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June 30, 2020

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC, V6Z 2N3
Attn: Marija Tresoglavic, Acting Commission Secretary
By web posting

Dear Madam:

Re: Re: FortisBC Energy Inc. Revelstoke Propane Portfolio Cost Amalgamation Application
BCUC Project No. 1599033
B.C. Sustainable Energy Association Final Argument

I am writing to enclose the intervener BCSEA's final argument in this proceeding pursuant to Order G-105-20. Please do not hesitate to contact me if there are any questions.

Yours truly,

William J. Andrews



Barrister & Solicitor

Encl.

BRITISH COLUMBIA UTILITIES COMMISSION

**FortisBC Energy Inc.
Revelstoke Propane Portfolio Cost Amalgamation
Application**

BCUC Project No. 1599033

**Final Argument
of
BC Sustainable Energy Association**

June 30, 2020

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A. BCSEA opposes cross-subsidization of Revelstoke propane charge

1. This is the final argument of the intervener B.C. Sustainable Energy Association (BCSEA) in the Commission's proceeding regarding the FortisBC Energy Inc. (FEI) Revelstoke Propane Portfolio Cost Amalgamation Application. This final argument responds to FEI's June 16, 2020 Final Argument.¹
2. BCSEA opposes FEI's proposal to cross-subsidize the Revelstoke propane charge at the expense of natural gas customers. The proposal is unduly discriminatory, contrary to the Bonbright principles, in conflict with BC's energy objectives, not in customers' interests, and not in the public interest.
3. BCSEA is a registered charity and a non-profit association of citizens, professionals and practitioners committed to promoting the understanding, development and adoption of sustainable energy, energy efficiency and energy conservation in British Columbia. BCSEA supports the province's transition to a lower-carbon economy. BCSEA has four chapters across B.C. and approximately three hundred individual and organizational members (including businesses, NGOs, and community organizations). BCSEA represents individuals and organizations in BC who care about energy sustainability and climate change mitigation, and who want the energy they purchase and use to be sustainably produced and transported. Many of BCSEA's members are ratepayers of FortisBC Energy Inc. BCSEA's

¹ https://www.bcuc.com/Documents/Arguments/2020/DOC_58373_2020-06-16-FEI-Final-Argument.pdf.

interests in this proceeding are as a non-profit public interest energy policy organization, and as a representative of its members' interests as ratepayers.²

B. FEI's Revelstoke Piped Propane System

4. FEI operates a satellite, off-grid propane distribution system that serves approximately 1,500 residential and commercial customers in the Revelstoke area.³
5. Propane is supplied to Revelstoke by railcars and tanker trucks, where it is offloaded into storage tanks, vaporized as needed, and distributed to customers through an underground piped distribution system.⁴
6. When the piped propane system was first introduced to Revelstoke in 1991, Revelstoke was located at too great a distance from the natural gas distribution system and Revelstoke's forecast load was insufficient to make connection economic.⁵ This remains the case today.⁶
7. FEI's customers in Revelstoke are charged the same delivery rate as FEI customers in other regions across BC (except Fort Nelson).⁷
8. FEI's customers in Revelstoke are charged a cost for propane energy that is different than the cost of natural gas energy paid by FEI's natural gas customers.⁸
9. Wholesale costs of propane are (a) more volatile and (b) higher than wholesale costs of natural gas.⁹ Correspondingly, Revelstoke customers pay a cost of energy for propane that is (a) more volatile and (b) higher than the cost of energy for natural gas paid by FEI's natural gas customers.¹⁰
10. Propane is more carbon-intensive than natural gas. For an equivalent amount of heat energy, using propane causes more GHG emissions than using natural gas. The BC Carbon Tax varies according to the carbon intensity of the fuel.¹¹ Accordingly, the carbon tax paid on

² Exhibit C8-1.

³ Exhibit B-1, pdf p.5.

⁴ Exhibit B-1, pdf p.5.

⁵ Exhibit B-1, pdf p.5.

⁶ FEI says a physical natural gas pipeline from its existing system to Revelstoke would cost \$308 million, and a "virtual LNG pipeline" would cost \$26 million, both in \$2019. Exhibit B-2, BCUC IR 8.3, pdf p.43.

⁷ Exhibit B-1, pdf p.8.

⁸ Exhibit B-1, pdf p.5.

