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January 7, 2020

B.C. Sustainable Energy Association  
c/o William J. Andrews, Barrister & Solicitor  
1958 Parkside Lane  
North Vancouver, B.C.  
V7G 1X5

Attention: Mr. William J. Andrews

Dear Mr. Andrews:

**Re: FortisBC Energy Inc. (FEI)**  
**Project No. 1599033**  
**Revelstoke Propane Portfolio Amalgamation Application (the Application)**  
**Response to the B.C. Sustainable Energy Association and Sierra Club of British Columbia (BCSEA) Information Request (IR) No. 2**

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On July 18, 2019, FEI filed the Application referenced above. In advance of the deadline in the Regulatory Timetable established by British Columbia Utilities Commission Order G-290-19 for the review of the Application, FEI respectfully submits the attached response to BCSEA IR No. 2.

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

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## 14.0 Topic: Postage Stamp Rates

### Reference: Issue Paper on Postage Stamp Rates, Industrial Electricity Policy Review Task Force <sup>1</sup>

The 2013 Issue Paper on Postage Stamp Rates published by the Industrial Electricity Policy Review Task Force defines “postage stamp rates” as follows, in the context of BC Hydro:

“Postage stamp rates are a method of cost allocation where any rate class charge is the same anywhere on the interconnected system, regardless of the geographical region in the province.” [underline added]

14.1 Would FEI agree that the postage stamp rate principle is generally applied to rates on an interconnected system, and not to rates between a non-integrated area and an interconnected system?

### Response:

FEI understands the question intends to differentiate between “interconnected”, meaning parts of a system that are connected with each other, and “integrated”, meaning parts of a system that are not connected, but are combined into a whole.

FEI does not agree that postage stamp rates are only applied to the interconnected parts of a system. Please refer to Attachment 14.1 for a copy of FEI’s pipeline system map which demonstrates that FEI’s natural gas sales customers<sup>2</sup>, who pay the same common rate as per their rate schedule of service (i.e., integrated), are not interconnected in numerous local areas.

For example, there are numerous laterals within FEI’s Mainland service territory that are not interconnected with any other part of FEI’s system. Furthermore, customers in the East Kootenays (shaded in blue) receive their gas from FEI from the Trans Canada system and are not interconnected with customers who receive their gas from FEI from the Enbridge system (shaded in tan). As such, if there was an incident on any of FEI’s laterals in the tan coloured shaded area, it would not affect the deliverability of natural gas to the Okanagan / West Kootenay (green shaded area), East Kootenay area (blue shaded area), Lower Mainland area (orange shaded area) or the Vancouver Island area (yellow shaded area).

The structure of FEI’s service demonstrates that it is not the degree of interconnectedness that justifies postage stamp rates but rather, it is FEI’s use of supply resources to deliver energy where needed, and prospectively and holistically, at the lowest cost for all customers. Historically, since the 1993 Phase B Rate Design Decision it is clear that FEI’s Delivery Charge

<sup>1</sup> [https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/electricity-alternative-energy/electricity/iepr/iepr\\_postage\\_stamp\\_rates.pdf](https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/electricity-alternative-energy/electricity/iepr/iepr_postage_stamp_rates.pdf).

<sup>2</sup> This excludes customers in the Fort Nelson Division whose rates and terms are per the separate BCUC approved Tariff applicable to Fort Nelson and surrounding area.

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1 is postage stamped for all customers, including those in Revelstoke, without regard to the fuel  
2 type consumed, location and whether or not customers are interconnected.

3 Finally, although the BCUC did not reference the postage stamp principle in its Order G-175-14,  
4 dated November 14, 2014, it did approve gas cost allocation for the combined gas cost  
5 portfolios of FortisBC Energy Inc., FortisBC Energy (Whistler) Inc. and FortisBC Energy  
6 (Vancouver Island) Inc. This resulted in all sales customers, by their applicable rate schedule,  
7 having a postage stamp Commodity rate and postage stamp Storage and Transport Charges.

8 Please also refer to the response to BCUC IR 1.9.6 regarding FEI's postage stamp delivery  
9 rates, which are the same for all customers, as per their rate schedule service.

10  
11  
12  
13  
14 14.2 Can FEI provide an example where a regulator cited the postage stamp rate  
15 principle in approving common commodity rates between customers on an  
16 interconnected system and customers in a non-integrated area?

17  
18 **Response:**

19 FEI cannot provide an example where a regulator has cited the postage stamp rate principle.  
20 However, please refer to the response to BCSEA IR 2.14.1 where FEI describes, substantively,  
21 the BCUC approving common Commodity and Storage and Transport rates for FEI's non-  
22 interconnected sales customers who receive natural gas and common Delivery Charge rates for  
23 all sales customers (inclusive of customers in Revelstoke).

24  
25  
26  
27 14.3 Would FEI agree that the postage stamp rate principle is generally applied to  
28 rates for the same fuel type?

29  
30 **Response:**

31 Since 1990, FEI's customers served with propane or with natural gas have generally paid  
32 differentiated rates related to the type of fuel being delivered. However, as FEI noted in its  
33 response to BCUC IR 1.9.7, the BCUC approved, through Order G-35-09, a common postage  
34 stamp rate to recover the cost of propane and natural gas in Whistler during the conversion to  
35 natural gas. Further, as discussed in the response to BCUC IR 1.9.6, FEI's cost of service  
36 related to its transmission and distribution system along with the cost of service for the propane

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1 plant and distribution system in Revelstoke has never been separated, and all of FEI's  
2 customers, regardless of fuel type consumed, pay a postage-stamp delivery charge.

3 As discussed in the response to BCUC IR 1.9.6, the 1996 Inquiry Report provides insight on  
4 why the BCUC felt it was necessary to have differentiated rates based on fuel type at that time;  
5 however, those conditions have since changed in favor of amalgamation. The BCUC also  
6 expressed its view in regard to achieving 'stable, long-term competitive and affordable energy  
7 resources' in the future. The BCUC identified rolled-in costs as an appropriate option for  
8 consideration.

9 FEI adds that the Application is based on rate design principles that support the recovery of all  
10 energy and upstream costs, with a common rate that enhances rate stability for customers in  
11 Revelstoke. This is also consistent with government policy as quoted in Exhibit C3-1, of the  
12 FEU Common Rates, Amalgamation Rate Design Reconsideration Application. In the letter  
13 from the Ministry of Energy and Mines dated July 9, 2013 to the BCUC, the Ministry said:

14 Government policy has been to promote access to energy services on a postage  
15 stamp rate basis so that all British Columbians benefit from access to services at  
16 the lowest average cost.

17  
18  
19  
20 14.4 Can FEI provide an example where a regulator cited the postage stamp rate  
21 principle in approving common commodity rates for different fuel types?  
22

23 **Response:**

24 Rate design proceedings are relatively infrequent and, historically, ratemaking for the recovery  
25 of energy costs has been dealt with through quarterly gas cost filings. As such, there has not  
26 been an instance that FEI is aware of where a regulator has cited the postage stamp rate  
27 principle in approving energy cost recovery.

28 However, as FEI noted in its response to BCUC IR 1.9.7, the BCUC approved, through Order  
29 G-35-09, a common postage stamp rate to recover the cost of propane and natural gas in  
30 Whistler during the conversion to natural gas.

31  
32  
33  
34 14.5 In FEI's view, if the postage stamp rate principle applies to the commodity prices  
35 of different fuel types in the context of propane and natural should it also apply in  
36 the context of natural gas and biomethane?

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- 1
- 2 **Response:**
- 3 FEI believes that a postage stamp approach to rates could also be taken in the context of
- 4 natural gas and RNG biomethane.

