



IN THE MATTER OF the Utilities Commission
Act, S.B.C. 1980, c. 60, as amended

and

IN THE MATTER OF an Application by
BC Gas Inc.

BEFORE: J.G. McIntyre,)
Chairman;)
J.D.V. Newlands,)
Deputy Chairman;) June 6, 1991
N. Martin,)
Commissioner; and)
W.M. Swanson, Q.C.,)
Commissioner)

O R D E R

WHEREAS:

- A. On October 23, 1990 BC Gas Inc. - Lower Mainland Division ("BC Gas") applied to the Commission for approval of amendments to its Gas Tariff, Terms and Conditions to allow for the promotion and operation of an insurance program for residential gas heating appliances; and
- B. On October 30, 1990 the Commission held a meeting with representatives from the Mechanical Contractors Association of British Columbia, Heating Refrigeration and Air Conditioning Institute, Refrigeration and Air Conditioning Contractors Association, the Sheet Metal Contractors Association of British Columbia and the Canadian Institute of Plumbing and Heating (collectively referred to as "the Association"). The concerns of the Association about the BC Gas Application were fully discussed at the meeting; and
- C. On December 6, 1990 BC Gas responded to a Commission Information Request and proposed a number of amendments to their Application referred to as the BC Gas Furnace Repair Plan ("the BC Gas Plan"); and
- D. On March 22, 1991 the Association provided the Commission with general information on its Gas Appliance Protection Plan of British Columbia for residential gas heating appliances ("the Association Plan"); and
- E. The Commission has reviewed the information filed and finds that approval of the BC Gas Plan is in the public interest, all of which is set out in Reasons for Decision attached as Appendix A to this Order.

NOW THEREFORE the Commission orders as follows:

- 1. The BC Gas Plan as filed on October 23, 1990, as amended December 6, 1990, is approved effective immediately.
- 2. BC Gas will, subject to timely filing, provide the Commission with amended Gas Tariff, Terms and Conditions consistent with this Order and Reasons for Decision.

BRITISH COLUMBIA
UTILITIES COMMISSION


ORDER
NUMBER G-47-91

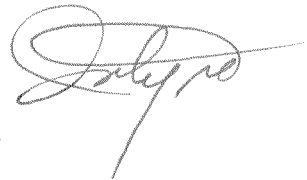
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3. The BC Gas Plan and supporting promotional material are to clearly identify the need for periodic inspections and the availability of the Association plan. BC Gas promotional brochures are to include an Association telephone number to assist customers in making comparisons.
4. Prior to informing the public, BC Gas will submit its promotional material to the Commission so that the Commission can confirm that the conditions in item 3 above have been adequately addressed.
5. BC Gas will provide the Commission with an Annual Report outlining all costs and revenues directly attributable to the BC Gas Plan including a full allocation of overheads. The first report should cover the period ending December 31, 1991.

DATED at the City of Vancouver, in the Province of British Columbia, this 14th day of June, 1991.

BY ORDER


John G. McIntyre
Chairman



Attachment

REASONS FOR DECISION
BC GAS INC. FURNACE REPAIR PLAN

On October 23, 1990, BC Gas Inc. ("BC Gas") applied to the British Columbia Utilities Commission ("the Commission") for approval to introduce a furnace insurance program for its Lower Mainland residential customers ("the BC Gas Plan"). The BC Gas Plan is based on replacement insurance (parts and labour) for certain heating appliance parts at an annual premium of \$59.00. This Application was preceded by six formal meetings and a number of informal discussions from May to October 1990, between BC Gas and Association representatives. These were held in an effort to secure Association cooperation and involvement in the BC Gas Plan. The Commission, through its staff, facilitated these discussions in the expectation that Association concerns could be addressed in BC Gas' application.

On October 30, 1990, the Commission met with the Association to hear their remaining concerns about the BC Gas Plan. At this meeting, the Association provided a written submission which concluded by asking the Commission to postpone examination of, or reject the BC Gas Application "*...and permit Industry to provide an insurance program that will be reasonably priced but which will recognize the primacy of safety and environmental needs of efficiency in the operation of heating equipment.*" The Commission considered this request and, after a number of communications with the Association, agreed that it could take until April 1, 1991 to develop its proposals. In the meantime, the Commission deferred a decision on the BC Gas Plan, recognizing that deferral would have the effect of delaying the availability of insurance to Lower Mainland gas heating customers for one year or until the 1991-92 heating season.

On March 22, 1991, the Association provided the Commission with general information on its newly developed insurance protection plan called the Gas Appliance Protection Plan of British Columbia ("the Association Plan"). During the period leading up to the submission of the Association Plan, the Association was active in seeking support for their concerns regarding the potential "monopoly competition" from BC Gas. The Commission received a number of letters from MLAs requesting the Commission to give the Association

every consideration. In addition, many individual submissions were received from gas contractors. The Commission therefore, has no doubt as to the widespread nature of the concerns. Throughout this extended process of review and consultation, the Commission has ensured that all submissions by the various interested parties were interchanged for comment.

