



**ORDER NUMBER**  
**G-245-20**

IN THE MATTER OF  
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Energy Inc.  
Revelstoke Propane Portfolio Cost Amalgamation Application

**BEFORE:**

T. A. Loski, Panel Chair  
B. A. Magnan, Commissioner  
R. D. Revel, Commissioner

on October 1, 2020

**ORDER**

**WHEREAS:**

- A. On July 18, 2019, FortisBC Energy Inc. (FEI) applied to the British Columbia Utilities Commission (BCUC) for 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, 2021 (Application);
- B. FEI also seeks approval of minor amendments to applicable FEI Rate Schedules regarding references to Revelstoke in rate rider 1 and rate rider 6 where applicable;
- C. FEI states that the proposed rate setting mechanism will provide Revelstoke customers with propane rate stability that matches the stability of FEI's natural gas customer rates and will provide propane commodity rate relief to Revelstoke customers;
- D. By Orders G-201-19, G-290-19, G-13-20, G-52-20, and G-105-20 the BCUC established a written hearing process and regulatory timetable to review the Application;
- E. Canadian Biomass Energy Research Ltd., Big Eddy Fuel Services Ltd., the City of Revelstoke, Downie Timber Ltd., Cryopeak LNG Solutions, British Columbia Old Age Pensioners' Organization et. al., the Commercial Energy Consumers of British Columbia, BC Sustainable Energy Association, and Clean Energy Fueling Services Corp. registered as interveners in the proceeding;
- F. The BCUC has completed its review of the Application, the evidence and submissions by all parties in this proceeding and finds that the following determinations are warranted.

**NOW THEREFORE** pursuant to sections 59 to 61 of the UCA, and for the reasons attached to this order, the BCUC orders as follows:

1. FEI is approved to amalgamate FEI's Revelstoke propane supply portfolio costs with FEI's natural gas supply portfolio costs as described in the Application by transferring the closing balance of the Propane Cost Deferral Account (PCDA) as of December 31, 2020 to FEI's existing MCRA as an opening balance adjustment and thereafter to begin capturing all costs of the Revelstoke propane supply portfolio in the MCRA.
2. FEI is directed to close the PCDA after the balance transfer described in directive 1.
3. FEI is directed to include Rate Rider 6 Midstream Cost Reconciliation Account (MCRA Rate Rider 6) in the calculation of cost of propane per GJ rate for Revelstoke propane customers as all propane costs will be recorded in the MCRA after the proposed changes are implemented.
4. FEI must file the amended tariff pages with the BCUC as described in the Application at least 30 days prior to the January 1, 2021 implementation date.
5. FEI is directed to file and provide detail of its Revelstoke propane costs with the BCUC in its Mainland and Vancouver Island service area Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) quarterly gas costs report.
6. FEI is directed to file separate propane and natural gas Annual Contracting Plans, as well as the individual energy supply agreements that FEI executes with counterparties, to the BCUC for review and acceptance prior to the contracting period.
7. FEI is directed to include a status update for Revelstoke propane costs in its annual report filed with the BCUC. This status update must be included in FEI's Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) Status Report to be filed with the BCUC.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 1<sup>st</sup> day of October 2020.

BY ORDER

*Original signed by:*

T. A. Loski  
Commissioner

Attachment

**FortisBC Energy Inc.**

**Revelstoke Propane Portfolio Cost Amalgamation Application**

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**Reasons for Decision**

October 1, 2020

Before:

T. A. Loski, Panel Chair  
B. A. Magnan, Commissioner  
R. D. Revel, Commissioner

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## Executive Summary

FortisBC Energy Inc. (FEI) operates an off-grid, satellite propane distribution system that serves approximately 1,500 residential and commercial customers in the Revelstoke area. The propane system was introduced to Revelstoke at a time when an extension of the natural gas system was deemed uneconomic due to Revelstoke's distance from the natural gas system and its forecast load. Commodity prices for propane have historically been more volatile and higher than natural gas prices on an energy equivalent basis. As a result, Revelstoke propane customers have experienced less predictable and higher energy costs relative to those enjoyed by FEI's natural gas customers.

In recent years, FEI undertook an analysis of options to reduce both the volatility and high energy prices experienced by Revelstoke customers. This included consideration of a virtual natural gas pipeline as well as a physical pipeline extension. The analysis did not identify a cost effective, practicable solution.

In July 2019, FEI filed an application with the British Columbia Utilities Commission (BCUC) for approval to amalgamate Revelstoke propane supply costs with 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 (Application). This would equalise gas cost recovery rates for both FEI's natural gas customers and Revelstoke's propane customers. FEI states that it brought forward the current Application as an equitable solution to address volatility and high commodity prices in Revelstoke, albeit with a consequential although negligible increased cost to natural gas ratepayers.

The BCUC established a written hearing process to review the Application in August 2019. This consisted of two rounds of information requests (IRs) on the Application, intervenor evidence submissions, one round of IRs on intervenor evidence submissions, FEI's rebuttal evidence, one round of IRs on FEI's rebuttal evidence and final and reply arguments. There were nine intervenors and two interested parties, while six letters of comment were received. Several intervenors including the Commercial Energy Consumers of British Columbia, British Columbia Old Age Pensioners' Organization et al., Downie Timber Ltd. and the City of Revelstoke supported FEI's Application. Other intervenors including BC Sustainable Energy Association and Canadian Biomass Energy Research Ltd. were not in favour.

The Panel identified several issues addressed throughout the proceeding including: i) the consistency of FEI's proposal with rate making principles, ii) rate impacts to FEI customers, iii) the potential for impacts to Revelstoke's energy markets, iv) a consideration of BC energy objectives and in particular, potential impacts on greenhouse gas (GHG) emissions and v) a consideration of alternatives to FEI's proposal.

The Panel examined arguments against the proposal, weighing them against the contrary views, assessments and evidence presented. After consideration, the Panel accepts that, in this instance, natural gas and propane customers should be considered as receiving a single class of service through the provision of a gas energy supply and that FEI's proposal is in the public interest. The Application, seeking to equalize rates across FEI's service territory, is in keeping with ratemaking principles. It achieves a balanced allocation of costs, promotes price stability and reduces burdens on a significant customer group by means of a proposal which minimizes negative effects to customers. At the same time the proposal leaves open options for emerging efficient and economic alternatives to be considered in the future. In consequence, the Panel finds FEI's proposal to be in accordance with BC energy objectives and, more broadly, the public interest.

Based on the evidence adduced in this proceeding, the Panel approves FEI's proposal to amalgamate the Revelstoke propane supply costs with the FEI midstream natural gas supply resource costs in the MCRA and to implement a revised propane gas cost rate setting mechanism.

## 1.0 Introduction

On July 18, 2019, FortisBC Energy Inc. (FEI) filed an application with the British Columbia Utilities Commission (BCUC) for approval to amalgamate Revelstoke propane supply costs with 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 (Application).<sup>1</sup> Under the revised rate setting mechanism, FEI proposes to equalise gas cost recovery rates for both FEI's natural gas customers and Revelstoke's propane customers. This would mitigate historically high volatility in propane commodity pricing and, in consequence, provide rate relief to Revelstoke customers.<sup>2</sup>

The following is the Panel's decision regarding this Application. These reasons for decision set out the regulatory process of the proceeding while providing a brief background to the Application and focusing on the issues arising from FEI's proposal to amalgamate the Revelstoke propane supply portfolio costs with its natural gas supply portfolio costs. These reasons for decision include an overview of relevant evidence, consideration of the positions of the parties and outline the reasons for the Panel's determination, concluding with a consideration of next steps.

### 1.1 Regulatory Process

By Order G-201-19 dated August 27, 2019, the BCUC established a written hearing process.<sup>3</sup> The proceeding consisted of two rounds of information requests (IRs) on the Application, intervener evidence submissions, one round of IRs on intervener evidence submissions, FEI's rebuttal evidence, one round of IRs on FEI's rebuttal evidence and final arguments. FEI's reply argument was received on July 7, 2020.

Those registering as interveners in the proceeding were:

- Canadian Biomass Energy Research Ltd. (CBER);
- Big Eddy Fuel Services Ltd.;
- City of Revelstoke;
- Downie Timber Ltd.;
- Cryopeak LNG Solutions;
- British Columbia Old Age Pensioners' Organization et. al. (BCOAPO);
- The Commercial Energy Consumers of British Columbia (CEC);
- BC Sustainable Energy Association (BCSEA); and
- Clean Energy Fueling Services Corp. (Clean Energy Fuels).

Resort Gas Ltd. and the District of Sicamous registered as interested parties in the proceeding.

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<sup>1</sup> Exhibit B-1, p. 1.

<sup>2</sup> Ibid.

<sup>3</sup> Exhibit A-2.