⁹ Exhibit B-1, Figure 2-1, pdf p.8.

¹⁰ Exhibit B-4, BCSEA IR 5.2, pdf p.26.

¹¹ Exhibit B-2, BCUC IR 12.3, pdf p.66.

propane purchased by FEI Revelstoke customers is higher than the carbon tax on natural gas purchased by FEI's natural gas customers.¹²

C. FEI applies to cross-subsidize Revelstoke propane charge

11. On July 18, 2019 FEI filed the current Application with the Commission. FEI asserts that there is a "geographic disparity" because its Revelstoke customers pay a more-volatile and higher amount for propane than FEI's natural gas customers pay for natural gas. BCSEA says this is a difference, but not a disparity.
12. FEI's proposed "solution" for the difference between propane costs and natural gas costs is to have its natural gas customers subsidize its Revelstoke customers' cost of propane. FEI's proposal is that Revelstoke customers would continue to receive propane¹³ but would be charged as if they were receiving natural gas. Revelstoke customers would continue to pay the BC carbon tax on propane, because they would in fact continue to purchase propane, albeit at a subsidized price.
13. In legal terms, FEI applies for Commission approval to "amalgamate the Revelstoke propane supply costs with the FEI midstream natural gas supply resource costs in the Midstream Cost Reconciliation Account (MCRA) and to implement a revised propane gas cost rate setting mechanism, pursuant to sections 59 to 61 of the Utilities Commission Act (UCA) effective January 1, 2020."¹⁴
14. FEI refers to the Application as a proposal "to amalgamate its propane supply portfolio costs with its natural gas supply portfolio costs."¹⁵ In BCSEA's view, the Application is better understood as a proposal to have natural gas customers subsidize the cost of propane paid by Revelstoke customers.

D. There is no geographic disparity

15. FEI Revelstoke propane customers pay for the propane they purchase. FEI natural gas customers pay for the natural gas they purchase. There is no "geographic disparity." The

¹² The carbon tax (April 2019 to March 2020) was \$2.407/GJ for propane, and \$1.986/GJ for natural gas. Exhibit B-2, BCUC IR 13.3, pdf p.71.

¹³ "As discussed in Section 3.1 of the Application, the proposed amalgamation does not involve any changes in how the physical propane and natural gas supply resources are planned and managed." Exhibit B-2, BCUC IR 3.2, pdf p.22.

¹⁴ FEI Final Argument, Appendix A, Draft Final Order.

¹⁵ Exhibit B-1, pdf p.5.

basis for the difference in the commodity charge is that propane and natural gas are different commodities.

16. With respect, there is no merit in FEI's suggestion that because 'geography prevents' Revelstoke from having piped natural gas there is a geographic disparity that must be solved by natural gas customers. Geography 'prevents' many locations in BC from having either piped propane or piped natural gas. That doesn't mean piped natural gas customers should subsidize heating energy costs in those locations.

E. Postage stamp rates for parcel delivery

17. FEI argues that there is a "postage stamp rates principle" that means the commodity charge for propane should be the same as the commodity charge for natural gas. BCSEA disagrees. Whatever the legal status of a "postage stamp rates principle," the concept does not require the same price for different commodities. FEI's delivery charges are the same for Revelstoke customers and natural gas customers (except in Fort Nelson) because FEI's delivery service to Revelstoke customers is considered the same as FEI's delivery service to natural gas customers (except Fort Nelson).

F. Bonbright Rates principles support the *status quo*, not cross-subsidization

18. The Commission applies the Bonbright Principles in determining rate design issues.¹⁶ In the following paragraphs, the proposal to cross-subsidize the Revelstoke propane charges is discussed in relation to each of the Bonbright Principles.
19. In BCSEA's view, the following Bonbright Principles are neutral between the *status quo* and the cross-subsidization proposal: "Principle 1 (Recovery of the revenue requirement)," "Principle 5 (Practical and cost-effective to implement)," and "Principle 7 (Revenue stability)."
20. "Principle 2: Fair apportionment of costs among customers (appropriate cost recovery should be reflected in rates)" supports the *status quo*. "The basis of cost allocation is cost causality" is the first Key Principle articulated in the Commission's AES Inquiry Report. The Report states:

"2.4 Principles and Guidelines for Determining Cost Allocation for Regulated Utilities

¹⁶ Reasons for Decision for Order G-45-11, quoted in Exhibit A2-2, Excerpt from FEU Amalgamation Proceeding, Exhibit B-9, Preamble to FEU Response to BCUC IR 7.