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1    **15.0    Topic: Energy Objectives**

2            **Reference: Application, Exhibit B-1; Exhibit B-2, FEI Response to BCUC 2.10**

3            In the Application, FEI says that approval of Option 1 would encourage economic  
4            development and the creation and retention of jobs. In its response to BCUC IR 2.10,  
5            FEI says its proposal supports the creation and retention of jobs because “Lower and  
6            more predictable energy costs tend to result in better economic conditions which drive  
7            investment and the creation and retention of jobs.”

8            In its decision on the FEU Amalgamation Reconsideration application, the Commission  
9            Panel found that it “cannot ...conclude that postage stamp rates will necessarily affect  
10           economic development and job creation opportunities in the province.”<sup>3</sup>

11           15.1    Please comment on whether FEI’s assertion that Option 1 would improve  
12           economic development is consistent with the Commission Panel’s finding that it  
13           could not conclude that postage stamp rates will necessarily affect economic  
14           development in the province.

15  
16    **Response:**

17    FEI’s Application asserts, in addition to fulfilling the core objectives of mitigating energy cost and  
18    rate volatility, that the proposed changes support British Columbia’s energy objective (k)<sup>4</sup>: “to  
19    encourage economic development and the creation and retention of jobs”.

20    FEI believes that this assertion is consistent with the BCUC Panel’s finding from the FEU  
21    Amalgamation Reconsideration proceeding when the context of the present Application is  
22    considered. FEI’s Revelstoke propane service area is a small area with a limited number of  
23    customers (approximately 1,500) that is already located within FEI’s fully amalgamated service  
24    territory. As noted in the response to BCUC IR 1.2.10, Revelstoke customers would experience  
25    a significant energy cost reduction if the Application is approved. FEI believes that such a  
26    significant cost reduction in a concentrated area has the potential to impact economic  
27    development and that this effect differs from the economic consequences of amalgamating the  
28    larger predecessor companies’ service territories.

29

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<sup>3</sup> FortisBC Energy Utilities ~ Application for Reconsideration and Variance of Commission Order G-26-13 on the FortisBC Energy Utilities’ Common Rates, Amalgamation and Rate Design Application ~ Final Order - G-21-14 - 2014-02-26 - G-General, p.14.

<sup>4</sup> *Clean Energy Act*, section 2.

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1    **16.0    Topic: Price Signal**

2            **Reference: Exhibit B-4, FEI Response to BCSEA 2.19; Exhibit B-2, FEI Response**  
3            **to BCUC 13.5; FEI 2016 Rate Design Application Decision and Order G-135-18**

4            In response to BCSEA IR 2.19, FEI states in part:

5                    “FEI does not agree that its proposal in the Application provides the wrong price  
6                    signal and is inherently contrary to reducing GHG emissions in the province.”  
7                    [underline added]

8            The Commission asked FEI to explain how the proposed lower propane rates provide  
9            the correct price signal for energy conservation. In response FEI states in part:

10                   “FEI believes the proposed amalgamation does not change the price signal for  
11                   energy conservation to propane customers in Revelstoke.”

12            In its Decision regarding FEI’s 2016 Rate Design Application, the Panel noted that FEI  
13            said it uses the Bonbright Principles to identify issues and guide solutions regarding rate  
14            design and that FEI adopted the principles articulated by the BCUC in a previous BC  
15            Hydro Decision including Principle 3 as follows:

16                   “Principle 3: Price signals that encourage efficient use and discourage inefficient  
17                   use.” [2016 FEI RDA Decision, p.4 of 87]

18            16.1    Would FEI agree that by cutting Revelstoke customers’ commodity cost of  
19                   propane almost in half the proposal would substantially reduce customers’  
20                   avoided cost of energy for the purpose of evaluating the cost-effectiveness (to  
21                   the customer) of alternative fuel types or energy efficiency and conservation  
22                   measures? If not, why not?

23  
24    **Response:**

25            A reduction in energy rates can impact the economic incentives that energy users consider  
26            when selecting their fuel type and making conservation decisions. However, as FEI discussed  
27            in the response to BCUC IR 2.17.4, multiple factors, not just economics, drive energy and  
28            conservation choices. For example, FEI has observed that despite the higher cost and volatility  
29            of propane, the participation rate of Revelstoke customers in DSM programs between 2014 and  
30            2018 was more than four times lower than FEI’s natural gas customers<sup>5</sup>. Accordingly, FEI  
31            believes that energy users weigh multiple factors and choose the energy service or  
32            conservation measure that is most appropriate for their needs.

33

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<sup>5</sup> As discussed in the response to BCUC IR 2.19.8.1, 8 percent of Revelstoke customers versus 34 percent of FEI’s natural gas customers participated in DSM programs between 2014 and 2018.

In response to BCUC IR 6.1 regarding the impact of the proposal on Use Per Customer, FEI provides “a simple correlation analysis between rates (i.e., revenue per GJ) and energy demand (UPC) for Revelstoke over the last 10 years” that FEI says indicates that “there is no correlation between the rates and energy demand.”

16.2 Would FEI agree that any connection between Revelstoke customers’ cost of propane and propane use per customer over the last 10 years is dominated by customers’ awareness of the fact that propane costs were highly volatile and substantially higher than natural gas prices?

**Response:**

As demonstrated in the response to BCUC IR 1.6.1, even though customers are aware of the cost and volatility of propane, there is no connection (correlation) between rates (i.e., revenue per GJ) and UPC, which suggests that the premise in the question is incorrect.

The following table is reproduced from the response to BCUC IR 1.6.1:

Revenue per GJ	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Rate Schedule 1	18.069	12.687	22.728	21.450	17.999	23.612	17.798	13.446	16.566	19.028
Rate Schedule 2	15.006	10.510	19.504	18.336	14.444	20.241	14.121	9.933	13.194	15.358
Rate Schedule 3	13.988	9.252	18.381	17.486	13.180	18.946	12.144	8.645	11.953	14.073

Revelstoke UPC (GJ)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Rate Schedule 1	55.9	51.6	54.2	54.0	52.7	51.7	52.7	54.7	56.1	54.6
Rate Schedule 2	310	309	308	307	297	295	311	301	323	321
Rate Schedule 3	4,268	4,893	5,024	6,796	7,321	6,771	9,928	6,468	7,336	7,576

Correlation Coefficient (R)	
Rate Schedule 1	(0.09)
Rate Schedule 2	(0.20)
Rate Schedule 3	(0.09)