## 2.0 Background

FEI operates an off-grid, satellite propane distribution system that serves approximately 1,500 residential and commercial customers in the Revelstoke area.<sup>4</sup> Propane is delivered to Revelstoke by railcar and tanker trucks. On site, the propane is offloaded into storage tanks and vaporized for distribution to customers, as needed, through an underground distribution system.<sup>5</sup>

From the outset of service in 1991, propane customers in Revelstoke have paid the same delivery rates as FEI natural gas customers, plus a propane commodity charge specific to the Revelstoke area.<sup>6</sup> The propane commodity charges paid by Revelstoke customers have historically been more volatile and higher than natural gas prices on an energy equivalent basis.<sup>7</sup> Between 2006 to 2018, a Revelstoke residential customer would have paid, on average, 69% more than an FEI residential natural gas customer consuming the same amount of energy.<sup>8</sup> FEI submits that the cost premium and the fluctuation in annual bills experienced by Revelstoke propane customers is solely attributable to the propane energy element of the annual bill charge.<sup>9</sup>

The propane system was first introduced to Revelstoke at a time when an extension of the natural gas system was deemed uneconomic due to Revelstoke's distance from the natural gas system and its forecast load.<sup>10</sup> FEI anticipated that sufficient development may occur at some future point which would then justify a natural gas extension without the requirement for additional financial contributions from any party. However, since that time, the required growth in Revelstoke has not occurred to a degree which would make a physical pipeline connection to the natural gas system economically feasible.<sup>11</sup>

In 2015/2016, FEI undertook an analysis of options to reduce both the volatility and high energy prices experienced by Revelstoke customers. This included consideration of a virtual natural gas pipeline as well as a physical pipeline extension. The analysis did not identify a cost effective, practicable solution.<sup>12</sup> FEI states that it brought forward the Application as an equitable solution to address volatility and high commodity prices in Revelstoke albeit with a consequential but negligible impact on natural gas ratepayers.<sup>13</sup>

Within the Application, FEI compares two propane gas cost recovery options for their likely benefits to Revelstoke customers and alignment with BC's energy objectives.<sup>14</sup> Consideration of these options and alternatives are addressed below in section 3.5 of these reasons for decision. The two options put forward by FEI are as follows:

- Equal Natural Gas and Propane Cost Recovery (Option 1). Option 1 is FEI's preferred option for which approval is requested. FEI submits that this option provides rate stability and the added benefit of rate relief to FEI's Revelstoke propane customers.<sup>15</sup> Fully amalgamating and equating propane and natural

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<sup>4</sup> Exhibit B-1, p. 1.

<sup>5</sup> Ibid.

<sup>6</sup> FEI Final Argument, p. 5.

<sup>7</sup> Exhibit B-1, p. 3.

<sup>8</sup> Ibid., p. 4.

<sup>9</sup> Ibid.

<sup>10</sup> Ibid., p. 1.

<sup>11</sup> FEI Final Argument, p. 5.

<sup>12</sup> Ibid., p. 6.

<sup>13</sup> Ibid.

<sup>14</sup> Exhibit B-1, p. 13.

<sup>15</sup> Ibid.

gas portfolio costs ensures that FEI customers in Revelstoke do not experience onerous energy recovery rates due to their location within FEI's service territory.<sup>16</sup>

- Five-Year Rolling Price Difference between Propane and Natural Gas (Option 2). Here, FEI proposes to set the propane gas cost recovery rate by utilising a premium multiplier. The multiplier would be based on the five-year rolling average of annual propane to natural gas price ratios.<sup>17</sup> FEI notes that this rate setting mechanism will help to mitigate rate volatility, but will not provide rate relief to Revelstoke customers over the long term.<sup>18</sup>

The following subsection outlines the requested approvals for FEI's preferred Option 1.

## 2.1 Approvals Sought

FEI seeks approval for the following changes pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA), effective January 1, 2021:

1. to amalgamate FEI's Revelstoke propane supply portfolio costs with FEI's natural gas supply portfolio costs. This would be achieved by transferring the closing balance of the Propane Cost Deferral Account (PCDA) as of December 31, 2020 to FEI's existing MCRA as an opening balance adjustment. Thereafter, all costs of the Revelstoke propane supply portfolio would be captured in the MCRA;
2. to include Rate Rider 6 Midstream Cost Reconciliation Account (MCRA Rate Rider 6), in the calculation of cost of propane per GJ rate for Revelstoke propane customers because all propane costs will be recorded in the MCRA after the proposed changes are implemented; and
3. to make the following amendments to FEI Rate Schedules:
  - For Rate Schedules 1, 2 and 3: Approval of the proposed amendment to eliminate and cancel Rate Rider 1 Propane Surcharge (Propane Rate Rider 1), from the table of charges calculations for the Cost of Gas Related Charges for Revelstoke customers.
  - For Rate Schedules 1, 1B, 1U, 1X, 2, 2B, 2U, 2X, 3, 3B, 3U, 3X, 4, 5, 5B, 6, 6P and 7: Approval of the proposed housekeeping amendment to the reference to MCRA Rate Rider 6, removing the reference to "excluding Revelstoke."
  - For Rate Schedules 1, 1B, 1U, 1X, 2, 2B, 2U, 2X, 3, 3B, 3U, 3X, 4, 5, 5B, 6, 6P, 7, 22, 22A, 22B, 23, 25, 26 and 27: Approval of the proposed housekeeping amendment to Propane Rate Rider 1 upon cancellation, setting it "(Reserved for future use)."<sup>19</sup>

## 2.2 Decision Framework

These reasons for decision consider FEI's requested approvals and the following section involves a discussion of the issues identified in the proceeding. This is followed by the Panel's determination and conclude with a consideration of the next steps which FEI must undertake. The following delineates the reasons for decision framework:

- Section 3.0 considers the issues arising in the proceeding regarding FEI's proposed propane portfolio cost amalgamation.

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<sup>16</sup> Ibid., p. 14.

<sup>17</sup> Exhibit B-1, p. 10.

<sup>18</sup> Ibid., pp. 10-11.

<sup>19</sup> Ibid., p. 23.



- Section 4.0 is the Panel’s determination which considers the proposed deferral accounts and required tariff changes. This section concludes the decision by addressing the timing and effective date of the proposed amalgamation and sets out the monitoring and periodic reporting of FEI’s propane costs and deferral account balances.

### 3.0 Issues Arising

FEI’s proposal to amalgamate its Revelstoke propane supply portfolio costs with its natural gas supply portfolio costs (FEI’s proposal) raised a number of issues. Parties actively participated in the proceeding addressing these issues. In addition, CBER and Downie Timber Ltd. filed intervener evidence which drew attention to areas of concern regarding the impact of the proposed cost amalgamation.

The Panel identified several issues raised by the parties or by the proposal itself, which are listed below:

- consistency of FEI’s proposal with rate making principles;
- rate impacts to FEI customers;
- potential impacts to Revelstoke’s energy markets;
- consideration of BC energy objectives and in particular, potential impacts on greenhouse gas (GHG) emissions; and
- consideration of alternatives to FEI’s proposal.

The foregoing issues and the parties’ submissions are considered separately in the following subsections below. This is followed by the Panel’s determination in section 4.0.

#### 3.1 Consistency with Rate Making Principles

This section focuses on the nature of the service provided to customers, postage stamp rates, the fair apportionment of costs and equitable treatment of customers, price signals and possible discrimination of rates. Bonbright’s principles of public utility rates are considered in this section, as many parties addressed certain of these principles in their submissions.

Section 60(1)(c) of the UCA states:

- (c) if the public utility provides more than one class of service, the commission must
  - (i) segregate the various kinds of service into distinct classes of service,
  - (ii) in setting a rate to be charged for the particular service provided, consider each distinct class of service as a self-contained unit, and
  - (iii) set a rate for each unit that it considers to be just and reasonable for that unit, without regard to the rates set for any other unit.

## Position of the Parties

### FEI

FEI submits that the rate relief proposed is consistent with current rate design principles. FEI puts forward three main arguments to demonstrate this:<sup>20</sup>

- a. the principle of equivalence by applying a postage stamp rate, whereby no additional charge is imposed due to the geographical location of the customer, is already present for Revelstoke's delivery rates and applying the same principle to the commodity rate would be consistent with FEI's other service areas;
- b. the proposed rate setting mechanism treats customers equitably; and
- c. the proposal balances rate design principles.

FEI submits that, despite the fact that Revelstoke is supplied with a different commodity, the service provided to Revelstoke customers is "indistinguishable from that provided to FEI's natural gas customers."<sup>21</sup> FEI notes, in addition, the BCUC has previously found it appropriate for FEI Revelstoke propane customers to pay the same postage-stamped delivery charge for gas as FEI natural gas customers. It is FEI's view that there is no reason not to extend this principle to the commodity rate.<sup>22</sup>

FEI states the principle of applying postage stamp rates for the same type of service (provision of gas) has been well established (as exemplified in the cases of Vancouver Island and Whistler). Furthermore, FEI believes it is both just and reasonable for all customers within FEI's amalgamated service territory (that receive a similar service) to pay the same rates, regardless of geographic circumstances.<sup>23</sup>

FEI states the primary rate design principles that are engaged are the principles of the fair apportionment of costs and rate stability.<sup>24</sup> FEI submits the fair apportionment of costs is a primary consideration in its proposal and the amalgamation represents a significant improvement for customers in Revelstoke regarding rate stability.<sup>25</sup> Moreover, regarding the principle of price signals which encourages efficient use, FEI submits price signals for conservation will not be changed as rates will still predominantly be based on variable rates, which serves to promote energy conservation. FEI's energy conservation programs will remain in place for Revelstoke customers.<sup>26</sup>

FEI states "rate design should strive to strike a balance among competing rate design principles based on specific characteristics of customers in each rate schedule."<sup>27</sup> In this regard, FEI contends it is now appropriate to amalgamate the propane and natural gas costs to create equivalent rates and thereby provide rate and customer energy cost stability.<sup>28</sup>

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<sup>20</sup> FEI Final Argument, p. 17.

