

30 June 2020

VIA E-FILING

Marija Tresoglavic
Acting Commission Secretary
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3



Reply to: Leigha Worth
ED@bcpiac.org
Ph: 604-687-3034
Our File: 7310.132

Dear Ms. Tresoglavic,

**Re: FortisBC Energy Inc. Revelstoke Propane Portfolio Cost Amalgamation
Application ~ Project No. 1599033
BCOAPO Final Argument**

We represent the BC Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and Tenant Resource and Advisory Centre, known collectively in this regulatory process as "BCOAPO et al." ("BCOAPO").

Enclosed please find the BCOAPO's Final Argument with respect to the above-noted matter.

If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

BC PUBLIC INTEREST ADVOCACY CENTRE

Original on file signed by:

Leigha Worth
Executive Director | General Counsel

Encl.

**BC OLD AGE PENSIONERS' ORGANIZATION, ACTIVE SUPPORT AGAINST
POVERTY, COUNCIL OF SENIOR CITIZENS' ORGANIZATIONS OF BC,
DISABILITY ALLIANCE BC, AND TENANT RESOURCE AND ADVISORY CENTRE,
("BCOAPO")**

**FortisBC Energy Inc. Revelstoke Propane Portfolio Cost Amalgamation
Application ~ Project No. 1599033**

BCOAPO Final Argument

June 30, 2020

Please be advised that we provide the following final argument regarding the above noted application on behalf of our client groups known in this and other regulatory processes as BCOAPO or BCOAPO et al. The constituent groups of BCOAPO et al. represent the interests of residential energy consumers in British Columbia and, more specifically in this process, the interests of FortisBC Energy Inc.'s (FEI's) progressivist residential energy consumers.

INTRODUCTION

On July 18, 2019, FEI filed an Application with the British Columbia Utilities Commission (BCUC) seeking approval to amalgamate the Revelstoke propane supply costs with the FEI's 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, 2020.¹

FEI's propane distribution system serves approximately 1,500 residential and commercial customers in the Revelstoke area.² The Revelstoke propane system is a satellite, off-grid system located far from the Utility's natural gas distribution system and because its forecast load is too low, it has not yet been possible to provide a sound economic justification for an extension.³

¹ Exhibit B-1, Draft Final Order

² Exhibit B-1, page 1

³ Exhibit B-1, page 1, FEI Final Argument, para 14

Commodity prices for propane have historically been more volatile and higher than natural gas.⁴ Because commodity and midstream costs paid by FEI's customers are dependent on the type of fuel, Revelstoke propane customers have consistently experienced higher rates and greater price volatility than FEI's natural gas customers.⁵

FEI expects its proposal, if approved, to neutralize the cost fluctuations associated with the market price of propane by combining a relatively small quantity of volatile propane portfolio costs with a substantial quantity of more stable natural gas midstream costs.⁶

FEI submits that proposed cost amalgamation will:

- a) Benefits FEI's Revelstoke customers by providing rate relief and reducing volatility;
- b) Supports BC's energy objectives; and
- c) Will have very limited cost consequences for FEI's other customers.⁷

SUMMARY OF FEI's PROPOSAL

Accounting treatment of Propane Supply Cost

FEI proposes the following changes in the accounting treatment of FEI's propane supply portfolio costs⁸:

1. Amalgamating its Revelstoke propane supply portfolio costs with its natural gas supply portfolio costs by transferring the December 31, 2019 closing balance of the Propane Cost Deferral Account (PCDA), which currently captures the cost of the propane supply portfolio, to FEI's existing MCRA, which captures the FEI midstream natural gas supply resource costs, as an opening balance adjustment, effective January 1, 2020;
2. Starting January 1, 2020, capture all Revelstoke propane supply portfolio costs in the MCRA; and

⁴ Exhibit B-1, page 1; Exhibit B-2, BCUC IR 1.1.3-1.1.4

⁵ FEI's Final Argument, para 1

⁶ Exhibit B-1, page 1

⁷ FEI Final Argument, para 17

⁸ Exhibit B-1, page 7

3. Eliminate the PCDA.

Rate Setting for Revelstoke Customers

FEI also proposes changes to the rate setting mechanism for the commodity-related charges to Revelstoke propane customers.⁹ FEI considered two options for calculating the cost recovery rates:

- Option 1: Equal gas cost recovery, which is proposed by the Application¹⁰; and
- Option 2: A five-year rolling average of the price difference between propane and natural gas¹¹.