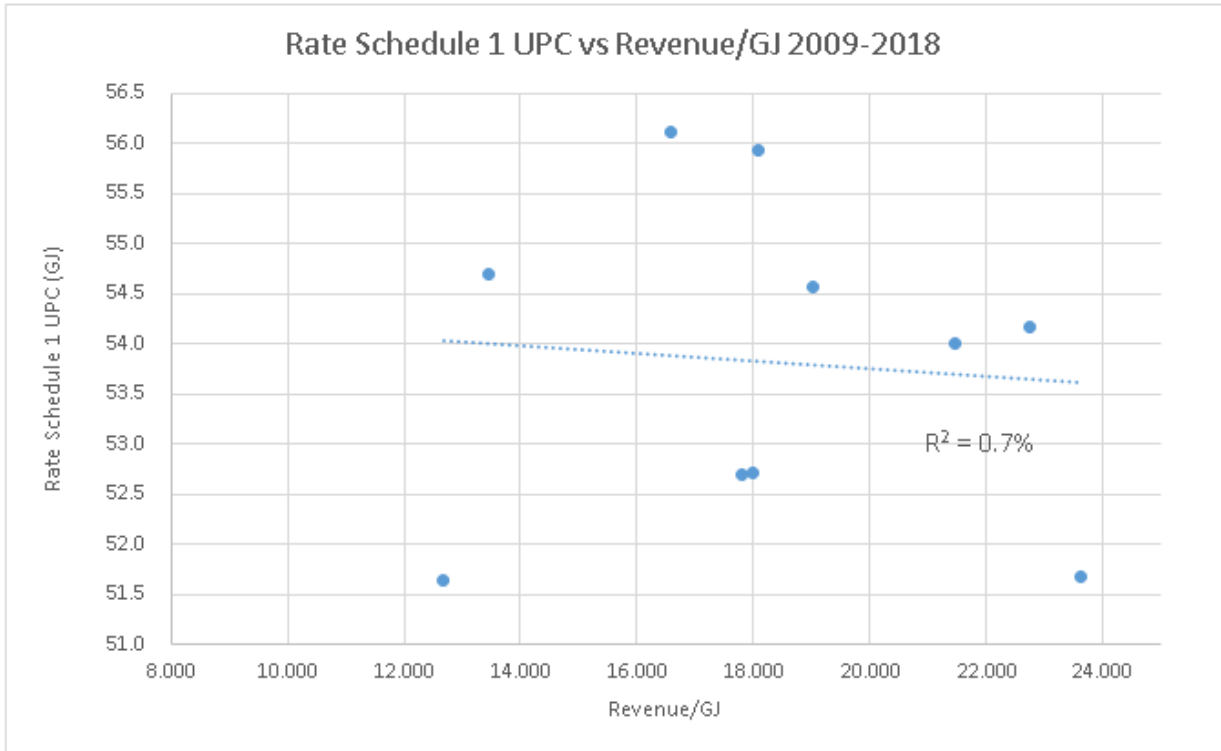
To further examine the relationship between use rates and commodity cost FEI prepared the following three charts:

***Rate Schedule 1***

The following scatter plot demonstrates the very weak relationship between commodity price and use rate. The  $R^2$  value confirms that only 0.7 percent of any change in use rate is caused by the change in commodity price. This supports the notion that residential customers set their thermostats based on comfort level rather than commodity cost.

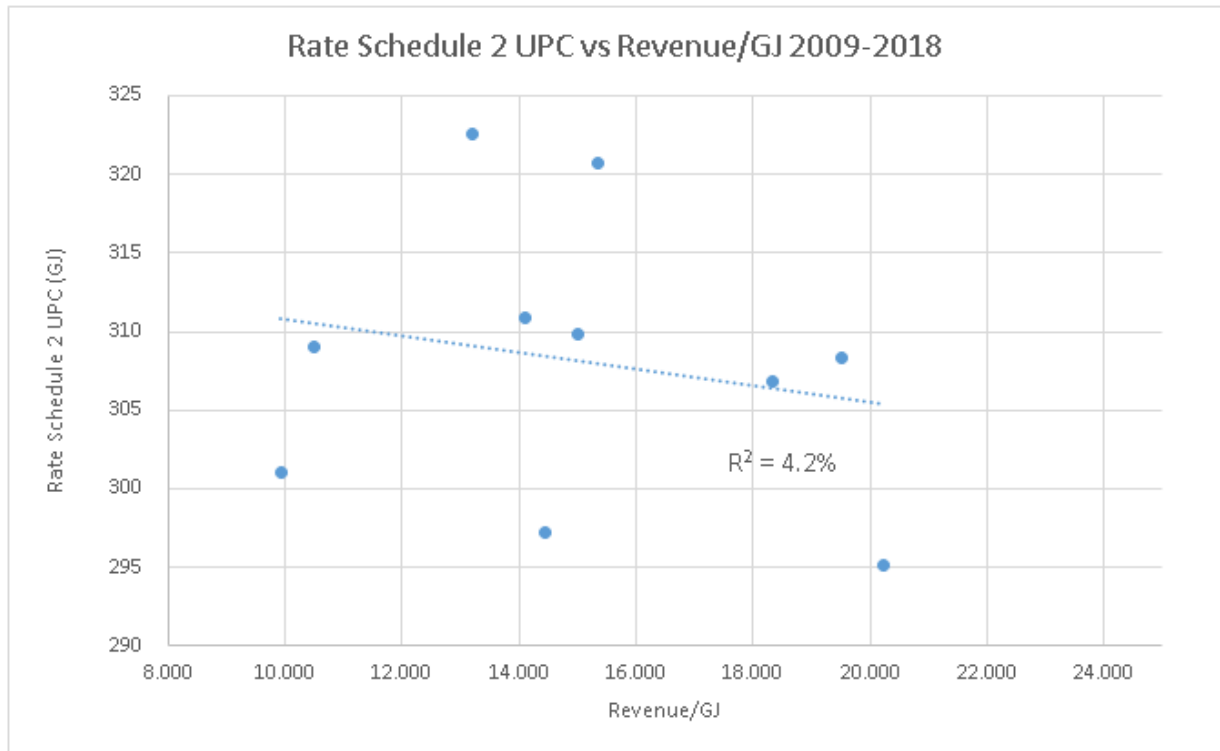


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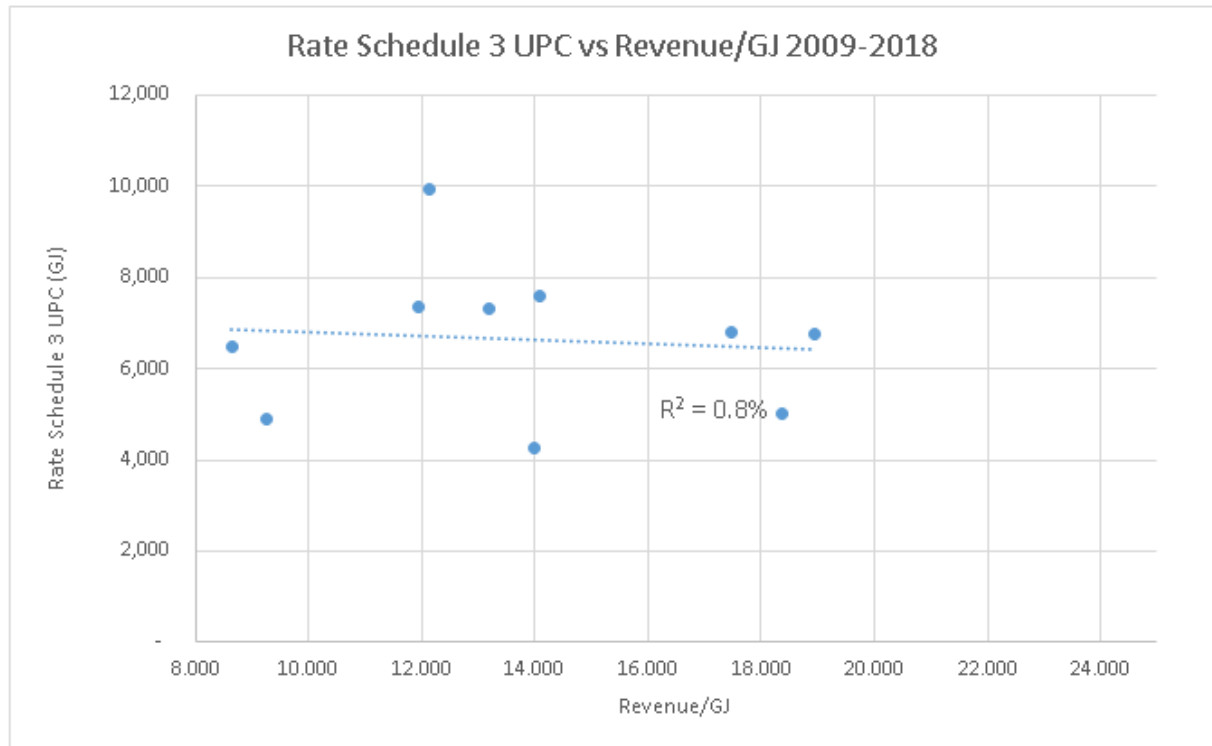
- 1
- 2 **Rate Schedule 2**
- 3 As demonstrated by the chart below, the relationship for Rate Schedule 2 is also statistically
- 4 insignificant. Only 4.2 percent of the change in UPC can be explained by the change in average
- 5 commodity cost.