<sup>21</sup> *Ibid.*, p. 6.

<sup>22</sup> *Ibid.*, pp. 17-18.

<sup>23</sup> *Ibid.*, pp. 18-19.

<sup>24</sup> *Ibid.*, p. 20.

<sup>25</sup> *Ibid.*, pp. 20-21.

<sup>26</sup> *Ibid.*, p. 10.

<sup>27</sup> *Ibid.*, p. 21.

<sup>28</sup> *Ibid.*

## *Interveners*

### BCSEA

BCSEA asserts that propane and natural gas are different commodities, and the difference in commodity charges reflects this.<sup>29</sup>

BCSEA contends that adhering to a “postage stamp rates principle” does not require the same price for different commodities and points out FEI delivery charges are the same because “delivery service” is considered to be the same service for all FEI customers (except for Fort Nelson).<sup>30</sup>

BCSEA considers a number of Bonbright’s principles of public utility rates and argues that “Bonbright Principle 2: fair apportionment of costs among customers” supports the status quo, since Revelstoke customers cause propane commodity costs and natural gas customers cause natural gas costs.<sup>31</sup> BCSEA argues to achieve fairness in cost allocation, it is an established principle that those “causing costs” should bear the responsibility for paying said costs.<sup>32</sup>

BCSEA argues “Bonbright Principle 3: price signals that encourage efficient use and discourage inefficient use” also supports adhering to existing arrangements. In BCSEA’s view, the purpose and effect of FEI’s proposal is that Revelstoke propane customers would pay less for propane than it costs FEI to buy propane. Therefore, this is not a price signal which would encourage optimally efficient use of piped propane in Revelstoke.<sup>33</sup>

Concerning “Bonbright Principle 8: avoidance of undue discrimination,” BCSEA contends this strongly supports the status quo as FEI’s proposal is openly discriminatory.<sup>34</sup> Under FEI’s proposal, 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 used by FEI Revelstoke customers.<sup>35</sup>

BCSEA argues FEI’s proposal to cross-subsidize Revelstoke propane charges at the expense of natural gas customers is contrary to Bonbright’s principles and is not in the public interest.<sup>36</sup>

### CBER

CBER states the proposed propane cross-subsidy distorts market prices to the prejudice of FEI’s natural gas customers.<sup>37</sup>

CBER likens the price differential paid by propane customers relative to natural gas customers, to that paid for diesel fuel relative to gasoline, and submits price differentials are necessary to incentivise customers to make rational fuel purchasing decisions.<sup>38</sup>

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<sup>29</sup> BCSEA Final Argument, pp. 4-5.

<sup>30</sup> *Ibid.*, p. 5.

<sup>31</sup> *Ibid.*, pp. 5-6.

<sup>32</sup> *Ibid.*, p. 6.

<sup>33</sup> *Ibid.*

<sup>34</sup> *Ibid.*, p. 7.

<sup>35</sup> *Ibid.*

<sup>36</sup> *Ibid.*, p. 9.

<sup>37</sup> CBER Final Argument, p. 7.

<sup>38</sup> *Ibid.*, pp. 7-8.

CBER submits FEI's argument that propane demand will remain relatively constant should be given little weight as basic economic principles suggest increased propane usage will follow in the long term.<sup>39</sup>

### CEC

CEC accepts FEI's interpretation of Bonbright's principles as being reasonable. CEC states that FEI's proposal provides significant benefits to Revelstoke customers, without significant expense to other customers, and that FEI's proposal is not unduly discriminatory.<sup>40</sup>

### BCOAPO

BCOAPO also accepts FEI's reading of Bonbright's principles and agrees with FEI that the BCUC should give more weight to the principles of the fair apportionment of costs and rate stability in balancing these principles.<sup>41</sup>

### *FEI Reply*

FEI submits that CBER's analogy of vehicle fuels is problematic given the nature of public utilities. FEI contends the situation is more akin to residents of Revelstoke being required to pay more for their vehicle fuel than other municipalities where all are served at the same retail outlet.<sup>42</sup> FEI submits, in response to BCSEA, that the proposal reflects the shared cost of providing an energy service, notwithstanding the fuel type, which is a fair apportionment of costs.<sup>43</sup>

Further, FEI argues that residential and commercial customers are generally price inelastic in their consumption and are therefore unlikely to increase consumption merely in response to a lower price. In addition, as the higher carbon tax for propane customers will remain in place, this will continue to provide a price signal to discourage any increase in GHG emissions.<sup>44</sup>

FEI submits its proposed cost amalgamation is consistent with Bonbright's principles and that BCSEA's arguments supporting the 'status quo' do not address certain factors such as the principle of rate stability. In addition, BCSEA overlooks the significant salutary effects on FEI's Revelstoke customers.<sup>45</sup>

FEI contends submissions by both BCOAPO and CEC, (each representing their respective customer groups), support FEI's Application and there exists broad community support in Revelstoke for a solution which offers lower energy costs and reduced volatility.<sup>46</sup>

FEI states that as the differentiated cost is negligible, the BCUC should place more weight on simplifying the tariff for "ease of understanding and acceptance," thereby addressing a perceived unfairness of the application of differentiated rates for the provision of the same amount of energy, as measured in GJ.<sup>47</sup>

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<sup>39</sup> Ibid., p. 15.

<sup>40</sup> Ibid., p. 13.

<sup>41</sup> BCOAPO Final Argument, p. 6.

<sup>42</sup> FEI Reply Argument, pp. 11-12.

<sup>43</sup> Ibid., pp. 4-5.

<sup>44</sup> Ibid.

<sup>45</sup> Ibid., p. 7.

<sup>46</sup> Ibid., p. 6.

<sup>47</sup> Ibid., p. 8.

### Panel Discussion

The Panel is persuaded the provision of a gas propane service, of the type extant in Revelstoke, is not materially different from that of a natural gas service. The Panel, moreover, notes FEI's tariff and its general terms and conditions define "gas" as "natural gas (including any added odorant), propane and biomethane."<sup>48</sup>

The Panel is of the view that where delivery charges are already standardized as an element of a service, it would be neither irrational nor unwarranted to take an additional step of equalizing commodity-related costs in providing that service. The character of FEI's energy provision service is sufficiently similar for propane and natural gas as to indicate the existence of a single class of service.

The Panel acknowledges precedents in amalgamating commodities and the application of postage stamp rates, as evidenced in Whistler.<sup>49</sup> The BCUC has accepted the practice at various locations across the province as being both just and reasonable.

The Panel has given full consideration to the Application and the relevance of Bonbright's principles regarding public utility rates. In the Panel's view, the arguments presented do not suggest that FEI's proposal would be inconsistent with those principles. FEI's proposal is considered in keeping with these principles by equalizing rates fairly across its service territory. FEI's proposal brings about a balanced allocation of costs, improves price stability and reduces the burden on Revelstoke customers by means of a proposal which minimizes negative effects and allows for alternatives in the future.

The Panel accepts that FEI's proposal may suggest discrimination, given the effect on natural gas users' costs. However, the Panel judges this effect by its degree and how overall fairness in the apportionment of costs fits within the public interest framework. In consequence, the Panel does not find that FEI's proposal is unduly discriminatory or that the principles or price signals are critically compromised.

### 3.2 Rate Impacts to FEI Customers

As discussed above, sections 59 to 61 of the UCA require the BCUC to set rates that are not unjust, unreasonable, unduly discriminatory, or unduly preferential in respect of services provided by regulated utilities. Further, the UCA states that when establishing rates, the BCUC:

- must consider all matters that it considers proper and relevant affecting the rate;<sup>50</sup> and
- may use any mechanism, formula or other method of setting the rate that it considers advisable and may order that the rate derived from such a mechanism, formula or other method is to remain in effect for a specified period.<sup>51</sup>

Section 60 considers the rate impacts on both FEI's natural gas customers and FEI's Revelstoke customers.

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<sup>48</sup> FortisBC Energy Inc. General Terms and Conditions at: [https://www.cdn.fortisbc.com/libraries/docs/default-source/about-us-documents/regulatory-affairs-documents/gas-utility/fortisbc\\_generaltermsandconditions.pdf?sfvrsn=202bc0bf\\_20](https://www.cdn.fortisbc.com/libraries/docs/default-source/about-us-documents/regulatory-affairs-documents/gas-utility/fortisbc_generaltermsandconditions.pdf?sfvrsn=202bc0bf_20)

<sup>49</sup> BCUC Order G-21-14.

<sup>50</sup> UCA, Section 60(1)(a).

<sup>51</sup> UCA, Section 60(1)(b.1).