The proposed changes will provide Revelstoke customers with propane rate stability like the stability enjoyed by those served under FEI's natural gas customer rates.¹² Option 1 will also provide propane commodity rate relief to Revelstoke customers.¹³ FEI states that both options mitigate propane price volatility, have minimal cost impacts on gas customers, and align with BC Objectives.¹⁴

SUBMISSIONS

RATE DESIGN PRINCIPLES

BCOAPO agrees with FEI that “rate design is a complex balancing process as it frequently requires the application of multiple, and sometimes conflicting, principles and the consideration of viewpoints from various stakeholders”.¹⁵

Postage stamp rates already exist for Revelstoke's delivery rates, as FEI's Revelstoke customers pay the same delivery charges as natural gas customers across BC (except

⁹ Exhibit B-1, page 8

¹⁰ Exhibit B-1, page 13

¹¹ Exhibit B-1, pages 9 - 11

¹² Exhibit B-1, page 1

¹³ Exhibit B-2 BCUC IR 1.2.1

¹⁴ Exhibit B-1, page 14

¹⁵ Exhibit B-2, BCUC IR1.9.6

Fort Nelson).¹⁶ The current proposal calls for an extension of postage stamping from just that delivery charge to postage stamping for the commodity rate.¹⁷

While FEI’s proposal has some cost impacts FEI has quantified on the record in this process, our clients have always strongly supported the ideal of postage stamp rates where there is no strong economic reason not to proceed. Given the evidence on the record, BCOAPO’s preliminary position was that, absent such evidence of a major negative impact, it would not oppose an extension of postage stamping to the commodity services provided it was justified after engaging in the balancing process mentioned above.

As part of its assessment of those factors, BCOAPO evaluated and accepted FEI’s analysis of Bonbright principles provided in response to BCUC 1.9.6:¹⁸

Principle	Description	Importance to Propane Cost Amalgamation Application
Principle 1: Recovering the Cost of Service	The aggregate of all customer rates and revenues must be sufficient to recover the utility's total cost of service.	Low: Continued use of deferral accounts ensures continuation of recovery of the commodity costs of propane and natural gas, as well as the midstream costs, will maintain recovery of FEI's cost of service irrespective of the whether FEI's proposal is accepted.
Principle 2: Fair apportionment of costs among customers	Appropriate cost recovery should be reflected in rates.	High: The issue of the fair apportionment of commodity and midstream costs for the same service between customers in Revelstoke and all other FEI customers is a primary consideration in FEI's proposal. It is a question of fact that the BCUC must decide if the proposed amalgamation would be unduly discriminatory.