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- 1
- 2 **Rate Schedule 3**
- 3 Rate Schedule 3 demonstrates the same result; use rates are not driven by commodity price.

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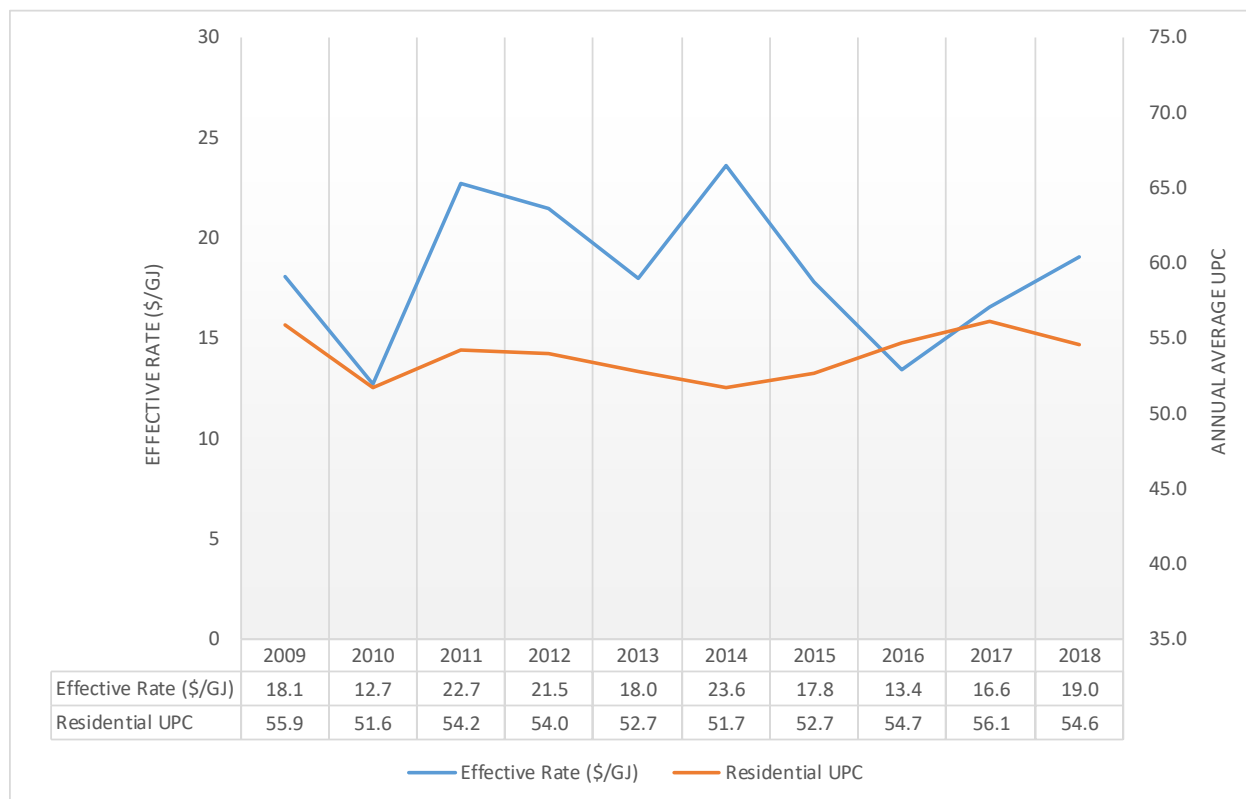


16.3 Would FEI agree that its proposal both to cut Revelstoke customers' propane costs almost in half and to substantially reduce price volatility constitutes a 'step change' that is not modeled by the third party price elasticity of demand studies FEI refers to?

**Response:**

As discussed in the responses to BCUC IRs 2.19.5 and 2.19.6, although price elasticity studies may change slightly by jurisdiction and over time, these variances do not change the overall conclusion that the majority of utility customers are price inelastic. In other words, although the specific circumstances of Revelstoke customers are not modeled in third party elasticity studies, FEI believes that the overall conclusion regarding the price inelasticity of customers remains valid. An analysis of Revelstoke customers' historical Use per Customer (UPC) and effective rates highlights this fact.

# 1      **Revelstoke Residential Customer Historical Effective Rate<sup>6</sup> Trend vs Historical UPC**



2

3      As demonstrated in the above chart, “step changes” in the effective rates paid by Revelstoke

4      customers did not result in corresponding changes to UPC due to the price inelasticity of

5      Revelstoke customers. For example, between 2010 and 2011, the effective rate for RS1

6      customers increased significantly (by almost 80 percent). This material increase however did

7      not result in lower UPC. Rather, the 2011 UPC increased to 54.2 GJ per customer, a 5 percent

8      increase from the 2010 level. Similarly, in 2016, the effective rates decreased by approximately

9      32 percent. However, this significant decrease did not result in a significant increase in UPC

10      (the 2016 UPC increased by less than 4 percent).

11      In summary, the review of Revelstoke specific data indicates that Revelstoke customers’

12      consumption behavior is consistent with the results of the third party elasticity studies.

13

14

15

16

<sup>6</sup> Effective rate consists of fixed Basic charge (converted to \$/GJ for an average use customer), delivery charges and propane commodity charges.

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1           16.4    Would FEI agree with the proposition that implementation of its proposal both to  
2                    cut Revelstoke customers' propane costs almost in half and to substantially  
3                    reduce price volatility would cause increased propane use per customer although  
4                    the size of the increase has not been quantitatively estimated?

5  
6    **Response:**

7    FEI does not agree with the premise in the question as the use per customer evidence suggests  
8    that the demand for propane in Revelstoke is inelastic. Please refer to the response to BCSEA  
9    IR 2.16.1.

10

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1    **17.0    Topic: GHG Emissions**

2            **Reference: Exhibit B-4, FEI Response to BCSEA IR 2.19; Exhibit B-2, FEI**  
3            **Response to BCUC IR 2.7.2 and 9.5**

4            In its response to BCSEA IR 2.19, FEI states in part that “the Application provides added  
5            incentive to convert from higher-carbon heating oil to propane, lowering GHG  
6            emissions.” The response also refers to FEI’s response to BCUC 2.7.2 in which FEI  
7            addresses GHG reductions from hypothetical conversions from oil to propane (as  
8            requested in the question) without addressing conversion from low-carbon fuels to  
9            propane.

10           In its table of attributes, advantages and disadvantages in response to BCUC IR 9.5, for  
11           the attribute “GHG reduction in Revelstoke” FEI states “Incent customers to convert from  
12           fuel oil to propane” as an advantage and is silent regarding any disadvantage.

13           17.1    Would FEI agree that its proposal both to cut Revelstoke customers’ propane  
14           costs almost in half and to substantially reduce price volatility would provide an  
15           added incentive to convert to propane from low-carbon fuels, such as electricity  
16           and district energy?

17  
18           **Response:**

19           FEI agrees that its Application would add to any existing incentives to switch from other fuel  
20           types to piped propane for those customers located within close proximity to FEI’s propane  
21           system. However, as discussed in the response to BCUC IR 2.17.4, FEI believes that, although  
22           possible, the likelihood of customers switching from electricity is low. Further, as discussed in  
23           the response to BCUC IR 2.16.1, FEI believes the impact to the RCEC to be limited.