## *Position of the Parties*

### *FEI*

FEI submits the existing differential in rates and increased commodity volatility experienced by its customers in Revelstoke is due to geography and the development of rates over time, which are beyond the control of FEI or its customers.<sup>52</sup>

FEI argues the proposed rate setting mechanism (Option 1) will provide Revelstoke customers with propane rate stability on par with FEI's natural gas customers and will help to provide propane commodity rate relief to Revelstoke customers.<sup>53</sup> In FEI's view, the proposed amalgamation provides a "simple and transparent solution" to address price volatility and higher energy costs experienced by its propane customers in Revelstoke.<sup>54</sup>

FEI contends the impact on annual billing to natural gas customers would be small.<sup>55</sup> FEI estimates that for a typical residential customer consuming 90 GJs per year in FEI's Mainland and Vancouver Island service areas, the average annual bill increase would be \$0.98 (or 0.12%). Under the same scheme, a typical residential customer in Revelstoke would experience a predicted average annual bill decrease of \$407 (or 45%) based on an average usage of 50 GJs per year.<sup>56</sup>

Furthermore, FEI estimates that even under its 'upper bound scenario', the bill impact would be an increase of less than \$2 per year for the average FEI residential natural gas customer. The 'upper bound scenario' is premised on an 80% increase in energy demand (use per customer or 'UPC') from residential customers in Revelstoke and 1,063 dwellings within 30 meters of FEI's main converting to FEI's propane service.<sup>57</sup>

FEI submits even in the "unlikely" event put forward by CBER that all non-propane residential heating sources convert to propane and residential UPC in Revelstoke annual consumption increased to 150 GJ (an increase of 200%), the bill impact to FEI's natural gas customers would still remain relatively small at less than \$3 per year for the average natural gas residential customer.<sup>58</sup> In addition, FEI anticipates use rates for its Revelstoke customers after the cost amalgamation will remain relatively constant in the near term due to relatively low-price elasticity.<sup>59</sup> Therefore, FEI submits it is within the public interest and fair that Revelstoke customers should pay the same rates for a propane service which is indistinguishable from the natural gas service which it provides to other customers in the province.<sup>60</sup>

### *Intervenors*

#### BCSEA

In BCSEA's view there is no "geographic disparity" in pricing, as FEI Revelstoke customers are not required to pay higher delivery premiums. Revelstoke customers are only required to pay more for propane as it is a different commodity from natural gas.<sup>61</sup> BCSEA notes that geographical factors prevent many locations in BC from having

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<sup>52</sup> FEI Reply Argument, p. 3.

<sup>53</sup> *Ibid.*, p. 1.

<sup>54</sup> *Ibid.*, p. 7.

<sup>55</sup> *Ibid.*, p. 14.

<sup>56</sup> Exhibit B-1, p. 20.

<sup>57</sup> FEI Final Argument, pp. 25-26.

<sup>58</sup> *Ibid.*, pp. 26.

<sup>59</sup> *Ibid.*, pp. 24-25.

<sup>60</sup> *Ibid.*, p. 6.

<sup>61</sup> BCSEA Final Argument, pp. 4-5.

piped natural gas, but this does not make it appropriate for natural gas customers to subsidize heating costs for those locations.<sup>62</sup>

BCSEA maintains FEI's proposal would have no effect on rate stability because it does nothing to mitigate the volatility in FEI's propane commodity costs, other than to pass these on to FEI natural gas customers. However, BCSEA believes FEI's alternative "Option 2," where propane cost is set on the five-year rolling average of annual propane to natural gas price ratios, would mitigate customer volatility without requiring cross-subsidization.<sup>63</sup>

BCSEA submits FEI's proposal is not in the interest of natural gas customers as they would pay for the entire cost of the natural gas they receive, plus the cost differential between natural gas and the propane used by FEI Revelstoke customers. Therefore, BCSEA views FEI's proposal as unduly discriminatory and not in the public interest.<sup>64</sup>

### CBER

CBER asserts FEI's proposal is unduly prejudicial to its natural gas customers. CBER states these customers will pay more, but receive no benefit.<sup>65</sup> CBER contends that the financial impact may be relatively low per natural gas customer due to their volume, but nevertheless remains discriminatory.<sup>66</sup> In CBER's view, the propane subsidy would unjustly benefit FEI's Revelstoke propane customers.<sup>67</sup>

CBER contends FEI's argument relies on an assumption that all communities in BC should have a natural gas service or another gas service available at an equivalent price. CBER submits communities do not have the right to such service at the expense of FEI's natural gas customers.<sup>68</sup>

CBER argues Revelstoke customers pay approximately the same per year for gas as other FEI customers, therefore, there is little evidence that there is an energy affordability problem in Revelstoke.<sup>69</sup> CBER believes the proposed cost amalgamation would result in Revelstoke customers paying significantly less than other FEI customers on a \$ per year basis.<sup>70</sup>

CBER claims a large number of low-income residents would receive no benefit from the proposed subsidy. In CBER's assessment, the propane subsidy would mainly benefit commercial customers and mid/high income residents.<sup>71</sup> As a result, FEI's proposal does not address supposed affordability issues in Revelstoke.<sup>72</sup>

CBER contests FEI's argument that propane demand would remain relatively constant. It submits the application of basic economic principles in practice would result in substantially greater propane usage in the long term.<sup>73</sup>

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<sup>62</sup> Ibid., p. 5.

<sup>63</sup> Ibid., pp. 6-7.

<sup>64</sup> Ibid., p. 7.

<sup>65</sup> CBER Final Argument, p. 8.

<sup>66</sup> Ibid.

<sup>67</sup> Ibid., p. 9.

<sup>68</sup> Ibid., p. 8.

<sup>69</sup> CBER Final Argument, p. 13.

<sup>70</sup> Ibid., pp. 8-9.

<sup>71</sup> Exhibit C1-4, p. 12.

<sup>72</sup> CBER Final Argument, pp. 13-14.

<sup>73</sup> Ibid., pp. 14-15.

CBER submits Revelstoke energy consumers should make rational purchasing decisions in response to market prices of propane and other fuel types, and that propane pricing is not a problem that requires a remedy.<sup>74</sup>

### CEC

CEC believes the bill impacts noted above by FEI are credible and amount to “very small bill impacts” for non-Revelstoke customers, particularly when compared to the benefits delivered for Revelstoke customers.<sup>75</sup> It concurs that FEI has demonstrated impacts to non-Revelstoke customers would remain small even in the ‘extremely unlikely scenario’ put forth by CBER in evidence.<sup>76</sup>

Furthermore, CEC finds there is “little evidence to contradict FEI’s expectation” that there will be no marked increase in load growth as a result of the change in price.<sup>77</sup>

### BCOAPO

BCOAPO considers FEI’s proposal would not be unjust, unreasonable, unduly discriminatory or unduly preferential despite FEI’s intent to subsidize propane customers’ fuel costs at the expense of natural gas customers through cost amalgamation.<sup>78</sup>

### Downie Timber Ltd.

Downie Timber Ltd. submits in evidence that it is currently disadvantaged by a lack of access to the same energy costs which its competitors enjoy. Downie Timber Ltd. estimates savings from the proposed amalgamation could be in excess of \$300,000 based on its recorded consumption levels.<sup>79</sup> Furthermore, Downie Timber Ltd.’s employees in Revelstoke would benefit from having reduced energy costs and having the same access to affordable energy costs as experienced in most of BC.<sup>80</sup>

### *FEI Reply*

FEI disagrees with both BCSEA and CBER and states its proposed cost amalgamation alleviates the evident disadvantages faced by Revelstoke customers, while minimizing the impact on FEI’s other customers in the province.<sup>81</sup>

FEI submits CBER’s contention that Revelstoke customers pay roughly the same per year in energy costs as natural gas customers is invalid. This is because CBER does not take into consideration the fact that Revelstoke customers receive significantly less energy on average than natural gas customers, and it ignores Revelstoke customers’ other energy costs.<sup>82</sup>

FEI states CBER mischaracterizes its position in suggesting that FEI relies upon an assumption that all communities in BC should receive a natural gas service. FEI states its position in this proceeding is not a general contention that all communities in BC should receive a natural gas service. It is a specific position that propane

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<sup>74</sup> Ibid., pp. 7-8.

<sup>75</sup> CEC Final Argument, pp. 6-7.

<sup>76</sup> Ibid., p. 8.

<sup>77</sup> Ibid., p. 10.

<sup>78</sup> BCOAPO Final Argument, pp. 8-9.

<sup>79</sup> Exhibit C4-2-1, p. 1.

<sup>80</sup> Ibid., p. 2.

<sup>81</sup> FEI Reply Argument, p. 4.

<sup>82</sup> Ibid., pp. 12-13.



customers in Revelstoke, who receive effectively the same service as its natural gas customers, should experience the same rates and price volatility as FEI's other customers.<sup>83</sup>

FEI argues BCSEA gives undue weight to the small impact on FEI's natural gas customers (even in the most extreme scenario put forward by CBER), whilst also failing to consider the rates experienced by FEI's similarly situated propane customers in Revelstoke.<sup>84</sup>

FEI's position is that the proposed changes are not unduly discriminatory or preferential, but significantly enhance revenue and cost stability for Revelstoke customers without compromising significantly on the fair allocation of costs.<sup>85</sup>

### *Panel Discussion*

The Panel accepts that propane is subject to higher prices and greater price volatility and therefore, any addressing of these vagaries will bring clear benefits to FEI propane customers in Revelstoke. The Panel further acknowledges, where this is done through price amalgamation, the rate impact consequences for other FEI customers are widely recognized, although generally accepted as negligible in terms of financial costs.

