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October 24, 2019

British Columbia Public Interest Advocacy Centre
Suite 803 470 Granville Street
Vancouver, B.C.
V6C 1V5

Attention: Ms. Leigha Worth, Executive Director

Dear Ms. Worth:

Re: FortisBC Energy Inc. (FEI)

Project No. 1599033

Revelstoke Propane Portfolio Amalgamation Application (the Application)

Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO) Information Request (IR) No. 1

On July 18, 2019, FEI filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-201-19 setting out the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCOAPO IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Doug Slater

Attachments

cc (email only): Commission Secretary
Registered Parties

FortisBC Energy Inc. (FEI or the Company) Revelstoke Propane Portfolio Cost Amalgamation Application (the Application)	Submission Date: October 24, 2019
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1 **1.0 Reference: Exhibit B-1, Application, page 4, Figure 2-1 and Exhibit A-3, BCUC IR**
2 **1.1.4**

3 1.1 Please provide the volatility for propane and natural gas prices in terms of
4 standard deviations for the data underpinning the referenced figure.

5
6 **Response:**

7 The standard deviation and coefficients of variation for both propane and natural gas prices for
8 the period of June 2008 to January 2019 are shown in the following table.

Monthly Data	Propane Alberta Price	Natural Gas AECO Price
Std. Deviation (\$/GJ)	\$3.70	\$1.76
Coefficient of variation (CV)	0.40	0.52

9

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13 1.2 Please provide the coefficients of variation for propane and natural gas for the
14 data underpinning the referenced figure.

15

16 **Response:**

17 Please refer to the response to BCOAPO IR 1.1.1.

18

19

20

21 1.3 Does FEI have any information as to why propane prices have been historically
22 more volatile than natural gas prices?

23

24 **Response:**

25 A portion of this response is redacted pursuant to Section 18 of the BCUC's Rules of Practice
26 and Procedure regarding confidential documents as set out in Order G-15-19. The redaction
27 has been made as it contains commercially sensitive information that, if disclosed, may
28 prejudice negotiations with parties in future contract negotiations, which, in turn, will harm FEI's
29 ratepayers and would not be in the public interest. FEI continues to operate in a competitive