The difficult determination for the Commission has been to anticipate the impact of utility vs Association programs and ensure that customer needs are met without causing unfair competition between the furnace repair trade and the utility. In this circumstance, if the Commission is to determine that a utility program is desirable as a service to customers, then the Commission must also consider control to ensure fair competition. The Commission has considered that these programs are a matter of improved quality of service and customer convenience, rather than a critical service. Therefore, the Commission places greater emphasis on insuring a stand-alone accounting of this program so that there is no cross-subsidy from customer gas rates.

In reviewing this matter, the Commission has focussed on the following key issues:

- Customer Needs
- Financial Impact
- Safety Considerations
- Monopoly Competition

Customer Needs

Independent customer surveys have been conducted by both BC Gas and the Association. The surveys demonstrate that customers are interested in protecting themselves against unexpected heating appliance expenses through the purchase of insurance. As expected, customer interest is price sensitive.

BC Gas, in fixing its proposed price at \$59.00, has surveyed utilities throughout Canada and the United States as to charges for comparable insurance plans. Existing prices fall

within a narrow band and are consistent with the customer survey results. Overall, the BC Gas Plan closely parallels the plan of Consumers Gas which has been in place for five years in the Province of Ontario.

The Association, in setting its package of prices (\$99.95 for most heating appliances), has given priority to a mandatory annual safety inspection charge component of \$59.95. Providing the customer's "natural gas heating equipment is up to industry standards", the customer would be eligible for a "Repair Insurance Agreement" at an additional cost of \$40.00 for a standard natural gas furnace (insurance for mid and high efficiency furnaces is priced at \$60.00 and \$80.00 respectively). Accordingly, the insurance is only available as part of a package price ranging from \$99.95 to \$139.95.

As indicated, the Association Plan requires a qualifying pre-inspection, whereas the BC Gas Plan requires a 15-day waiting period before coverage takes effect. In the case of the Association Plan, the customers must bear the costs of bringing their equipment "up to industry standards" before insurance will be provided.

Financial Impact

In approving the BC Gas Plan, the Commission recognizes that there could be the potential of cross-subsidy by other utility customers if the anticipated number of applications is not realized or the average cost of claims exceeds those forecast. In order to address this concern, the Commission will require an accounting of all costs and revenues attributable to the BC Gas Plan, including a full allocation of overheads. If there is an excess of costs over revenues, the Commission will carefully consider the reasons and may disallow such costs that should have been reasonably foreseen. This measure removes any potential for the utility to undertake predatory market pricing at the expense of private industry, and will protect other utility customers.

Safety Considerations

The Association has raised the concern that customers who subscribe to the BC Gas Plan may be lulled into a false sense of security regarding the safety of their equipment. It suggests the way to address this concern is to have mandatory annual inspections as an integral part of the insurance plan. While the Commission agrees that safety is a concern, it finds that there is little evidence to support the extent of the Association's position. Mandatory, annual, pre-qualification inspections are not essential to a parts insurance plan. The Association program deals with both inspection and insurance considerations. The BC Gas program provides only insurance. The Commission does not believe that these two considerations must necessarily be linked in the same program. The Commission has recognized the increasing complexity of newer high efficiency equipment, and ordered the gas utilities in the Province to initiate a customer awareness program to focus on the need for periodic inspections. Customers who wish to arrange for annual inspections may prefer the Association Plan, which provides lower priced insurance following an annual safety inspection. Depending upon the particular equipment and its age, a period of three to five years may be more in keeping with reliability concerns. In approving the BC Gas Plan, the Commission will ensure through its review, that the BC Gas promotional material clearly identifies the need for periodic inspections to maintain equipment in a reliable condition.

Monopoly Competition

In its submissions to the Commission, the Association has maintained that if BC Gas is permitted to compete with the Association in the provision of heating appliance insurance, it would be unfair monopoly competition.

The Commission, in deferring its decision on the BC Gas application to this date, encouraged the Association to develop alternatives to enable it to compete with the BC Gas Plan. The Association has now established its own plan and has structured a supporting organization - "The Gas Contractors Association of B.C." The Commission believes that the Association can now offer an alternative choice to BC Gas Lower Mainland customers

as well as a new service to other gas customers throughout B.C. The Commission does not believe however, that the presence of the Association Plan, as it is presently structured, renders the BC Gas Plan unnecessary or superfluous for the reasons discussed above.

The Commission, in approving the BC Gas Plan has attached a number of conditions intended to address the monopoly concern. These include pointing out the need for periodic inspections; the inclusion of an Association telephone number in the BC Gas promotional material to facilitate comparison shopping by customers; and finally as outlined under "Financial Impact", controls to ensure that BC Gas does not compete unfairly through subsidized pricing. Furthermore, the Commission will review this program on an ongoing basis to ensure that no implicit subsidy exists in the utility program. For example, the Commission will require the utility to account for the full costs of any bill stuffers, inclusive of full postage.