A key issue under any regulated business structure is cost allocation. The Commission Panel is mindful that to achieve the objective of fairness in cost allocation, the principle that those causing costs should be responsible for paying them must be followed. No party in this proceeding took exception to this rule. How best to achieve the goal of cost causality was a focus of many of the Interveners, with a variety of positions taken. Based on the evidence provided, the Panel came to the views as set out below.

Key Principle: i) The basis of cost allocation is cost causality.¹⁷

21. In the present case, cost causality could not be clearer. Revelstoke propane customers ‘cause’ propane commodity costs and natural gas customers ‘cause’ natural gas commodity costs. As the AES Inquiry Panel states, “to achieve the objective of fairness in cost allocation, the principle that those causing costs should be responsible for paying them must be followed.”
22. “Principle 3: Price signals that encourage efficient use and discourage inefficient use (consideration of social issues including environmental and energy policy)” unequivocally supports the *status quo* over the subsidization proposal. The central purpose and direct effect of the proposal is that Revelstoke propane customers would pay less for propane than it costs FEI to buy propane. This is the exact opposite of an economically optimal price signal to encourage use and discourage inefficient use of piped propane in Revelstoke.
23. BCSEA submits that consideration of “Principle 4: Customer understanding and acceptance” supports the *status quo*. On behalf of its members who are or may become FEI customers, BCSEA opposes the cross-subsidization of propane use in Revelstoke. Other customer groups will speak for themselves, of course. Given that Revelstoke propane customers have a financial self-interest in lower propane costs with no change in consumption, the evidence of support for the application from Revelstoke propane customers is noticeably muted.¹⁸
24. BCSEA submits that “Principle 6: Rate stability (customer rate impact should be managed)” is neutral between the *status quo* and the cross-subsidization proposal. Guidance is provided by the approach taken by the Commission in its decision rejecting FEI’s 2017 Price Risk Management Plan (PRMP).

¹⁷ Inquiry into the Offering of Products and Services in Alternative Energy Solutions and Other New Initiatives, Report, December 27, 2012
https://www.bcuc.com/Documents/Decisions/2012/DOC_33023_G-201-12_FEI-AES-Inquiry-Report_WEB.pdf, underline added.

¹⁸ Four letters of comment support reducing the Revelstoke propane charges (E-1, E-3, E-5, E-6), and two are opposed (E-2, E-4).

25. In the 2017 PRMP decision, the Panel took the approach that, while pursuit of commodity rate stability on behalf of customers is generally a worthy objective, the Panel would determine first whether the proposal is in the interests of FEI's customers, and, second, whether the proposal is in the public interest.¹⁹ In the 2017 PRMP case, the Panel found that the hedging proposal was not in customers' interest, and therefore concluded that proposed hedging program is not in the public interest.
26. BCSEA submits that the cross-subsidization proposal is not in the interests of FEI's customers, meaning all of FEI's customers and not just FEI's Revelstoke propane customers. This conclusion is even stronger than in the 2017 PRMP situation. FEI's proposed PRMP would have actually reduced commodity price volatility, albeit at a potential cost to customers. In contrast, the present proposal does nothing to actually reduce the volatility or size of the price FEI pays for commodity propane; and a transfer of costs to all FEI natural gas customers is certain. It follows that the cross-subsidization proposal is not in the interests of all customers, and is not in the public interest.
27. In addition, BCSEA submits that to the extent that volatility is a problem with the Revelstoke propane charges FEI should explore mitigation options that do not require cross-subsidization from natural gas customers. FEI itself acknowledges that its 'five-year rolling price difference' option (Option 2), "does not represent a cross subsidization from FEI's natural gas customers, but is instead a timing difference of when propane costs will be recovered from Revelstoke customers."²⁰
28. "Principle 8: Avoidance of undue discrimination (interclass equity must be enhanced and maintained)" strongly supports the *status quo* and contradicts the cross-subsidization scenario. The cross-subsidization proposal is openly discriminatory: natural gas customers would pay for the entire cost of the natural gas that they receive plus the cost differential between natural gas and the propane received by Revelstoke customers, whereas Revelstoke customers would receive propane and pay for less than the cost of the propane. BCSEA says this discrimination is undue.