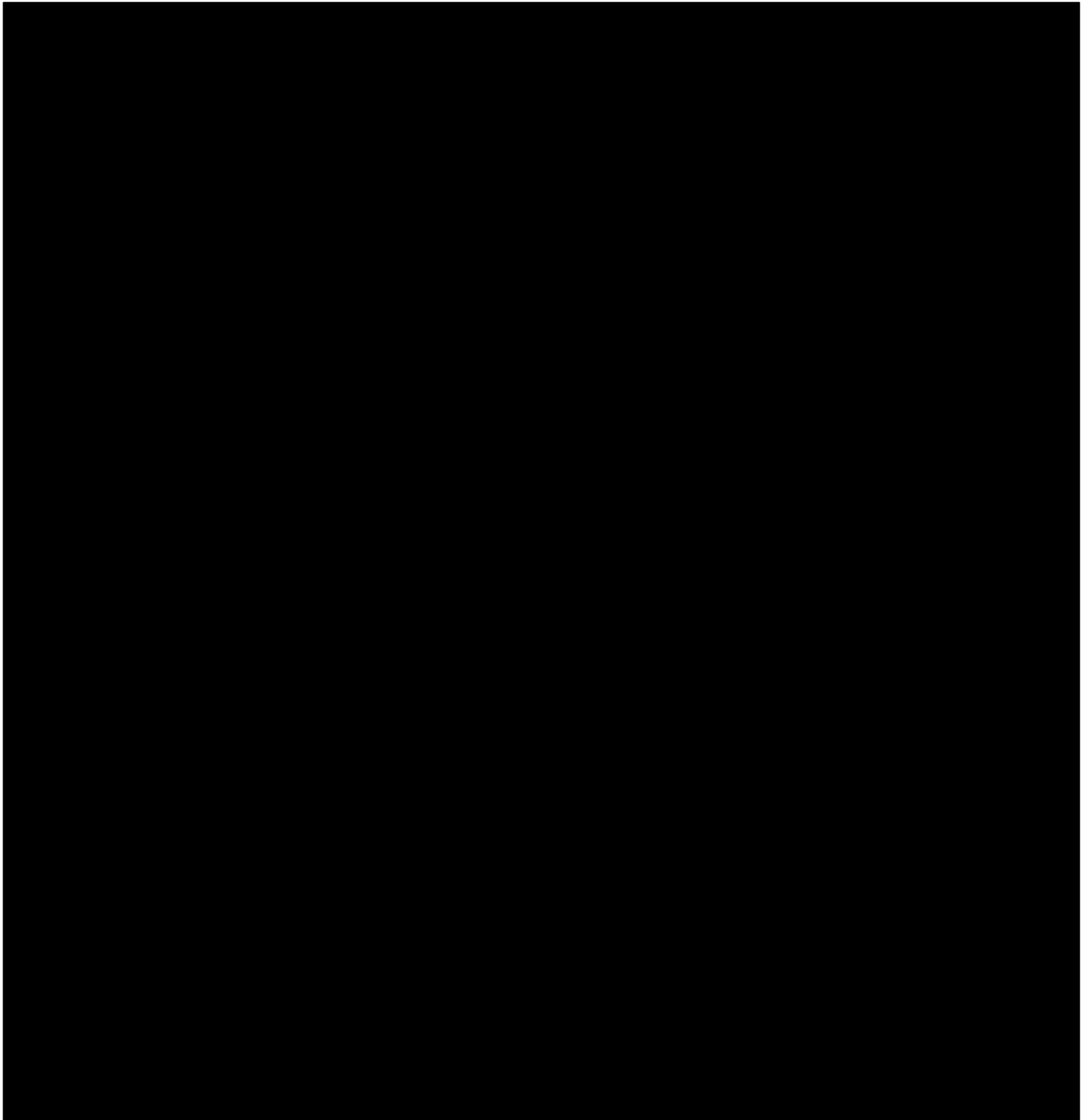


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1 environment with respect to its purchases from the wholesale market. A confidential version of
2 this response is being filed with the BCUC under separate cover.

3 FEI obtained the following commodity market information from Wood Mackenzie which relates
4 to the monthly pricing of propane being more volatile than that of natural gas. Although it
5 focuses on the shorter term historical timeframe, FEI believes it provides relevant market
6 context.

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1.4 Do other by-products of natural gas processing exhibit similarly large volatility in prices as propane? If so, please be specific as to which by-products are referred to.

Response:

FEI is not aware of whether other by-products of natural gas processing exhibit similar or different price volatility as compared to propane. Regardless, FEI does not believe this information is relevant to the Application as FEI only provides propane service through its distribution system in Revelstoke.

1.5 Please define the limitations of what FortisBC Energy considered “large volatility” in the context of its answer to 1.4.

Response:

FEI did not use the term “large volatility” in the Application so cannot interpret how it was intended to be defined. However, FEI notes that the standard deviation of propane prices indicates that propane has been at least twice as volatile as natural gas prices over the last 10 years. Please also refer to the response to BCOAPO IR 1.1.1.

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1 **2.0 Reference: Exhibit B-1, Application, page 4**

2 The referenced page states:

3 *Notably, Revelstoke customers have the same delivery rates as FEI's natural gas*
4 *customers. The cost premium and the fluctuation in annual bills experienced by*
5 *Revelstoke propane customers is due to the propane energy portion of the annual bill*
6 *only (i.e., propane has historically sold at a higher prices than natural gas on an energy*
7 *equivalent basis and has had greater market price volatility than natural gas).*

8 2.1 Do the delivery charges in place currently in Revelstoke over-recover, under-
9 recover, or exactly recover the full costs of delivery incurred by FEI in serving
10 Revelstoke? Please provide a quantitative response, e.g., over-/under-recovers
11 by X\$ based on the most recent (least old) information available.

12
13 **Response:**

14 FEI does not allocate costs based on location and municipality but rather, based on cost
15 causation principles including peak demand, customer and energy costs; therefore a cost of
16 service for the City of Revelstoke does not exist.

17
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19
20 2.2 Please provide the same data on a yearly basis for the five years immediately
21 preceding FEI's most recent data as presented in 2.1.

