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Utilities Commission

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Sent via eFile

FEI REVELSTOKE PROPANE PORTFOLIO COST AMALGAMATION EXHIBIT A2-3
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Mr. Doug Slater
Director, Regulatory Affairs
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8
gas.regulatory.affairs@fortisbc.com

Re: FortisBC Energy Inc. – Revelstoke Propane Portfolio Cost Amalgamation Application – Project No. 1599033

Dear Mr. Slater:

Commission staff submit the following document for the record in this proceeding:

Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc.
2008 Energy Efficiency and Conservation Programs Application
Exhibit B-2, Response to BCUC Information Request No. 1, pages 33–34

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

/dg
Attachment



Terasen Gas Inc ("Terasen Gas" or "TGI") and Terasen Gas (Vancouver Island) Inc. ("TGVI") collectively the "Terasen Utilities" or the "Companies" Energy Efficiency and Conservation Programs Application (the "Application")	Submission Date: July 11, 2008
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 33

14.0 Reference: Exhibit B-1, Natural Gas Pricing and Rate Background, p. 29

14.1 Does Terasen agree that reductions in consumption due to increases in natural gas rates, where those increases are in excess of inflation, are a form of DSM? If not, please explain why not.

Response:

While there is generally a correlation between rising natural gas commodity prices and falling use per account, the Companies would not typically refer to such a price response as "DSM". Natural gas commodity prices are a pass-through to the Companies' customers and natural gas rates in British Columbia rise and fall in response to changes in North American commodity prices, not as part of a conscious program to reduce customer demand. The marginal supply of natural gas commodity is visible to customers as it is a flow-through to customer rates; one would assume that an increase in price elicits a demand response in customers. It is important for customers to receive a price signal that reflects the marginal cost of supply as a foundation for conservation activity, however the Companies believe that relying on price signals alone will not capture all the conservation opportunities that are available. The Companies believe that utility-funded conservation activity has an important role to play in the marketplace, in conjunction with energy pricing that reflects the cost of acquiring that energy, as is the case with natural gas rates. The January 2006 Summit Blue report, prepared for CAMPUT, filed in response to BCUC 1 85.1, notes on page 1 that:

"Overall spending levels have, in most cases, not been at a level sufficient to realize most of the cost-effective DSM in any jurisdiction"

The Companies believe that this would indicate that pricing signals alone cannot capture all the conservation opportunities available.

14.2 Please provide a listing or table of the own price elasticities Terasen currently uses for each of its customer rate classes.

Response:

The Companies estimate price elasticity through regression analysis, specifically a logarithmic model that determines the relationship between the natural log of annual consumption per customer and the natural log of the average annual natural gas commodity price. Current analysis indicates the own price elasticity for residential customers is 21% and for commercial customers is 17%, however the Companies do not rely on these factors for the purposes of its demand forecasting.

Although it is recognized that customers do change their short-term behaviour when faced with sudden and significant commodity cost increases, long-term changes in use per customer rates for mature gas utilities are more a function of advances in heating



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technology and home construction techniques, both of which improve on an ongoing basis regardless of natural gas costs. Sudden increases in natural gas prices may accelerate the decision to purchase more efficient equipment, but once that purchase has been made the impact on consumption (related to the new equipment) is permanent regardless of whether prices later moderate. It is for this reason, and also the fact that it is difficult to isolate demand responses to only price, that the Terasen utilities use price elasticities more as a variable to monitor over time rather than adopting as a driver of demand.