¹⁹ Decision and Order G-108-19, (FEI 2017 Price Risk Management Plan), <https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/406118/1/document.do>, pdf p.10.

²⁰ Exhibit B-4, BCSEA IR 8.1, pdf p.36.

G. Proposal is contrary to BC Energy Objectives

29. BCSEA submits that FEI's propane cross-subsidization proposal is contrary to at least eight of the BC Energy Objectives, and is supported by none.
30. Propane has a higher carbon-intensity than natural gas. Deliberately reducing customers' cost of propane below a cost of service basis would incent increased use of propane and increased BC GHG emissions, contrary to the BC energy objective to reduce BC GHG emissions.²¹ The fact that under FEI's proposal Revelstoke propane customers would continue to pay the higher carbon tax on higher-carbon propane highlights that propane and natural gas are different commodities and that the proposal provides no GHG emissions reductions. With respect, the Commission should reject FEI's argument that the ongoing application of the carbon tax somehow "preserves alignment with BC's energy objectives."²²
31. Deliberately reducing customers' cost of propane below a cost of service basis would incent increased use of propane, which is also contrary to the BC energy objective to take demand-side measures and to conserve energy.²³
32. As FEI acknowledges, the proposal "could impact the competitiveness of the biomass district energy system operated by Revelstoke Community Energy Corporation (RCEC)."²⁴ This would be contrary to the BC energy objective to foster innovative technologies for energy conservation and efficiency and the use of clean or renewable resources.²⁵
33. BCSEA submits that the proposal cannot be accurately characterized as a mechanism to encourage fuel switching to reduce BC GHG emissions.²⁶ The primary impact of the proposal to artificially reduce customers' cost of propane would be to encourage more use of propane. FEI's contention that subsidized propane costs could prompt conversions from oil to propane is purely speculative, and FEI is not seeking approval of incremental costs to pursue it.²⁷
34. For reasons that have already been stated, the proposal does not encourage Revelstoke as a community to reduce greenhouse gas emissions and use energy efficiently.²⁸ Further, by

²¹ *Clean Energy Act*, s.2(g).

²² FEI Final Argument, para.9.

²³ *Clean Energy Act*, s.2(b).

²⁴ Exhibit B-4, BCSEA IR 6.3, pdf p.32.

²⁵ *Clean Energy Act*, s.2(d).

²⁶ *Clean Energy Act*, s.2(h).

²⁷ Exhibit B-4, BCSEA IR 6.2, pdf p.31.

²⁸ *Clean Energy Act*, s.2(i).

intentionally reducing the price – and price signal – of piped propane in Revelstoke, the proposal runs directly contrary to efforts to reduce waste by encouraging the use of waste heat, biogas and biomass in Revelstoke.²⁹

35. BCSEA submits that there is no persuasive evidence that the cross-subsidization proposal would encourage economic development and the creation and retention of jobs.³⁰ FEI provides no evidence of actual economic development in Revelstoke that is expected to result from subsidized propane costs. Further, on a theoretical level,³¹ any economic stimulus due to subsidized piped propane costs in Revelstoke would be counteracted by the economic disincentive due to increased natural gas costs Province-wide.
36. Lastly, reducing the cost of pipe propane in Revelstoke certainly does not support the BC energy objective to foster the development of First Nation and rural communities through the use and development of clean or renewable resources.³²

H. Conclusion

37. The Application to cross-subsidize Revelstoke propane charges at the expense of natural gas customers is unduly discriminatory, contrary to the Bonbright principles, in conflict with BC's energy objectives, not in customers' interests, and not in the public interest. As the Inquiry Panel said in the AES Report, "to achieve the objective of fairness in cost allocation, the principle that those causing costs should be responsible for paying them must be followed."³³ BCSEA respectfully submits that the Commission should deny the Application.

All the above is respectfully submitted.

June 30, 2020



William J. Andrews, Barrister & Solicitor

²⁹ *Clean Energy Act*, s.2(j).

³⁰ *Clean Energy Act*, s.2(k).

³¹ See Exhibit B-2, BCUC IR 2.10, pdf p.19.

³² *Clean Energy Act*, s.2(l).

³³ *Op cit.*, footnote 17.