decision.

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<sup>14</sup> Ibid., p. 47.

<sup>15</sup> FortisBC Energy Inc. Application for a Change to the System Extension Fund Pilot Program, Exhibit B-1, p. 3.