The Panel does not consider FEI's proposal to be motivated by a belief that the entire province should receive either natural gas or other gas at the same rate, with the cost of effecting such a policy to be borne largely by natural gas customers. Rather, the Panel accepts the intention is to best address propane pricing in Revelstoke within the overall framework of FEI's energy provision service.

The Panel notes it is generally accepted that the degree of adjustment across the service sought would have only a minimal impact on rates for natural gas users even when taking into account the "extremely unlikely scenario" put forward by CBER. Therefore, as FEI's proposal offers considerable betterment to consumers in Revelstoke with minimal impact to natural gas customers, the Panel finds the resulting rates for all FEI customers would neither be unduly discriminatory nor unduly preferential.

### **3.3 Revelstoke Energy Market Impacts**

FEI's proposal will significantly reduce the price of FEI propane in Revelstoke. Besides propane, the main energy sources in Revelstoke for heating include electricity, biomass from wood pellets and cordwood, heating oil, geothermal and air source heat pumps, and district heating.

Some interveners have expressed concern regarding the effects of a sudden decrease in propane price on suppliers and users of competing fuels and technologies in Revelstoke and have raised the question as to whether such potential impacts would be in the public interest. This is considered below.

### *Position of the Parties*

#### *FEI*

FEI submits the potential impact on other energy providers should not prevent fair rates for Revelstoke customers. In addition, FEI states it does not consider the impact on the competitiveness of other energy

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<sup>83</sup> Ibid., p. 12.

<sup>84</sup> Ibid., p. 7.

<sup>85</sup> Ibid.

providers when setting customer rates. It argues the effect of utility rates on other service providers is not a commonly accepted rate design principle.<sup>86</sup>

FEI notes any impact on the Revelstoke Community Energy Corporation (RCEC) will be limited since significant RCEC expansion is not viable while RCEC will itself benefit from reduced propane costs under the proposed cost amalgamation.<sup>87</sup> In addition, the City of Revelstoke (RCEC's owner) has the ability to influence and retain customers, despite the increased competitiveness of propane prices.<sup>88</sup>

FEI argues impacts on the competitiveness of other service providers, particularly speculative impacts, "do not provide a justification to deny FEI's propane customers the benefits of the proposed cost amalgamation."<sup>89</sup>

### *Interveners*

#### BCSEA

BCSEA notes that FEI acknowledges there could be an impact to the competitiveness of RCEC, contrary to the objectives to "foster innovative technologies for energy conservation and efficiency and the use of clean or renewable resources."<sup>90</sup>

BCSEA submits there is no persuasive evidence that FEI's proposal would encourage economic development or enable the creation and retention of jobs. In addition, FEI provides no evidence of economic development in Revelstoke that would result from subsidized propane costs.<sup>91</sup>

#### CBER

CBER argues FEI's proposed propane subsidy could harm local businesses that retail products which are alternatives to propane as their competitiveness would be weakened.<sup>92</sup> CBER contends that propane only makes up 35% of Revelstoke's residential heating, as wood and electricity are used to a greater degree as secondary heating sources than occurs with natural gas users.<sup>93</sup> Cheaper propane would increase its attractiveness as a primary heat source to the detriment of those alternatives, thereby harming the businesses of current energy suppliers.<sup>94</sup>

CBER argues FEI's proposal would make propane a less costly energy source than RCEC steam, which would encourage existing customers, for example Downie Timber Ltd., to switch from using RCEC as soon as possible. The result would be a transfer of income from a publicly owned company, which employs people in Revelstoke to FEI.<sup>95</sup>

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<sup>86</sup> FEI Final Argument, pp. 26-27.

<sup>87</sup> Ibid.

<sup>88</sup> Ibid.

<sup>89</sup> Ibid., p. 27.

<sup>90</sup> BCSEA Final Argument, p. 8.

<sup>91</sup> Ibid., p. 9.

<sup>92</sup> CBER Final Argument, p. 11.

<sup>93</sup> Exhibit C1-4, p. 4.

<sup>94</sup> CBER Final Argument, pp. 11-13.

<sup>95</sup> Ibid., p. 12.

## CEC

CEC accepts FEI's contention there will be no significant impact on local competitiveness, including that of the RCEC.<sup>96</sup> Even so, CEC agrees with FEI's view that it is not common to accept competitiveness as a rate design principle.<sup>97</sup>

CEC concedes FEI's proposal could contribute to some minor disruption in the market and might not necessarily promote the efficient use of energy and competing products and services. Nevertheless, CEC considers any possible negative impacts on competitors are likely to be outweighed by the benefits brought by rate reductions.<sup>98</sup>

## BCOAPO

BCOAPO acknowledges that FEI's proposal is supported by the City of Revelstoke, many local businesses and the Revelstoke community.<sup>99</sup>

## *FEI Reply*

FEI maintains any negative competitive impact on RCEC will be limited, as RCEC's product is not viable for supplying residential homes. Rather, RCEC should actually benefit from the proposed cost amalgamation as one of FEI's larger commercial customers within Revelstoke. FEI highlights it is significant that the City of Revelstoke, which owns RCEC, is in favour of the proposal.<sup>100</sup>

FEI argues BCSEA's submissions regarding the effect of the cost amalgamation on alternative energy sources should be rejected, as they are speculative and contrary to the evidence put forward in the proceeding.<sup>101</sup> FEI indicates there is also an absence of any evidence of the effect of the proposed cost amalgamation on the wood and wood pellet retailers referenced in CBER's submission.<sup>102</sup>

FEI submits the BCUC should "reject CBER's speculation" on the effect of the proposed amalgamation on competing energy suppliers and electric and wood appliance retailers. In FEI's view, the potential impact on other energy providers should not stand in the way of fair rates for FEI's Revelstoke customers and the BCUC should not consider the speculative impact on energy retailers.<sup>103</sup>

## *Panel Discussion*

The Panel finds there has been insufficient evidence or convincing argument presented to suggest that there will be a considerable migration of energy users from other fuels to propane as a result of FEI's proposal. This view is further supported by evidence that capital cost economics will inevitably impact on energy choices and work to frustrate any substantial migration.<sup>104</sup> Moreover, the relative price inelasticity of propane suggests there will be no immediate decrease in the use of alternative energy sources.<sup>105</sup> While there may be some degree of

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<sup>96</sup> CEC Final Argument, p. 19.

<sup>97</sup> Ibid., p. 20.

<sup>98</sup> Ibid., p. 20.

<sup>99</sup> BCOAPO Final Argument, p. 8.

<sup>100</sup> FEI Reply Argument, p. 9.

<sup>101</sup> Ibid.

<sup>102</sup> Ibid., pp. 13-14.

<sup>103</sup> Ibid., p. 14.

<sup>104</sup> Ibid., pp. 10-12

<sup>105</sup> Ibid., p. 25; Exhibit B-7, BCUC IR, 19.5, 19.6.

migration in the future, the Panel considers that the overall benefit to Revelstoke customers outweighs any potential impacts to alternative energy sources put forward.

The Panel agrees with FEI that CBER's submission lacks sufficient evidence to raise it beyond mere speculation in critical areas and thus weight it accordingly. There is little evidence of the effect of the proposed cost amalgamation on local businesses and retailers, while the arguments put forward regarding the impact to competing energy suppliers and overall competitiveness are speculative. Moreover, the Panel notes evidence by Downie Timber Ltd. which suggests that the effects of FEI's proposal and lower energy costs could lead to 10-12 new positions within its operations.<sup>106</sup>

The Panel recognizes FEI's earlier consultation with local businesses and the City of Revelstoke drew attention to the high cost of energy as a barrier to development and one which was negatively impacting on local business.<sup>107</sup> The Panel acknowledges evidence that there is substantial and varied support within Revelstoke for FEI's proposal, including from commercial, residential and civic interests as well as the City of Revelstoke itself.

The Panel is responsive to the potential for FEI's proposal to increase benefits to a sizeable and material customer base within Revelstoke and with only a limited impact to other FEI customers. Therefore, the Panel accepts the broad economic impacts resulting from FEI's proposal are within the public interest.

### 3.4 BC Energy Objectives

In its Application, FEI states the propane rate stability provided by its proposal supports BC energy objectives. FEI considers stabilizing propane rates is not only beneficial for current Revelstoke customers, but may encourage other energy users in Revelstoke to switch from higher-carbon heating oil to propane. Therefore, the proposed changes will support BC energy objectives under the Clean Energy Act.<sup>108</sup> Several interveners addressed this in their submissions, and this is considered in further detail below.