22
23 **Response:**

24 Please refer to the response to BCOAPO IR 1.2.1.

25

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1 **3.0 Reference: Exhibit B-1, Application, page 7**

2 The referenced page states:

3 *FEI proposes to amalgamate the costs of FEI's Revelstoke propane supply requirements*
4 *with the costs of FEI's natural gas supply requirements in order to reduce the propane*
5 *commodity rate volatility and historically higher prices for Revelstoke customers. The*
6 *following sections describe the proposed changes in the accounting treatment of FEI's*
7 *propane supply portfolio costs and the proposed changes to the rate setting mechanism*
8 *for the commodity-related charges to Revelstoke customers. ... Based on FEI's forecast*
9 *for 2019, Revelstoke propane demand represents approximately 0.2 percent of FEI's*
10 *total energy demand under RS 1 to 7, including both natural gas and propane.*

11 3.1 Please confirm that if Revelstoke demand were a higher percentage of FEI total
12 demand, the impact of the Utility's proposal (Option 1) on FEI gas customers
13 would also be higher.

14
15 **Response:**

16 Confirmed.

17
18

19
20 3.2 To what extent does the fact that, under Option 1, propane prices and volatility
21 would be "swamped" by the much larger gas demand the costs would be pooled
22 with, motivate the Utility's proposal? For example, is there some threshold level
23 of impacts on other customers of pooling commodity costs that would make FEI
24 reluctant to propose such pooling? Please discuss.

25
26 **Response:**

27 FEI did not need to set a threshold level because the proposed changes have a small impact.
28 For the motivation behind FEI's proposal, please refer to the response to BCUC IR 1.8.3 for the
29 rate impact, or cross-subsidy, associated with other alternatives FEI had already considered to
30 provide rate and volatility relief to Revelstoke customers.

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34 3.3 Would FEI characterize the proposal as amounting to a subsidy on the basis of
35 equity considerations and small impact on the subsidizing group? Please explain



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1 the Utility's reasoning behind whichever characterization it chooses, making
2 reference to specific evidence on the record to support it.

3
4 **Response:**

5 Please refer to the responses to BCUC IR 1.9.4, 1.9.5, and 1.9.6 for discussion of cross-
6 subsidization.

7

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1 **4.0 Reference: Exhibit B-1, pages 10-11, Option 2**

2 4.1 Can FEI confirm that under Option 2, there would be full recovery of actual
3 propane costs over the long run, or, would a variance account be required to
4 ensure full recovery?

5
6 **Response:**

7 Under Option 2, the MCRA would capture any cost variances related to the actual Revelstoke
8 propane costs as compared to the five-year rolling average used to set rates. As such, the
9 Revelstoke propane cost recovery rates are designed to substantially recover the Revelstoke
10 propane portfolio costs over time, and the primary use of the MCRA in this instance would be for
11 capturing timing differences. Please also refer to the responses to BCSEA IR 1.8.1 and 1.8.2.

12
13

14 4.2 Please describe any and all other options considered by FEI other than Option 1
15 and Option 2 and explain why these alternatives were rejected.

16

17 **Response:**

18 Please refer to the response to BCUC IR 1.12.3.

19
20

21 4.3 To what extent is Option 2 a “foil” in the sense that it is proposed mainly to
22 highlight the relative advantage of Option 1?

23

24 **Response:**

25 Option 2 was not included in the Application to be a “foil”. Please refer to the response to
26 BCSEA IR 1.1.2 which describes why Option 2 was included.

27
28

29

30 4.3.1 Was Option 2 ever a serious contender to be put forward as the Utility's
31 preferred option? If so, please explain why.

32

33 **Response:**

34 Please refer to the response to BCSEA IR 1.1.2.

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1 **5.0 Reference: Exhibit B-1, page 14**

2 The referenced page states:

3 *Further, neither of the options preclude future review of potential options to upgrade the*
4 *Revelstoke propane system to natural gas, which may include consideration of*
5 *alternatives such as a natural gas pipeline, liquefied natural gas (LNG) supply, or*
6 *compressed natural gas (CNG) supply in consideration of both the economic and non-*
7 *financial benefits at the time.*

8 5.1 Does FEI consider it likely or possible that, within the next 10 years, the Utility will
9 be proposing any of the “alternatives such as a natural gas pipeline, liquefied
10 natural gas (LNG) supply, or compressed natural gas (CNG) supply in
11 consideration of both the economic and non-financial benefits at the time” for
12 Revelstoke?