24

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## 18.0 Topic: Coefficient of Variation

### Reference: Exhibit B-3, FEI Response to BCOAPO 1.1

The standard deviation and coefficients of variation for both propane and natural gas prices for 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

18.1 Should the figures for Coefficient of Variation for Propane and Natural Gas be reversed? Or is it FEI's evidence that the Natural Gas AECO Price from June 2008 to January 2019 has a higher Coefficient of Variation than the Propane Alberta Price?

### Response:

FEI confirms that the figures provided for coefficient of variation (CV) for propane and natural gas in the table above are both correct and are not reversed. However, FEI corrects that the figures are for the period January 2008 to December 2018 (and not June 2008 to January 2019).

Regardless, the reason why the CV for natural gas is higher than propane is that this period includes the natural gas price spike of 2008. As demonstrated in the revised table below, the CV for natural gas is lower than propane if the period is shortened to begin in January 2009.

### **Revised table (January 2009 to December 2018):**

Monthly Data	Propane Alberta Price	Natural Gas AECO Price
Std. Deviation (\$/GJ)	\$3.67	\$1.05
Coefficient of variation (CV)	0.40	0.34

FEI notes that regardless of the timeframe chosen, the relationship between the standard deviations remains relatively constant. In contrast, the relationship between the CVs depends on the timeframe chosen. As a result, FEI does not use the CV in its analysis of volatility and considers a comparison of standard deviation to be a better indicator of overall volatility between propane and natural gas prices.

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1           18.2   If Natural Gas has a higher Coefficient of Variation than Propane, please explain  
2                   the premise in the Application that Propane prices exhibit more volatility than  
3                   Natural Gas prices.  
4

5    **Response:**

6    Please refer to the response to BCSEA IR 2.18.1.  
7



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1    **19.0    Topic: Background**

2            **Reference: Exhibit B-2, FEI Response to BCUC 9.6**

3            In its response to BCUC IR 1.9.6, FEI cites the 1996 Inquiry Report on 'Propane Price  
4            Increases in the City of Revelstoke,' BCUC Order No. G-100-96, dated October 10,  
5            1996, Appendix 1 – Inquiry Report. The Report does not appear to be on the  
6            Commission's website.

7            19.1    Please file a copy of BCUC Order No. G-100-96 and the 1996 Inquiry Report on  
8            'Propane Price Increases in the City of Revelstoke.'

9  
10    **Response:**

11    Please refer to Attachment 19.1 for a copy of BCUC Order G-100-96, and Appendix 1 to the  
12    Order, which is the 1996 Inquiry Report.














13

**Attachment 14.1**

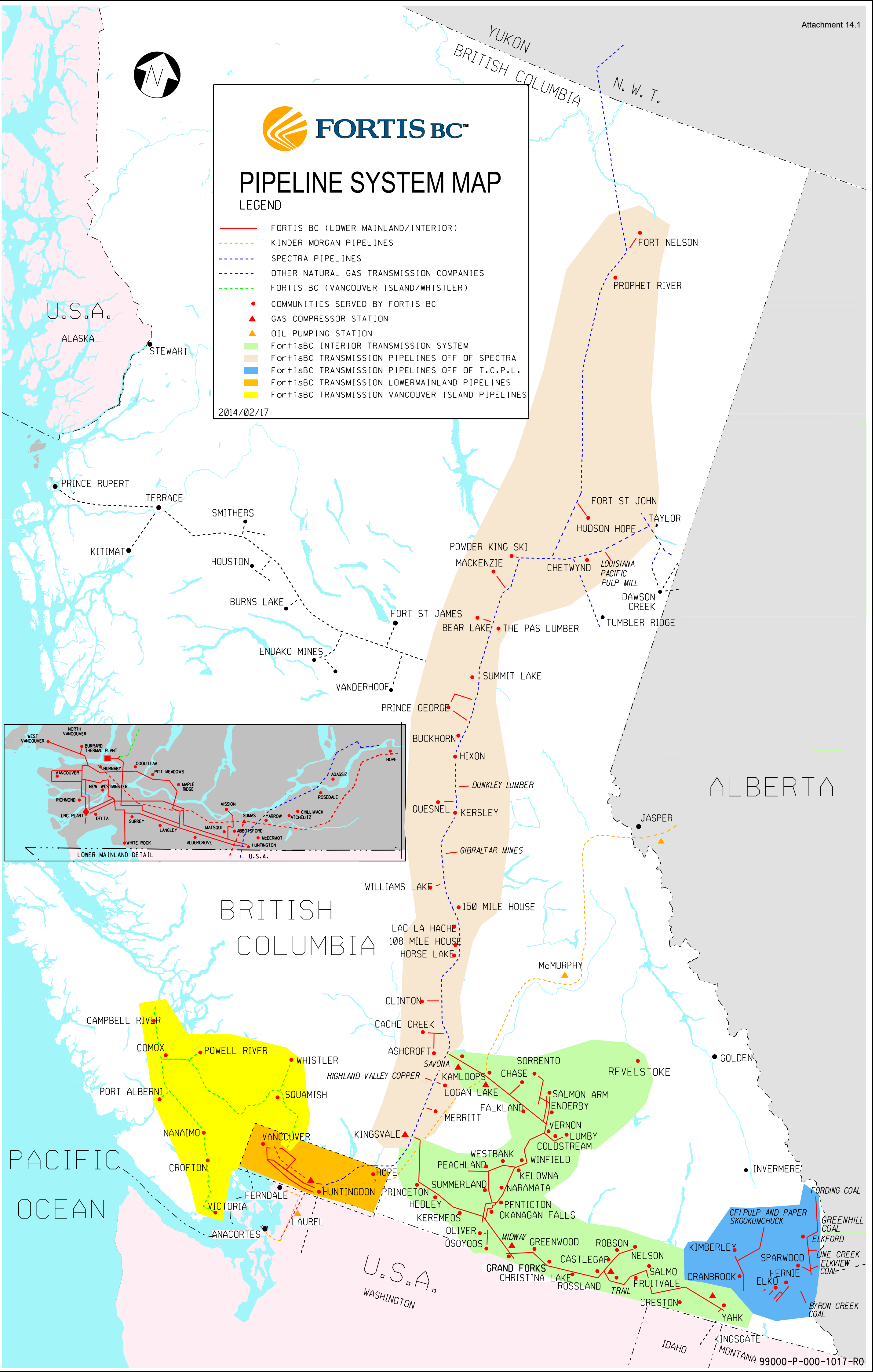
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### LEGEND

-  FORTIS BC (LOWER MAINLAND/INTERIOR)
-  KINDER MORGAN PIPELINES
-  SPECTRA PIPELINES
-  OTHER NATURAL GAS TRANSMISSION COMPANIES
-  FORTIS BC (VANCOUVER ISLAND/WHISTLER)
-  COMMUNITIES SERVED BY FORTIS BC
-  GAS COMPRESSOR STATION
-  OIL PUMPING STATION
-  FortisBC INTERIOR TRANSMISSION SYSTEM
-  FortisBC TRANSMISSION PIPELINES OFF OF SPECTRA
-  FortisBC TRANSMISSION PIPELINES OFF OF T.C.P.L.
-  FortisBC TRANSMISSION LOWERMAINLAND PIPELINES
-  FortisBC TRANSMISSION VANCOUVER ISLAND PIPELINES

2014/02/17







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**VIA EMAIL**

May 3, 2012

**FORTISBC ENERGY UTILITIES COMMON RATES,  
AMALGAMATION AND RATE DESIGN EXHIBIT A2-3**

To: FortisBC Energy Utilities  
Registered Interveners

Re: FortisBC Energy Utilities  
Project No. 3698652/Order G-46-12  
[comprising FortisBC Energy Inc., FortisBC Energy Inc. Fort Nelson Service Area,  
FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc.]  
Common Rates, Amalgamation and Rate Design Application

---

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

BCUC Order G-100-96, Inquiry Report on BC Gas and Propane Price Increases in the City of Revelstoke

Yours truly,

Alanna Gillis

/dg  
Attachment

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IN THE MATTER OF  
the Utilities Commission Act, S.B.C. 1980, c. 60, as amended

and

An Application by BC Gas Utility Ltd.  
and Complaints into Increased Propane Rates at Revelstoke, B.C.