#### *Position of the Parties*

##### *FEI*

FEI submits its proposal supports BC energy objectives under section 2 of the Clean Energy Act, specifically, switching energy sources to decrease GHG emissions and encouraging economic development and the creation and retention of jobs.<sup>109</sup> In addition, FEI states its propane customers will continue to pay higher carbon tax rates than natural gas customers which is in line with BC's energy objectives.<sup>110</sup>

FEI argues CBER's assertions relating to conversions and associated GHG emissions should not be given any weight, as the data suggest conversion activity will be limited due to a lack of economic incentives to customers, many of whom could face lengthy payback periods before a switch would become financially beneficial.<sup>111</sup>

FEI expects some conversions from heating oil to propane will likely occur, with maximum CO<sub>2</sub> emissions reductions of 100 tonnes of CO<sub>2</sub> per annum if 100% of heating oil customers located within 30 meters of the gas

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<sup>106</sup> Exhibit C4-3, BCUC IRs.1.4,.1.5.

<sup>107</sup> Exhibit B-2, BCUC IR 2.5.

<sup>108</sup> Exhibit B-1, p. 5.

<sup>109</sup> FEI Final Argument, p. 8.

<sup>110</sup> Exhibit B-1, p. 1.

<sup>111</sup> FEI Final Argument, p. 11.

main were to convert to propane.<sup>112</sup> However, FEI believes the likelihood of customers switching from electric appliances to propane is low for various reasons, including the capital cost of conversion.<sup>113</sup>

In addition, FEI calculates conversion from heat pump, cordwood, and the RCEC's service to propane would be unlikely, as this would offer no operating cost savings after the cost amalgamation. FEI further notes the payback period for conversion from wood pellets is longer than the life of a standard wood pellet furnace. FEI contends this should be factored into conversion costs and the likelihood that conversions would take place. FEI argues CBER's analysis excludes the capital costs associated with conversion and thereby overestimates the likely number of conversions which may take place.<sup>114</sup>

While CBER provides a scenario in which GHG emissions will increase as a result of conversions to propane, FEI's rebuttal evidence highlights problems with this analysis.<sup>115</sup> FEI states CBER's analysis assumes all residential buildings currently using other heating sources will convert to propane as a result of FEI's proposed cost amalgamation. It is FEI's position that this assumption is flawed, as it ignores the financial and technical challenges associated with conversions, as well as customers' preferences and circumstances.<sup>116</sup>

FEI submits that as the cost amalgamation would provide less volatile and more predictable energy input costs, this could free up funds that commercial and industrial enterprises may use for investments, such as the creation and retention of jobs.<sup>117</sup>

### *Interveners*

#### BCSEA

BCSEA submits FEI's propane cross-subsidization proposal is "contrary to at least eight of the BC Energy Objectives."<sup>118</sup>

BCSEA submits FEI's contention that subsidized propane costs could prompt conversions from oil to propane is purely speculative, and the primary impact of FEI's proposal would be to encourage more use of propane, which in turn would lead to increased GHG emissions.<sup>119</sup> Further, BCSEA submits deliberately reducing the cost of propane below cost of service would incentivise increased use of propane, contrary to objectives to reduce GHG emissions and take demand-side measures to conserve energy. Cheaper propane would frustrate the objective to encourage communities to reduce GHG emissions and to use energy efficiently while making efforts to reduce waste.<sup>120</sup>

BCSEA argues there is no persuasive evidence FEI's proposal would encourage economic development or enable the creation and retention of jobs in Revelstoke. FEI provides no evidence that economic development in Revelstoke would result from subsidized propane costs.<sup>121</sup> In addition, reducing the cost of propane in Revelstoke does not support the goal of fostering the development of First Nation and rural communities

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<sup>112</sup> Ibid., p. 9.

<sup>113</sup> Ibid., pp 10-11.

<sup>114</sup> Ibid.

<sup>115</sup> Exhibit B-15.

<sup>116</sup> FEI Final Argument, p. 11.

<sup>117</sup> Ibid., p. 12.

<sup>118</sup> BCSEA Final Argument, p. 8.

<sup>119</sup> Ibid.

<sup>120</sup> Ibid.

<sup>121</sup> Ibid., p. 9.

through the use and development of clean or renewable resources.<sup>122</sup> Furthermore, BCSEA submits the BCUC should reject FEI's argument that the application of the carbon tax preserves FEI's proposal's alignment with BC energy objectives.<sup>123</sup>

### CBER

CBER also contends the propane subsidy will likely result in a significant increase in GHG emissions, arguing this is contrary to the GHG emission reductions targets mandated by the Climate Change Accountability Act.<sup>124</sup> CBER asserts FEI's proposal will result in major increases in GHG emissions due to existing residents and new construction projects opting for propane heating and appliances in preference to wood and electric.<sup>125</sup> CBER submits FEI's estimate of a potential reduction in emissions of 100 tonnes per year, following conversion by heating oil users, is greatly outweighed from emissions increases likely to arise elsewhere as a direct result of the proposed cost amalgamation.<sup>126</sup>

CBER asserts that 8% of Revelstoke's heat energy comes from low GHG-emitting hydropower and 37% comes from low GHG-emitting wood. Should these sources be replaced by propane then there would be an inevitable and substantial increase (estimated at 46%) in GHG emissions.<sup>127</sup>

CBER argues FEI's "planned increase in propane sales does not accord with provincial fossil fuel use targets laid down in the Clean BC plan."<sup>128</sup>

### CEC

CEC considers the potential impact on GHG reductions is "very small, but is nonetheless directionally beneficial."<sup>129</sup> CEC believes there is limited evidence to suggest any significant changes to GHG emissions from switching fuel as a result of the proposed cost amalgamation. It accepts FEI's rebuttal of CBER's analysis that GHG emissions will rise by 46% if all Revelstoke heat energy is provided by propane, recommending that the BCUC applies little weight to such an evaluation.<sup>130</sup>

CEC advocates the BCUC recognize FEI's proposal is generally consistent with government policy in encouraging fuel switching from higher GHG fuels, such as heating oil, to propane.<sup>131</sup>

### BCOAPO

BCOAPO also contends there will likely be GHG emission benefits due to consumers switching from heating oil to propane as a result of FEI's proposal.<sup>132</sup>

BCOAPO acknowledges a higher use of propane incurs a higher carbon tax. This means the GHG related price signal to Revelstoke customers would remain unchanged and continue to support BC energy objectives.

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<sup>122</sup> Ibid.

<sup>123</sup> Ibid., p. 8.

<sup>124</sup> CBER Final Argument, p. 16.

<sup>125</sup> Ibid., p. 14.

<sup>126</sup> CBER Final Argument, pp. 14-15.

<sup>127</sup> Exhibit C1-4, p. 8.

<sup>128</sup> Ibid., pp. 9-10.

<sup>129</sup> CEC Final Argument, p. 17.

<sup>130</sup> Ibid., pp. 16-17.

<sup>131</sup> Ibid., p. 17.

<sup>132</sup> BCOAPO Final Argument, p. 8.

Moreover, BCOAPO accepts existing evidence indicates that propane demand is generally price inelastic and therefore a decrease in price should have little effect on the quantity consumed.<sup>133</sup>

BCOAPO agrees with FEI's argument that the cost amalgamation has the potential to encourage economic development and thereby lead to the possible retention and creation of jobs.<sup>134</sup>

### *FEI Reply*

FEI responds that the GHG concerns put forward by BCSEA and CBER are both speculative and overstated.<sup>135</sup> FEI affirms its studies show propane as having low price elasticity. There is no expectation customers would appreciably change their consumption in the immediate or near future in response to a lower commodity cost as such decisions are influenced by a variety of factors.<sup>136</sup>

FEI maintains that in previous years, customers in Revelstoke did not increase their energy usage in response to lower rates. FEI points to its evidence regarding price elasticity and submits the BCUC should refrain from basing a decision upon speculation that is disconnected from the facts.<sup>137</sup>

FEI contends CBER's position regarding increased GHG emissions is "a speculative scenario with no basis in fact," and notes 90% of new builds are already using propane, leaving little room for market growth.<sup>138</sup>

In response to BCSEA's position that there is no compelling evidence the proposal would encourage economic development; FEI argues the evidence regarding economic development and job creation is credible. While FEI has not based its proposed cost amalgamation upon economic development, it argues there is persuasive evidence that such development could result.<sup>139</sup> FEI notes Downie Timber Ltd.'s comments that 10-12 potential jobs could be created if high energy costs could be lowered.<sup>140</sup>

### *Panel Discussion*

The Panel notes there is no statutory requirement under sections 59 to 61 of the UCA to consider BC Energy Objectives or the public interest when setting rates. However, in this instance the Panel acknowledges the positions raised by the applicant and interveners and finds it appropriate to discuss the submissions made.

The Panel is persuaded by the evidence that the price elasticity of propane customers is low. Therefore, it accepts the likelihood of significantly increased rates of propane consumption per customer is low, with the associated effect on increased GHG emissions also remaining low. Moreover, the Panel notes there may in fact be some offsetting reduction in GHG emissions, following an anticipated conversion from heating oil to propane, given the latter's lower carbon content. The Panel acknowledges that this is consistent with BC energy objectives in encouraging fuel switching from higher GHG fuels.

The Panel does not however view a considerable migration to propane from other fuel usage sources as probable. It notes conversions from electricity, wood pellets and the RCEC's service are likely to be low due to

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<sup>133</sup> Ibid.

<sup>134</sup> Ibid.

<sup>135</sup> FEI Reply Argument, p. 15.