13
14 **Response:**

15 Please refer to the response to BCUC IR 1.13.1. FEI also notes that its current proposal does
16 not preclude FEI from proposing any of the alternatives noted in the preamble within the next 10
17 years, should those alternatives become economic and/or technically feasible.

18
19

20
21 5.2 Please provide details as to the extent that FEI has already considered any other
22 alternatives for Revelstoke customers and details of any investigations of the
23 alternatives.

24
25 **Response:**

26 Please refer to the response to BCUC IR 1.13.2.

27
28

29
30 5.3 In the event that, in the near to medium future, FEI proposes a project, e.g., a
31 natural gas pipeline, or other alternative project such as LNG or other – that
32 requires significant capital spending and renders the propane system redundant
33 – to what extent would FEI attempt to recover the undepreciated value (NBV) of
34 the redundant propane assets (net of salvage value) from FEI ratepayers in
35 Revelstoke or elsewhere?



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1

2 **Response:**

3 Similar to what occurred when Squamish, and later Whistler, where customers were converted
4 from propane to natural gas, FEI would seek to recover the residual net book value in a deferral
5 account over a number of years as part of the public interest determination in proceeding with
6 the project. In the case of Squamish and Whistler, the recovery periods of the existing propane
7 assets were based on the approximate remaining number of years until the plant would have
8 been fully depreciated.

9 It is important to note that it would only be the value of the propane plant (less any salvage
10 value) that would not be used if Revelstoke were converted to natural gas. The existing
11 distribution system assets, meters, service lines and any capacity improvements made to mains
12 would still be used to deliver natural gas to Revelstoke customers.

13

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1 **6.0 Reference: Exhibit B-1, Application, page 7, Propane Supply**

2 The referenced page states:

3 *Since the 2016/17 contracting year, FEI's Revelstoke propane supply portfolio has*
4 *included a combination of fixed price purchases for the winter season and floating price*
5 *purchases throughout the year for delivered propane, as well as the localized propane*
6 *tank storage.*

7 6.1 Please provide the fixed price versus floating price volume percentages of the
8 Revelstoke supply portfolio for each year starting in 1991.

9
10 **Response:**

11 Historical data based to 1991 is not readily available; FEI has provided eleven years of historical
12 hedging information.

13 FEI has implemented price risk mitigation strategies to reduce the impact of propane price
14 fluctuations on Revelstoke rates. Fixed priced purchases and propane storage are transacted
15 during summer for the upcoming winter deliveries to Revelstoke. The strategy effectively
16 reduces the exposure to the rate fluctuations that could be caused by propane price volatility.
17 The following table provides the physical hedged volume, including fixed price purchases and
18 storage propane, versus floating price volume percentages of the Revelstoke supply portfolio
19 since 2007/2008.

20

	Fixed Price Purchases	Propane Storage	Fixed Price Purchases + Propane Storage	Floating Price Purchases	Total
2007/2008	10%	19%	29%	71%	100%
2008/2009	9%	18%	27%	73%	100%
2009/2010	6%	30%	36%	64%	100%
2010/2011	6%	27%	33%	67%	100%
2011/2012	0%	31%	31%	69%	100%
2012/2013	0%	31%	31%	69%	100%
2013/2014	34%	0%	34%	66%	100%
2014/2015	36%	0%	36%	64%	100%
2015/2016	37%	0%	37%	63%	100%
2016/2017	34%	0%	34%	66%	100%
2017/2018	32%	0%	32%	68%	100%

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6.2 Has FEI noticed a decrease in the volatility of fuel costs charged to Revelstoke ratepayers in years that the fixed price component of the portfolio was relatively large as opposed to when it was relatively low?

Response:

During on the time period provided in the response to BCOAPO IR 1.6.1, the level of physical hedging has remained relatively constant therefore FEI has not noticed such an effect.

Fuel costs are subject to changes on commodity markets, and propane prices have always been volatile in the past. Price risk mitigation activities such as fixed price purchase or market area storage reduce the exposure of future price fluctuations and stabilize Revelstoke customer rates. FEI has maintained the total hedging component at approximately 50 percent of the winter demand or 33 percent of the annual demand of Revelstoke customers; therefore, FEI is not able to confirm the impact on the volatility of Revelstoke fuel costs due to the changes of the fixed price component in the portfolio.