**BEFORE:** M.K. Jaccard, Chairperson; and )  
L.R. Barr, Deputy Chairperson ) October 10, 1996

**O R D E R**

**WHEREAS:**

- A. On August 20, 1996 BC Gas Utility Ltd. ("BC Gas") filed an application to increase propane rates to Revelstoke grid system customers by \$1.827/GJ effective September 1, 1996, pursuant to Section 67(4) of the Utilities Commission Act ("the Act"); and
- B. The Commission by Order No. G-89-96 approved for BC Gas an interim rate increase of \$1.279/GJ (70% of \$1.827/GJ) effective October 1, 1996. The difference between the actual cost of propane and the amount recovered in rates for the month of September, 1996 was to be recorded in the propane cost deferral account. The interim reference price in the Revelstoke Propane Cost Deferral Account was set at \$0.1483/litre effective October 1, 1996; and
- C. Pursuant to Section 93(2) of the Act, the Commission by Order No. G-89-96 appointed Kenneth L. Hall to conduct a September 24, 1996 Inquiry into propane supply costs and rates to customers and report back to the Commission; and
- D. The Inquiry Officer prepared and submitted his Inquiry Report ("the Report") to the Commission on October 7, 1996 which is attached as Appendix 1 to this Order; and
- E. The Commission has considered the Report, authorizes its release and provides reasons and conditions.

**NOW THEREFORE** the Commission orders as follows:

- 1. The Commission accepts the Inquiry Officer's Report and endorses Recommendation No. 3 found on p. 17 of the Report effective October 1, 1996. The interim increase in rates of \$1.279/GJ has been reduced to a permanent increase of \$1.0962/GJ (60% of \$1.827/GJ) effective October 1, 1996. BC Gas is to refund the difference between the interim increase and the approved permanent increase along with interest.
- 2. The difference between the actual cost of propane and the amount recovered in rates is to be recorded in the propane cost deferral account. In accordance with Recommendation No. 3 of the Report, the recovery of the

Revelstoke Propane Cost Deferral Account will be the subject of a later direction of the Commission following further consultation and consideration of alternative recovery options.

3. The Commission rejects the argument put forward by the City of Revelstoke that the cost of propane should be rolled into the overall natural gas rates for BC Gas Inland Division. Such rolling in of rates goes against the regulatory principle of commodity cost recovery from applicable customers found in previous Commission decisions.

4. BC Gas is to file tariff sheets reflecting the permanent rate increase in a timely manner.
5. BC Gas is to inform all customers of the change in rates and the resulting deferral account treatment.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 15th day of October, 1996.

BY ORDER

*Original signed  
by Author*

Dr. Mark K. Jaccard  
Chairperson

Attachment





**IN THE MATTER OF  
BC GAS UTILITY LTD.**

and

**PROPANE PRICE INCREASES  
in the  
CITY OF REVELSTOKE**

**INQUIRY REPORT**

**Appendix 1  
to Commission Order No. G-100-96**

**October 7, 1996**

**Before:**

**K.L. Hall, P.Eng.  
Commissioner and Inquiry Officer**

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## **1.0 BACKGROUND**

### **1.1 Commission Order No. E-9-96**

On July 5, 1996 BC Gas Utility Ltd. ("BC Gas", "the Utility") applied to the Commission for approval in principle of a 30% fixed and 70% variable priced contract with Link Petroleum Services Ltd. ("Link Petroleum"), for the supply of liquid propane to the underground grid system at Revelstoke, B.C. covering the period September 1, 1996 to August 31, 1997. BC Gas submitted that the high product prices made it prudent to contract for only 30% of annual volumes at a one-year fixed price while the remaining volumes would be purchased at spot prices prevailing at the time of purchase. Previously BC Gas had a one-year fixed-price contract.

The agreement is the result of the bids received from propane suppliers in response to BC Gas' competitive tendering process for the supply of approximately 9,000 m<sup>3</sup> of liquid propane for the contract year ending August 31, 1997.

The Commission considered the agreement for the supply of liquid propane, was satisfied that approval was necessary and in the public interest, and approved the BC Gas supply agreement by Commission Order No. E-9-96 dated July 17, 1996.

### **1.2 Cost of Propane Pass-Through Application**

On August 20, 1996 BC Gas applied for approval to pass-through, effective September 1, 1996, an increase of \$1.827/GJ to recover the forecasted increase in the cost of propane. The application also requested to increase the reference price for the Revelstoke Propane Cost Deferral Account from \$0.1172/litre (approved by Order No. G-73-95) to \$0.1616/litre.

BC Gas estimated the average cost of propane sold to be \$0.1615/litre over the 12-month period. The requested rate change represented an average increase to residential customers of approximately 24% and to commercial customers of 32%.

### **1.3 Customer Complaints**

BC Gas met with the City of Revelstoke ("the City") on August 16, 1996 and provided information about the proposed rate increase and the propane market conditions. The City, by letter dated

August 20, 1996, expressed its concerns to the Commission about the proposed rate increase and requested that the Commission consider other options in reviewing the Utility's application.

The Commission responded to the City by letter dated August 28, 1996, provided additional information about propane prices and indicated that it may be necessary to delay implementation of a rate increase until October 1, 1996. The Commission requested comments from the City on recovering the propane cost increase over one year or two years. The one-year option would result in an increase of \$1.827/GJ and a decrease in rates if the cost of propane declines in the future. The two-year option would have an increase of \$1.279/GJ (about 70% of \$1.827/GJ) with the difference between the actual propane cost and the amount recovered in rates recorded in the propane cost deferral account. In the second year, a rate increase would occur that would be sufficient to recover the remainder of the forecasted propane cost increase in year two and the deferral account balance from year one. BC Gas indicated that under either option, residential customers would still have a lower annual bill in the first year using propane compared to heating oil or electricity.

The City replied on August 29, 1996 that it considered the Commission response inadequate and filed a complaint under Sections 65 and 129 of the Utilities Commission Act ("the Act") regarding the rate increase contemplated by Order No. E-9-96. The complaint requests that the Commission reconsider Order No. E-9-96, vary it and disapprove the contract. Complaints were also received from many Revelstoke customers in written form and by telephone regarding the proposed rate increase.

#### **1.4 Scope of Inquiry Issues**

The Commission considered the BC Gas propane pass-through application, the City's complaint and the complaints received from other customers in Revelstoke. After review of all relevant information, the Commission issued Order No. G-89-96, dated September 5, 1996, which determined that the issue of propane supply cost recovery requires further review.

Pursuant to Section 93(2) of the Act, Order No. G-89-96 appointed Commissioner Kenneth L. Hall to conduct an Inquiry into the BC Gas Revelstoke contracting for propane supply, Commission Order No. E-9-96 and into how propane supply costs are recovered in rates, pursuant to Sections 67(4) and 114 of the Act. The Inquiry is to also consider such other matters as Commissioner Hall may determine as relevant. William Grant, Executive Director, and Philip Nakoneshny, Senior Financial Analyst, Petroleum assisted Commissioner Hall with the Inquiry.

By Order No. G-89-96 the Commission approved for BC Gas a pass-through increase in rates of \$1.279/GJ, on an interim basis, to Revelstoke grid system customers effective October 1, 1996, pursuant to Section 67(4) of the Act. The difference between the actual cost of propane and the amount recovered in rates for the month of September is to be recorded in the propane cost deferral account. The interim reference price in the Revelstoke Propane Cost Deferral Account was set at \$0.1483/litre effective October 1, 1996.