<sup>136</sup> Ibid., pp. 8-9.

<sup>137</sup> Ibid., pp. 15-16.

<sup>138</sup> Ibid.

<sup>139</sup> Ibid., p. 10.

<sup>140</sup> Exhibit C4-3, BCUC IRs 1.4, 1.5.

the relatively high capital costs involved for customers. Furthermore, the Panel is satisfied by the evidence there will be limited opportunity to increase market share given, amongst other factors, that currently 90% of new builds already use propane.

The Panel notes many of the submissions put forward regarding the impact of FEI's proposal on BC energy objectives are speculative. As a result, the Panel considers FEI's proposal neither overly supports nor opposes BC energy objectives. The Panel agrees with CEC's view there is limited evidence to suggest any significant changes to GHG emissions from switching fuel as a result of FEI's proposal. Nevertheless, even if the potential impact on GHG reductions is minimal, the Panel agrees with CEC and FEI this would be directionally beneficial. In addition, the Panel considers the evidence regarding economic development to be limited. However, the Panel acknowledges that while FEI has not based its proposal upon economic development, there exists some evidence, such as the 10-12 potential jobs highlighted by Downie Timber Ltd., which could have a positive effect.

### 3.5 Alternatives Considered

After considering various alternatives at a broader level, FEI presented two (Option 1 and Option 2) to address the energy cost disparity and rate volatility experienced by Revelstoke customers, as compared to other FEI customers. For ease of reading, these options are summarised again below:<sup>141</sup>

- Option 1: Equal Natural Gas and Propane Cost Recovery. Option 1 is FEI's preferred option. Fully amalgamating the propane and natural gas portfolio costs on an equal basis ensures that FEI customers in Revelstoke do not experience differing cost of energy recovery rates due to their location within FEI's service territory.<sup>142</sup>
- Option 2: Five-Year Rolling Price Difference between Propane and Natural Gas. FEI proposes to set the propane gas cost recovery rate with a premium multiplier based on the five-year rolling average of annual propane to natural gas price ratios.<sup>143</sup> FEI notes that this rate setting mechanism will help to mitigate rate volatility, but will not provide rate relief to Revelstoke customers over the long term.<sup>144</sup>

It is noted FEI and interveners discussed other potential supply options to the proposed cost amalgamation. The Panel considers possible alternatives below.

#### *Position of the Parties*

##### *FEI*

FEI states it has explored capital alternatives, such as a physical pipeline and a virtual liquefied natural gas (LNG) pipeline, to address the energy cost disparity and volatility experienced by Revelstoke customers. However, each of these capital alternatives would result in a greater financial impact to FEI's natural gas customers than the proposed cost amalgamation option requested.<sup>145</sup>

FEI submits its proposal (i.e. Option 1) is the least-cost solution to address the energy cost disparity and volatility experienced by Revelstoke customers. Option 2 or any other alternatives are not capable of providing the needed rate relief to Revelstoke customers.<sup>146</sup>

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<sup>141</sup> Exhibit B-1, p. 13.

<sup>142</sup> Ibid., p. 14.

<sup>143</sup> Ibid., p. 10.

<sup>144</sup> Ibid., pp. 10-11.

<sup>145</sup> Ibid., pp. 22-23.

<sup>146</sup> Ibid.



FEI submits that financially, propane continues to be the lowest cost option to serve Revelstoke as opposed to natural gas via a virtual LNG pipeline or a physical pipeline.<sup>147</sup> However, FEI notes its proposal does not prevent the future provision of renewable natural gas (RNG) supply in Revelstoke or a consideration of alternatives. This could include for example, a natural gas pipeline or LNG/compressed natural gas (CNG) supply.<sup>148</sup>

FEI states it will continue to investigate potential options to connect Revelstoke to its natural gas distribution system, and will pursue such a project if FEI considers it is economically feasible and in conformity with BC energy objectives.<sup>149</sup>

### *Interveners*

#### BCSEA

BCSEA submits FEI should explore mitigation options that do not require cross subsidization from natural gas customers. BCSEA states FEI acknowledges that 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.”<sup>150</sup>

BCSEA argues cross-subsidization is not in the interests of all customers, and the proposal put forward by FEI is therefore not in the public interest.<sup>151</sup>

#### CBER

CBER submits FEI should focus on acquiring RNG from a wood-to-gas plant for Revelstoke. This alternative should be pursued instead of the proposed propane cross-subsidization in FEI’s Option 1.<sup>152</sup> In CBER’s view, FEI should buy RNG from a wood-to-gas plant in Revelstoke, as this would create greater positive impacts within Revelstoke (for example, within the forestry sector) and help reduce GHG emissions in BC. CBER contends local business Downie Timber Ltd. produces enough wood waste to supply RNG to all of FEI’s current propane customers in Revelstoke.<sup>153</sup>

CBER claims Revelstoke has access to “more than 76,000 bone-dry tonnes (bdt) of wood waste/biomass available” which could be used in an RNG facility.<sup>154</sup> In addition, CBER submits Downie Timber Ltd., one of the largest exporters of low-carbon biomass, has large amounts of biomass that could be used in a potential RNG facility, and this use would better serve the public interest.<sup>155</sup>

#### CEC

CEC acknowledges FEI has considered a variety of options for mitigating the issues experienced by Revelstoke customers.<sup>156</sup> Addressing these issues through undertaking a major capital project might prove more

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<sup>147</sup> Ibid., p. 23.

<sup>148</sup> Ibid., pp. 22-23.

<sup>149</sup> Ibid., p. 24.

<sup>150</sup> BCSEA Final Argument, p. 7.

<sup>151</sup> Ibid.

<sup>152</sup> CBER Final Argument, p. 16.

<sup>153</sup> Ibid., pp. 16-17.

<sup>154</sup> Exhibit C1-4, p. 14.

<sup>155</sup> Ibid.

<sup>156</sup> CEC Final Argument, p. 2.

detrimental, offering higher costs and a greater environmental impact.<sup>157</sup> In addition, CEC notes FEI's proposal will not limit the future expansion of the natural gas system, which could potentially further streamline the system and promote GHG benefits.<sup>158</sup>

### BCOAPO

BCOAPO notes Option 1 entails a small rate impact on natural gas customers, but at the same time delivers a significant benefit to Revelstoke customers.<sup>159</sup> It believes Revelstoke customers' alternate fuel choices are restricted due to its geographical location while their access to affordable choices are also limited.<sup>160</sup>

BCOAPO concurs with FEI that propane is the most cost-effective energy source available in Revelstoke to residential customers at this time. Providing Revelstoke with natural gas at any time in the near future would be a considerably more expensive option.<sup>161</sup>

### *FEI Reply*

FEI contends the non-capital solution proposed by the cost amalgamation alleviates the geographic disadvantage faced by Revelstoke customers and minimizes the potential impact to its other customers in the province.<sup>162</sup>

In response to CBER's suggestion of an alternative wood-to-gas energy facility, FEI argues there is no evidence that an RNG plant is even feasible. It cannot therefore be considered as a viable alternative.<sup>163</sup> Even so, FEI notes its proposal does not preclude future use of RNG, such as by way of a conceptual gas plant suggested by CBER.<sup>164</sup> FEI would still consider such a project regardless of whether the cost amalgamation has received prior approval.<sup>165</sup>

FEI argues the evidence on record shows that significant benefits (under Option 1) would be delivered to Revelstoke, with only a small impact to FEI's natural gas customers, in alignment with postage stamp ratemaking principles. In FEI's view, the submissions of BCSEA and CBER do not provide any compelling evidence to suggest otherwise.<sup>166</sup>

### *Panel Discussion*

The Panel acknowledges that a number of options have been discussed to improve the circumstances (both cost and price volatility) around the supply of energy to residents and business in Revelstoke. Specifically, amongst these, the preferred proposal by FEI seeks to provide rate relief and to mitigate the rate volatility experienced by Revelstoke customers through amalgamating and equalizing its propane and natural gas portfolio costs. Thereafter, FEI customers would pay the same cost for propane or natural gas.

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<sup>157</sup> Ibid., p. 17.

<sup>158</sup> Ibid., p. 19.

<sup>159</sup> BCOAPO Final Argument, p. 6.

<sup>160</sup> Ibid.

<sup>161</sup> BCOAPO Final Argument, p. 7.

<sup>162</sup> FEI Reply Argument, p. 4.

<sup>163</sup> Ibid., p. 16.

<sup>164</sup> Ibid., p. 9.

<sup>165</sup> Ibid., p. 16.

<sup>166</sup> Ibid., p. 17.

The Panel accepts FEI's proposal would bring substantial benefits to propane users in Revelstoke. Nevertheless, it also accepts such gains are at the detriment of FEI's natural gas customers, who may be seen as subsidising the Revelstoke customers by incurring increased energy costs. However, while considering the evidence and arguments already discussed in this decision regarding rate making principles and rate impacts, the Panel is mindful that the actual costs involved are sufficiently small as to be considered negligible and do not outweigh merit of the greater good which can be delivered.

The Panel is cognizant that FEI's proposal does not preclude the development and delivery of future energy initiatives to Revelstoke. While competing proposals for the provision of RNG are not before the BCUC, the Panel, nevertheless, does not consider that an approval of FEI's existing proposal would proscribe or prevent the exploration of the potential for a wood to gas plant at some point in the future.