¹⁶ FEI’s Final Argument, para 48

¹⁷ FEI’s Final Argument, para 46

¹⁸ Exhibit B-2

Principle 3: Price signals that encourage efficient use	Appropriate price levels and structures that encourage efficient use and as a corollary discourage inefficient use.	Mixed: Theoretically, there could be a trade-off of lower postage stamp commodity / midstream rates resulting in higher consumption for current propane customers versus the lower prices attracting potential customers to fuel switch from heating oil resulting in lower GHG emissions. However, FEI's experience is there is very little movement of demand from changes in price for propane (See FEI's response to BCUC IR 1.6.1). Consequently, FEI would expect that overall GHG emissions would decline from any conversions from heating oil to propane. In addition to the price of energy from FEI, potential customers for conversion to propane will also factor in their own costs as well and how long it would take for energy savings to offset the customer's cost of conversion (See FEI's response to BCUC IR 1.7.3.1).
Principle 4: Customer Understanding and Acceptance	"The related, practical attributes of simplicity, certainty, convenience of payment, economy in collection, understandability, public acceptability, and feasibility of application. Freedom from controversies as to proper interpretation" ⁸ .	High: As a result of the Inquiry Report and associated letters of comment ⁹ it is clear that Revelstoke customers understand that they are postage stamped when it comes to electric rates yet not postage stamped when it comes to gas rates. With this understanding, Revelstoke customers felt that this was inequitable considering how close they

Principle	Description	Importance to Propane Cost Amalgamation Application
		were to BC Hydro dams and electric generation which would, if not postage stamped, result in less costly electricity to them.
Principle 5: Practical and cost-effective to implement	Sustainable and meet long-term objectives.	Low: Whether rates are postage-stamped or differentiated based on fuel type (propane or natural gas) there are negligible issues with cost effectiveness to implement.
Principle 6: Rate Stability	Customer rate impact should be predictable and managed.	High: For Revelstoke customers the proposal would increase rate stability. For all other FEI customers it would have a negligible impact on rates.
Principle 7: Revenue Stability	Utility revenues / customer cost should be predictable and stable.	Low: Revenue stability is not an issue as FEI's revenue would be unaffected by the approval of the proposal.
Principle 8: Avoidance of undue discrimination	Interclass equity must be enhanced and maintained	Mixed: It is a question of fact that the BCUC must decide whether the changes being applied for, now, by FEI would result in undue discrimination and would be unduly preferential. It is FEI's position that the changes requested are not unduly discriminatory or unduly preferential but significantly enhance revenue and energy cost stability for customers in Revelstoke without a compromising on the fair allocation of the provision of energy service.

BCOAPO agrees with FEI that the BCUC should place more weight to the principles of the fair apportionment of costs (Principle 2) and rate stability (Principle 6) while balancing the Bonbright principles.

The evidence indicates that proposed changes will have a limited midstream (Storage and Transport) rate impact to FEI's natural gas customers. Based on the current forecasts for December 2020 it looks as follows:¹⁹

- Option 1: An increase of just over one cent per GJ or an **annual** increase of just under one dollar for a typical residential natural gas customer; or
- Option 2: An increase of just over half a cent per GJ or an **annual** increase of just over 50 cents for a typical residential natural gas customer.

In the extreme scenario, if propane supply costs reach \$3.3 million, and propane forecast demand increases to 298 TJ for 2020, a typical residential natural gas customer consuming 90 GJs per year in the FEI Mainland and Vancouver Island systems would experience an average annual increase of approximately two dollars.²⁰

BCOAPO notes that this relatively small rate impact to natural gas customer corresponds to a significant benefit to Revelstoke customers. For Option 1, a typical residential natural gas customers will experience the average annual bill increase of \$0.98 (or 0.12 percent), while a typical residential Revelstoke propane customer will experience an estimated average annual bill decrease of \$407 (or 45 percent)²¹.

In BCOAPO's view, another important consideration in this case is that geographical location restricts Revelstoke customers' alternate fuel options. It is just too remote to afford many choices, let alone affordable ones. As a result of their geography, Revelstoke customers face the burden of higher propane price volatility and cost. In other words, although Revelstoke is served with a different commodity than FEI's natural gas customers, geographical location itself is the key cause for this difference in fuel type²². Accordingly, BCOAPO agrees that geographic disparity impacts energy costs in

¹⁹ Exhibit B-1, pages 11 - 12

²⁰ Exhibit B-1, pages 12 - 13

²¹ Exhibit B-1, page 20

²² Exhibit B-2, BCUC IR1.4.2

Revelstoke. Currently, propane is the most cost-effective commodity available in this geographical location and, as FEI noted in its Final Argument, providing Revelstoke with gas at any time in the near future would be a much more expensive capital option.