## **1.5 Inquiry Evidence**

### **1.5.1 Information Requests to BC Gas**

Information requests were issued by Mr. James Yardley of Lidstone, Young, Anderson, on behalf of the City, to BC Gas. The subjects addressed were reports and analyses on constructing a natural gas pipeline, the application by BC Gas for approval to construct a propane distribution system, propane supply tendering and rate impacts. Responses were provided by BC Gas on September 20, 1996.

### **1.5.2 Public Meeting**

The Commission conducted the public Inquiry in Revelstoke in an afternoon and evening session on September 24, 1996 to obtain evidence from the City, BC Gas and Link Petroleum and to receive customer comments.

## **2.0 PROPANE SUPPLY CONTRACTING**

By Order No. G-26-91, the Commission directed BC Gas to use a competitive bidding process when it arranged propane supply for Revelstoke. The current one-year fixed-price contract containing a delivered cost of propane of \$0.1175 per litre ended on August 31, 1996. BC Gas requested tenders in June 1996 from five propane suppliers that it considered to provide reliable service. The terms of the tender required prices to be expressed as cost of propane including freight to Revelstoke. BC Gas explained at the Inquiry that by requesting a delivered price, it was possible to compare bids without having to be concerned about origin of supply, delivery by rail or truck, use of temporary storage or the profit margin of the supplier. Bids were received by June 17, 1996 from three of those suppliers for fixed and variable prices for the cost of propane including freight to Revelstoke for terms of one or two years.

BC Gas submitted an analysis of the bids to the Commission on July 5, 1996 and requested approval in principle of the Link Petroleum bid of a 30% fixed and 70% variable priced contract. A summary of the supplier bids is shown in Appendix A with the Link Petroleum bid containing a one-year fixed price of \$0.1657 per litre and a variable price estimate of \$0.1530 per litre. BC Gas estimated that the cost of propane sold to customers during 1996/97 will be \$0.1615 per litre.

The change in the cost of propane from the 1995/96 contract year through the 1996/97 contract year was illustrated by BC Gas in a graph of the monthly delivered cost of propane to Revelstoke from September, 1995 to a forecasted cost at August 1997 (Appendix B). The graph indicated that during the 1995/96 contract year the variable cost of propane fluctuated from a low of approximately 12 cents per litre in September 1995 to a high of about 16 cents per litre in January 1996. BC Gas indicated that the 1995/96 fixed-price contract had provided protection to the Revelstoke propane customers from the price fluctuations in variable contracts for a total savings of about \$250,000 or \$170 per customer in the last year.

BC Gas also projected the forecasted delivered cost of propane for 1996/97 using the Link Petroleum one year variable price contract (Appendix B). The upward trend in cost of variable priced propane from 1995/96 continued into 1996/97. The forecast that propane prices were not expected to soften significantly in 1996/97, but were near a five year high price level, influenced BC Gas in negotiating the 30% fixed and 70% variable priced contract with Link Petroleum. The fixed price component would provide some protection against further price increases and the variable priced component would allow the utility to take advantage of propane price decreases, should they occur.

Link Petroleum described itself as a propane marketer that does not produce propane but obtains supplies from producers and has access to propane storage in the Edmonton area. Link Petroleum is based in Burnaby, B.C. with terminals in Alberta, British Columbia and Washington State and operates in the Yukon, Alberta, British Columbia and Washington State. Link Petroleum operates a small fleet of truck and rail cars for the delivery of propane. The deliveries to Revelstoke represent about 15% of Link Petroleum's annual throughput and annual deliveries to Centra Gas at Whistler represent about 30% of Link Petroleum's annual throughput.

## **2.1 Cross-Examination of BC Gas Panel**

The BC Gas panel was cross-examined by Mr. James Yardley, counsel for the City. Mr. Yardley had previously asked for information responses from BC Gas to questions concerning the calculation of propane surcharge rates, transportation costs, number of customers, bill impacts, rate design and other

matters. The information requests and responses received were filed as Exhibit 5. Mr. Yardley questioned the prudence of the contract, sources and security of propane supply, the bid process and transportation arrangements.

Mr. Yardley's questions were responded to by BC Gas witnesses and Mr. David Dick, President of Link Petroleum. Mr. Dick described the wide variety of propane sources on which they rely and why the Edmonton rack price was the most logical reference point. He described how Link Petroleum transport supplies are drawn from a variety of storage facilities in British Columbia, Alberta and Washington State. Mode of transport and routes are dependent on the dictates of the market, the weather, transportation interruptions and customer needs.

BC Gas described the bidding process and how Link Petroleum was selected from amongst five companies invited to bid, two of which declined to bid. With regard to transportation, the price of the 30% fixed price portion of the contract was based on a delivered cost at Revelstoke, therefore, the transportation costs were for the account of the supplier. For the 70% variable priced portion of the contract the price was set by the Edmonton rack price plus a charge of 4.6 cents per litre to cover transportation, storage, overhead and profit of the supplying company. BC Gas also noted that the bidding process and contract had been examined independently by Commission staff.

In final summation, Mr. Yardley noted that in his experience he had never seen as many people participate in a public hearing as were present at the Inquiry. He attributed this to the significance of the issues to the local residents and the strong feelings held. He noted that BC Gas believes its proposed rates to be reasonable and he accepted that the shareholders of BC Gas would bear no cost nor receive any benefits from the change in propane rates. On the other hand, he believed that BC Gas had done very little to try to minimize the cost and had not shown much interest in examining alternatives. He noted that BC Gas, by its own admission, had done a very poor job of informing Revelstoke customers. The information letter, dated September 11, 1996, was sent out after the increased cost of propane was actually being incurred.

Mr. Yardley stated that he recognized that the Commission's role is constrained by legislation but something has to be done. He stressed that Revelstoke is not the only area of the province where residents of net energy-producing regions wonder why they have to pay higher rates than others and without compensatory benefits. He argued that the Commission has a role and a duty to inform and advise Cabinet and the government of these inequities.



In the present instance, he argued that the fair thing to do in the short term was to roll in the cost of propane with the cost of natural gas and establish equity in energy prices. In addition, he urged the Commission to address the larger issues and seek longer-term solutions.

### **3.0 RATE IMPACTS OF COST OF PROPANE INCREASE**

BC Gas stressed that the proposed rate change recovers only the increase in the cost of propane and does not provide any additional profit to the Utility. The effect of the rate changes were expressed in terms of a typical residential customer consuming about 80 GJs per year or about 1 GJ on a cold day in the winter. BC Gas calculated that a residential customer would find that the cost of the propane increase would amount to an additional \$145 for their annual bill if the full increase is passed through. BC Gas compared the cost of piped propane with the cost of alternative residential heating fuels and determined that customer bills would remain below the cost of other fuels even if the full cost of product increase were flowed through immediately (Appendix C ).

#### **3.1 Impact on Customer Bills**

Revelstoke customers bills are made up of the cost of propane supplied plus other charges for facilities, operations and financing that are averaged throughout the BC Gas Inland service area. These result in the basic charge per month, the delivery charge, the natural gas cost and riders other than the propane cost rider being equal throughout the service area. The following tables extracted from BC Gas Tariff 111 tabulate the effect of the proposed propane price increases.