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1
2 6.3 Would FEI agree that the volatility of fuel costs charged to Revelstoke ratepayers
3 would be lower if more propane storage were available so less “spot” propane at
4 a floating price was required?
5

6 **Response:**

7 FEI interprets the question as referring to “localized propane tank storage”, as referenced in the
8 preamble to this series of questions. FEI confirms that the local on-site storage is sized to
9 support operational needs and provides immediate supply to sustain the distribution system in
10 Revelstoke and more local storage would not contribute to less spot propane being required.
11 The inventory in the local storage tank farm can only provide a few days of supply in the winter.

12 Please refer to the response to BCUC IR 1.8.6.

13
14

15
16 6.4 Would additional propane storage capacity assist in lowering the fuel costs
17 charged to Revelstoke customers by allowing for larger, bulk, fixed price
18 purchases when propane was relatively cheaper?
19

20 **Response:**

21 FEI interprets this question as referring to market area propane storage.

22 Not necessarily. Market area propane storage works similarly to fixed price purchases as an
23 alternative price risk mitigation strategy. A demand charge is required to lease the market area
24 storage in Alberta so that propane is purchased during summer and delivered during winter.
25 Propane prices are impacted by many factors along the supply chain. Changes from natural gas
26 and oil production, storage and delivery infrastructure, seasonal demand and price-sensitive
27 global exports all play a role in driving propane prices. Contracting more market area storage
28 may reduce the exposure to price volatility but not lower the costs to Revelstoke ratepayers
29 because propane prices can drop in the upcoming winter in which case ratepayers are better off
30 paying the floating prices.

31 Leaving aside the costs of onsite storage capacity, it is challenging to predict future propane
32 prices because winter prices can increase or decrease relative to the summer, as has occurred
33 in the past. If the prices decrease in the winter, hedging activities would result in losses and the
34 fuel costs would be higher than the floating prices. FEI typically hedges approximately 50
35 percent of the Revelstoke winter propane supply to reduce the exposure to future price
36 fluctuations.

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6.5 Would the addition of such propane storage capacity typically be considered cost-effective given the capital costs associated with such a project? Whether the answer is yes or no, please provide the approximate cost assumptions, the time horizon, and any other factors has FEI used to inform this evaluation.

Response:

10 FEI interprets the reference in the question to “approximate cost assumption, the time horizon,
11 and any other factors” to be referring to the upper bound scenario set out on pages 17 and 18 of
12 the Application as this is the only reference to a cost estimate for propane storage tanks in the
13 Application, and has responded based on this assumption.

14 The number of tanks at Revelstoke is designed to provide a high level of assurance that the on-
15 site storage can maintain pressure in the distribution system in the event of supply interruption
16 to the rail line deliveries to the plant and avoid the cost of recovery and customer impacts of an
17 outage of the complete Revelstoke distribution system during peak winter conditions.

18 The cost of the tanks provided in Table 4-1 is a high-level estimate, but is derived in part from
19 the cost of a similar project in 2011 for three tanks, updated with inflation to 2019 dollars, plus
20 additional foundation work, propane compression upgrade, fire system upgrade, and
21 miscellaneous new piping and values. The number of tanks (three) included in Table 4-1 was
22 determined such that tanks installed as part of a single upgrade project would be sufficient to
23 meet the needs of the Upper Bound scenario with some reasonable margin through the end of
24 the 20-year forecast period.

25 FEI notes that the need for propane storage tanks in Revelstoke is an operational requirement
26 based on peak demand. Assuming that FEI continues to operate the Revelstoke system in a
27 similar manner to today, the addition of propane storage tanks is the most cost effective solution
28 for this specific requirement.



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1 **7.0 Reference: Exhibit B-1, page 5, Alternative Fuels**

2 The referenced page states:

3 *FEI believes that stabilizing propane rates is beneficial for Revelstoke customers and*
4 *may contribute to encouraging other Revelstoke energy users to switch from higher-*
5 *carbon heating oil to propane.*

6 7.1 Please provide, to the best of FEI's knowledge, the various fuels used in the
7 Revelstoke franchise area (heating oil, propane, wood/corn burning, ...) for
8 space and water heating along with the approximate percentages of household
9 and small businesses (or load) using each fuel; exact figures are not required,
10 approximate figures will suffice.