The Panel finds FEI's preferred option to address the energy rate disparity and volatility of prices for Revelstoke customers to be the most reasonable solution in the current environment. The Panel notes 'Option 1' will maximise benefits to disadvantaged customers in Revelstoke, while at the same time minimising any negative impact on FEI's natural gas customers. The Panel accepts the merits of 'Option 2' put forward by FEI, seeking to mitigate rate volatility without causing any negative impact on costs to natural gas customers. However, the Panel acknowledges that this option is limited in its effects and does not provide the rate relief sought by Revelstoke customers.

The Panel has considered arguments supporting alternatives to both Option 1 and Option 2. Nonetheless, the Panel is not persuaded sufficient evidence exists to demonstrate such alternatives are currently economically feasible or otherwise better support BC energy objectives. As discussed, the Panel acknowledges while alternatives may not now be realistic viable choices, consideration to their future feasibility is not ruled out by FEI's current proposal.

#### **4.0 Panel Determination**

The Panel concludes, informed by the evidence and argument put forward, that FEI's proposal to amalgamate the costs of its Revelstoke propane supply portfolio with its natural gas supply portfolio is in the public interest. The Panel has come to this view based on the discussion above and for the reasons considered below.

The proposed rate setting mechanism will provide Revelstoke customers with propane rate stability on par with FEI's natural gas customer and in addition will provide the desired propane commodity rate relief for Revelstoke customers. The Panel agrees with FEI's contention that the proposal offers the least-cost, non-capital solution to this issue at this time while not barring consideration of future undertakings to better deliver energy services to its customers.

The Panel is satisfied FEI's proposal will not have a marked effect on levels of GHG emissions. There is evidence to suggest any impetus to increased levels will be checked by the price inelasticity of propane, the existence of carbon taxing, the high cost and limited potential for widespread conversion to propane and the actual migration to propane from a small number of higher GHG emitting heating oil users. The Panel also notes FEI's proposal does not preclude prospective consideration and development of natural gas and RNG ventures should they emerge as better solutions to the issues which FEI now seeks to address in Revelstoke. In consequence, the Panel is of the opinion that overall, FEI's proposal is generally in accordance with BC energy objectives.

The Panel is persuaded FEI's natural gas and propane customers should be considered as receiving a single class of service through the provision of a gas energy supply. The Panel notes the BCUC has previously accepted the

principle of postage stamp rates for the delivery portion of propane services in Revelstoke and believes that this principle can be extended to pricing without the latter constituting a separate class of service.

The BCUC has recognised the application of postage stamp rates as both just and reasonable in several instances throughout the province, and as an appropriate means of allocating costs to various customer groups. In the present case such an application is not seen as inconsistent with the Bonbright principles. FEI's proposal is considered in keeping with these principles by its seeking to equalize rates fairly across its service territory. It achieves a balanced allocation of costs, promotes price stability and reduces burdens on a significant customer group by means of a proposal which minimizes negative effects and leaves open options for alternatives in the future.

The Panel considers public interest need not be measured by whether a service delivers a benefit or detriment to a numerically larger group, but can also be judged as to how it furthers principled and fair treatment and promotes the ideals of supportive communities. The Panel considers that, in light of the evidence and arguments received, the proposed cost amalgamation provides not only economic benefit to Revelstoke customers but provides wider benefits which are consistent with being in the public interest. The Panel is further persuaded in this contention by recognizing the broad support for FEI's proposal from within the community and by the City of Revelstoke. **Accordingly, the Panel finds that, pursuant to section 59 of the UCA, the rates proposed by FEI are not unjust, unreasonable, unduly discriminatory or unduly preferential.**

**Therefore, the Panel determines, pursuant to sections 59 to 61 of the UCA, that FEI's proposal to amalgamate the Revelstoke propane supply costs with the FEI midstream natural gas supply resource costs in the MCRA and to implement a revised propane gas cost rate setting mechanism is approved.**

#### 4.1 Deferral Accounts

FEI intends to capture the Revelstoke propane supply portfolio costs in its existing MCRA. This is because the profile of the Revelstoke propane supply varies with weather and FEI's Revelstoke propane purchases are fashioned to the relative level of seasonal consumption. This is comparable to how FEI currently captures the costs for seasonally shaping its natural gas supply in the existing MCRA.<sup>167</sup>

FEI states its proposal involves changes to the accounting methodology only. The proposal will not involve any changes in how both the physical propane and natural gas supply resources are planned and managed.<sup>168</sup>

To achieve the desired outcome, FEI requests to:

- a) amalgamate its Revelstoke propane supply portfolio costs with its natural gas supply portfolio costs by transferring the closing balance of the Propane Cost Deferral Account (PCDA) as of December 31, 2020 to FEI's existing MCRA as an opening balance adjustment;
- b) thereafter, begin capturing all Revelstoke propane supply portfolio costs in the MCRA;
- c) close the PCDA; and
- d) include Rate Rider 6 Midstream Cost Reconciliation Account (MCRA Rate Rider 6), in the calculation of cost of propane per GJ for Revelstoke propane customers because all propane costs will be recorded in the MCRA after the proposed changes are implemented.

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<sup>167</sup> FEI Final Argument, p. 3.

<sup>168</sup> *Ibid.*, p. 4.

**The Panel finds the requested changes to the PCDA and MCRA are warranted and approved as detailed above.** The Panel finds that equal cost of energy recovery rates for Revelstoke propane customers represents an improvement to the current situation in line with the accepted principle of common rates across geographical locations within FEI's service territory. The resulting change enables Revelstoke propane customers to pay the same gas cost recovery rates as FEI's natural gas customers.

## 4.2 Rate Schedule Changes

FEI requested consequential updates to FEI Rate Schedules 1 to 27 in order for the approved cost amalgamation to take effect.

**The Panel approves the following amendments to FEI's Rate Schedules:**

- **For Rate Schedules 1, 2 and 3:**
  - **Approval of the proposed amendment to eliminate and cancel Rate Rider 1 Propane Surcharge (Propane Rate Rider 1), from the table of charges calculations for the Cost of Gas Related Charges for Revelstoke customers.**
- **For Rate Schedules 1, 1B, 1U, 1X, 2, 2B, 2U, 2X, 3, 3B, 3U, 3X, 4, 5, 5B, 6, 6P and 7:**
  - **Approval of the proposed housekeeping amendment to the reference to MCRA Rate Rider 6, removing the reference to "excluding Revelstoke".**
- **For Rate Schedules 1, 1B, 1U, 1X, 2, 2B, 2U, 2X, 3, 3B, 3U, 3X, 4, 5, 5B, 6, 6P, 7, 22, 22A, 22B, 23, 25, 26 and 27:**
  - **Approval of the proposed housekeeping amendment to Propane Rate Rider 1 upon cancellation, setting it "(Reserved for future use)."**

## 4.3 Timing and Effective Date

**The Panel determines January 1, 2021 to be the appropriate effective date for the rate changes approved with these reasons for decision.**

The Panel considers it impractical to have the effective date set any earlier than January 1, 2021, as the gas cost mechanism in place for FEI requires quarterly filings. The next quarterly filing is due in September with an October 1, 2020, effective date. The Panel does not consider that such a constrained timeframe would provide FEI sufficient time to prepare its filing. Therefore, the Panel considers it to be both reasonable and practicable for FEI to complete its quarterly gas filing with the approved changes for the subsequent quarterly filing date, for rates effective January 1, 2021.

## 4.4 Compliance Filings

There are several required compliance filings that the Panel directs FEI to comply with following these reasons for decision:

- **FEI must file the amended tariff pages with the BCUC as described in the Application at least 30 days prior to the January 1, 2021 implementation date.** The amended tariff pages and rate schedule changes are outlined in section 4.2 above.

- **FEI is directed to file and provide detail of its Revelstoke propane costs with the BCUC in its “Mainland and Vancouver Island service area Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) quarterly gas costs” report.** FEI is no longer required to file a quarterly gas cost report for the Revelstoke service area.
- **FEI is directed to file separate propane and natural gas Annual Contracting Plans (ACP), as well as the individual energy supply agreements that FEI executes with counterparties, to the BCUC for review and acceptance prior to the contracting period.** FEI states that it will continue to manage the propane and natural gas supply requirements separately for contracting, balancing, and mitigation of the physical supply portfolios.<sup>169</sup>
- **FEI is directed to include a status update for Revelstoke propane costs in its annual report filed with the BCUC. This status update must be included in FEI’s “Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) Status Report” to be filed with the BCUC.** Currently, FEI files an annual report or ‘status report’ for Revelstoke pursuant to Letter L-32-14 and a separate status report for Mainland and Vancouver Island Service Area. As the Revelstoke propane supply costs will be amalgamated with the FEI midstream natural gas supply resource costs in the MCRA, a separate Revelstoke status report is no longer required going forward. Therefore, a status update for Revelstoke should be provided and detailed in the CCRA and MCRA Status Report. The status report includes explanations of major variances from forecast for gas costs incurred and gas costs recovered.

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<sup>169</sup> FEI Final Argument, p. 4.