Further, FEI argues that even though Revelstoke is served with a different commodity, the energy service provided to Revelstoke customers is indistinguishable from that provided to FEI's natural gas customers.²³ FEI submits that it is fair and reasonable for Revelstoke customers to pay the same price as FEI's natural gas customers for the energy service they receive, regardless of the commodity delivered.²⁴ While BCOAPO's client groups may wish to wholeheartedly endorse this emotionally compelling statement of values, they must instead go on the record indicating that their support of this Application is one based on the facts of this case rather than an embrasure of FEI's sweeping statement as referred to above. To be truly representative, Residential Ratepayers' interventions must balance a number of considerations including the financial, social and ideological. In this proceeding, the evidence is such that the balance to be struck between competing values was easily found but that might not always be the case. After careful examination of specific facts of this Application, BCOAPO agrees that FEI's proposal will not be unjust, unreasonable, unduly discriminatory or unduly preferential. However, it does not mean that BCOAPO is content to be seen as providing its unqualified support for postage stamping different commodity services as an ongoing principle for the future applications.

BC ENERGY OBJECTIVES

FEI submits that the proposed changes support two of BC's energy objectives under section 2 of the *Clean Energy Act*:

(h) to encourage the switching from one kind of energy source or use to another that decreases greenhouse gas emissions in British Columbia; and

(k) to encourage economic development and the creation and retention of jobs.²⁵

²³ FEI's Final Argument, para 16

²⁴ FEI's Final Argument, para 16 & BCSEA IR 1.2.11

²⁵ FEI's Final Argument, para 22

BCOAPO accepts FEI's projections regarding GHG emission benefits due to accelerated fuel switching from heating oil to propane.

FEI's Application specifies that Revelstoke's propane customers will continue to pay higher carbon tax rates than natural gas customers due to differences in the GHG emissions attributed to each fuel type.²⁶ Although the decreased fuel price more than offsets the higher carbon tax on propane, FEI submits the proposed amalgamation will maintain the efficacy of the carbon tax, because the carbon tax rate is set by the GHG emission intensity of the fuel and not by the price of the commodity.²⁷ In the other words, Revelstoke's propane customers who use more energy will continue to pay more carbon tax than its low-use customers and as a result BCOAPO agrees with FEI that the GHG-related price signal faced by Revelstoke customers remains unchanged and will continue to support BC's energy objectives.²⁸

FEI notes that a lower price of propane is not expected to increase propane use due to the inelasticity ("unresponsiveness") of energy demand with respect to price²⁹. BCOAPO acknowledges that the evidence on the record indicates that propane demand is quite price inelastic (i.e., quite unresponsive to price changes) so a decrease in the price should have little effect on the quantity of propane Revelstoke's FEI customers use.

BCOAPO accepts FEI's argument that the cost amalgamation would encourage economic development and the creation and retention of jobs and we note the Application is supported by the Revelstoke community, most businesses and the City of Revelstoke.³⁰

CONCLUSION

Overall, BCOAPO supports FEI's Application. Although the proposal subsidizes propane customers' fuel costs at the expense of natural gas customers - making fuel rates the same for propane customers in Revelstoke as for FEI's gas customers - BCOAPO agrees

²⁶ Exhibit B-1, page 9

²⁷ Exhibit B-2 BCUC IR 1.13.4, 1.13.4.1, 1.13.6

²⁸ Exhibit B-2 BCUC IR1.13.6

²⁹ Exhibit B-2, BCUC IR1.6.1

³⁰ FEI's Final Argument, para 36

with FEI that approval of the proposed the cost amalgamation would not be unjust, unreasonable, unduly discriminatory or unduly preferential.

As such, our clients urge the Commission to accept FEI's application as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED:

Original on file signed by

Leigha Worth
Executive Director | General Counsel

Original on file signed by

Irina Mis
Staff Lawyer