11
12 **Response:**

13 FEI does not have a detailed breakdown of the various fuels used in the Revelstoke franchise
14 area beyond the publicly available information cited in footnote 6 on page 5 of the Application.
15 FEI believes that detailed market research would need to be undertaken in order to respond to
16 the question.

17

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1 **8.0 Reference: Exhibit B-1, page 7, PCDA**

2 8.1 Does FEI propose to eliminate the PCDA under both Option 1 and Option 2?

3

4 **Response:**

5 Confirmed.

6

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8

9 8.2 Please confirm that under both options FEI will recover only actual fuel costs
10 from ratepayers. If unable to confirm, please explain.

11

12 **Response:**

13 Confirmed.

14

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1 **9.0 Reference: Exhibit B-1, page 15, Load Growth**

2 The referenced page states:

3 *Another benefit of the rate stability and rate relief offered to Revelstoke customers by the*
4 *proposed amalgamation of FEI's propane supply costs into the natural gas supply costs*
5 *would be accelerated load growth in Revelstoke with conversions from other fuel types*
6 *(e.g., from heating oil to propane, which would provide associated GHG emissions*
7 *benefits). This potential load growth could also lead to accelerated capital upgrade*
8 *requirements for the Revelstoke distribution system. In this section, FEI quantifies the*
9 *potential impact of conversions on customer delivery rates by using an Upper Bound*
10 *scenario and calculating the associated delivery rate impact of a large number of*
11 *conversions occurring in the first year after the proposed changes become effective (i.e.,*
12 *2020 or Year 1). This, in turn, triggers the need for immediate capital upgrades to the*
13 *existing propane distribution system in order to serve the additional load.*

14 9.1 Before FEI undertakes any conversion or expansion in Revelstoke, will the Utility
15 perform an economic feasibility study and require an appropriate Contribution in
16 Aid of Construction from the prospective customer in cases where the project
17 does not, on its own, meet the economic test?
18

19 **Response:**

20 If FEI proposed to convert Revelstoke to natural gas with either a physical or virtual pipeline, a
21 business case would be developed in support of a CPCN. The CPCN would include all required
22 information per the BCUC's CPCN guidelines including an economic analysis of the proposed
23 solution and alternatives considered. Given the variables involved, FEI is unable to determine
24 whether such an application would require a contribution or not at this time.

25 If an expansion involves a main extension within the City of Revelstoke to connect customers,
26 the BCUC approved economic test for main extensions would be used. If the economic test
27 shows a contribution in aid of construction (CIAC) is needed, then the new customer(s) would
28 have to make the financial contribution.

29 For new customers that are in-fills on existing mains that are not part of a main extension, the
30 service line allowance would cap the cost that would go into the utility's rate base. Any service
31 line costs that exceed the service line allowance would be recovered from the new customer as
32 a CIAC.

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FortisBC Energy Inc. (FEI or the Company) Revelstoke Propane Portfolio Cost Amalgamation Application (the Application)	Submission Date: October 24, 2019
Response to British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and the Tenant Resource and Advisory Centre <i>et al.</i> (BCOAPO) Information Request (IR) No. 1	Page 17

1 **10.0 Reference: Exhibit B-1, Option 1 – General**

2 10.1 In practical terms, how would (i) a scenario under which the BCUC approves
3 Option 1 (amalgamation of fuel costs) as proposed differ from (ii) a scenario
4 under which Revelstoke was fully amalgamated/absorbed and included with the
5 FEI gas customers with whom their fuel costs would be pooled? Please list all
6 material differences between these two scenarios if any.

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8 **Response:**

9 FEI notes that scenarios (i) and (ii) described in this information request are identical.
10 Revelstoke's propane customers are already under the same postage stamp delivery rates as
11 all FEI's natural gas customers, and Revelstoke shares the same rate base as all FEI's non-
12 bypass customers. As such, Option 1 of the Application, which proposes to amalgamate the
13 fuel costs, is the same scenario as fully amalgamating and absorbing Revelstoke's propane
14 supply costs with FEI's natural gas customers into one pool.

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18 10.2 Can FEI confirm that if the Application is approved, only the approved total costs
19 of service will be recovered in total from ratepayers, e.g., there is no potential for
20 double counting in the MCRA account or any other accounts or entries?

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22 **Response:**

23 Confirmed.