**Table 1 - Residential Service**

**BC GAS UTILITY LTD.  
Proposed Revelstoke Propane Price Increase - September 1, 1996**

Residential Service Schedule 1	Rates Before Propane Price Increase	Propane Price Increase	Rates After Propane Price Increase
INLAND SERVICE AREA			
Basic Charge per Month	\$6.32		\$6.32
CHARGES PER GJ:			
Delivery Charge (Average)	\$2.174		\$2.174
Gas Cost	2.404		2.404

Riders:	(0.289)		(0.289)
Total Variable Cost per GJ	\$4.290	\$0.000	\$4.290
Revelstoke Propane Surcharge (Rider 1)	\$2.538	\$1.827	\$4.365
Revelstoke Variable Cost per GJ	\$6.828	\$1.827	\$8.655

Note: The summer/winter delivery charge has been averaged on this table. The actual summer/winter delivery charges can be found in Appendix F.

**Table 2 - Large Commercial Service**

**BC GAS UTILITY LTD.  
Proposed Revelstoke Propane Price Increase - September 1, 1996**

Large Commercial Service Schedule 3	Rates Before Propane Price Increase	Propane Price Increase	Rates After Propane Price Increase
INLAND SERVICE AREA			
Basic Charge per Month	\$12.64		\$12.64
CHARGES PER GJ:			
Delivery Charge (Average)	\$ 1.660		\$ 1.660
Gas Cost	2.225		2.225
Riders:	(0.171)		(0.171)
Total Variable Cost per GJ	\$ 3.714	\$ 0.000	\$ 3.714
Revelstoke Propane Surcharge (Rider 1)	\$ 1.626	\$ 1.827	\$ 3.453
Revelstoke Variable Cost per GJ	\$ 5.340	\$ 1.827	\$ 7.167

Note: The summer/winter delivery charge has been averaged on this table. The actual summer/winter delivery charges can be found in Appendix G.

This Application, and therefore these tables, do not include the increases applied for in the Rate Design Application to take effect January 1, 1997.

#### **4.0 COMMUNICATION WITH CUSTOMERS**

At the Inquiry, Councilor Sylvia Marback testified that on August 16, 1996 they were advised by BC Gas officials that it was proceeding with a rate hike in Revelstoke of approximately 24% for

residential customers and 32% for commercial customers on September 1, 1996. They were later advised that the increase by January 1, 1997 will be 29% for residential customers and 33.2% for commercial customers plus a new 3% provincial tax on propane taking effect January 1, 1997. This meant a cumulative increase of over 32 and 36% respectively (Exhibit 6, p. 1).

Councilor Marback testified that City Council advised Revelstoke propane customers of this information on August 19, 1996. BC Gas did not advise individual customers directly until September 11, 1996. On that date, over the signature of David M. Bodnar, Manager, Community Relations, BC Gas sent a customer communication mailout, together with a Revelstoke rate increase fact sheet, explaining the propane price increase. A copy of this letter and fact sheet are attached (Appendix D).

Paragraph 2 of the fact sheet summarized the proposed rate increases for BC Gas customers in Revelstoke as follows:

<b>Residential Customers</b>	
23.5% increase in rates	To cover the 37.5% increase in cost of propane from supplier
5.5% increase in rates	3.6% from proposed removal of a cross-subsidy from industrial customers 1.9% increase in rates to cover BC Gas cost increases
<b>29% Total Increase</b>	

<b>Commercial Customers</b>	
31.6% increase in rates	To cover the 37.5% increase in cost of propane
1.6% increase in rates	To cover BC Gas cost increases
<b>33.2% Total Increase</b>	

In paragraph 8 of the fact sheet the impact on customer bills was analyzed. For 1995/96 the average annual bill for residential customers was \$613 per year, based on an average consumption of 79 GJs. With the proposed new rates going into effect the annual residential bill would rise by an average of \$177, an increase of 29% (\$144 of this increase is due to the increased price of propane. The increase applied for in the Rate Design Application, if approved, would add \$22 per year, and \$11 per year for the revenue requirement increase).

A similar analysis was presented at the Inquiry except it was based on an average consumption of 80 GJs per year. The resulting figures were \$622 per year for 1995/96 costs plus increases of \$145 for propane, \$22 for rate design and \$12 for revenue requirements for a total increase of \$179, again being 29%.

At the Inquiry, speaking on behalf of BC Gas, Mr. R. Jespersen, Senior Vice-President of Gas Supply, reviewed the area of customer communication and education. He stated that BC Gas was aware as early as last March that propane prices had escalated and that the market price for propane was substantially higher than the fixed-price contract under which they were then operating. BC Gas failed to communicate that fact to the customers. The Utility also failed to communicate to customers the amount they were then saving as a consequence of being locked in to a fixed-price contract for propane supply or of the eventual impact of a probable significant increase in rates. Mr. Jespersen apologized for the Utility's failure to communicate these facts to customers so that they would have had a better level of understanding and would be better prepared for the ensuing rate impacts.

## **5.0 CUSTOMER CONCERNS**

### **5.1 Dr. Battersby**

The first witness appearing on behalf of the City was Dr. Geoff Battersby, Mayor of the City from 1985 to 1993, during the period piped propane was installed in 1990. He first reviewed the history of energy matters in the Revelstoke area. This included the construction of the Keenleyside, Mica and Revelstoke dams, with consequent drowning of valley bottoms, alienation of huge timber resources, displacement of large numbers of people and other wide-ranging environmental impacts, all in the interests of greater provincial good, cheap power to fuel the B.C. economy, and all very much to the long term detriment of the economy of Revelstoke.

In 1985, recognizing the impact of the dam on the economy of Revelstoke, the provincial government funded an economic development strategy out of which came the downtown revitalization program, the Railway Museum and the development at Mt. McKenzie. A number of negative factors were identified, the most important of which was the non-availability of cheap energy in the form of natural gas. Approaches to the provincial government and BC Gas resulted in studies on the feasibility of a natural gas pipeline extension from Salmon Arm. The projected revenues could only support a \$7 million capitalization versus the \$16 million estimated cost of the extension. Further approaches to the provincial government resulted in support for an in-ground, piped propane system. The cost of the

project was estimated at \$5.132 million with a grant from the provincial government of \$926,000. This contribution included \$560,000 to assist customers with fuel conversion.

The project was strongly supported by Cliff Michael, MLA for Shuswap-Revelstoke. On May 2, 1990, he was quoted as saying:

"We can safely say you will have an annual reduction in heating costs of about 25%."

and:

"The provincial government supports the extension of natural gas or propane service to rural communities in order to promote regional economic development and to make available to a great number of British Columbians this less expensive, abundant energy source."

In a letter supporting the City referendum, BC Gas on October 19, 1990 stated:

"BC Gas is a regulated utility, customers are assured of cost effective operations and more rate stability (less fluctuation of rates) i.e. shelter from propane price fluctuations."

There followed five years of rate stability where the Revelstoke propane rates increased by less than 15% in total. It was not until August 26, 1996 that BC Gas gave any warning of market volatility when they stated in a public letter to customers:

"Propane supply is an unregulated, competitive energy market where prices have tended to vary significantly with market demand."

Dr. Battersby held that the economics of fuel conversion are being destroyed by the proposed price hike. Each customer paid a \$450 hook-up fee plus the cost of conversion, much of which was amortized over five years. Now the electricity-propane spread would be reduced to \$160 and the oil-propane spread to less than \$50 per year. He summarized by saying that Revelstoke deserves the same access to cheap energy sources that the majority of the province enjoys.

## **5.2 School District**

Revelstoke School District #19 was represented by Mr. Bruce Buchannon. The School District strongly opposes the proposed price increase on the basis that the increase in propane price is being spread over far too narrow a client base, that is just Revelstoke. They feel that the increase should be spread across the entire client base of BC Gas including its natural gas customers. The service that BC Gas delivers is

comfort and the costs for a Vancouver customer should be the same or similar for a Revelstoke customer. He commented that the Revelstoke hydro-electric dam was only five miles away and yet they pay the same electric rates as the rest of the province.

The projected 33.2% increase in fuel cost presents major budget problems. The School District converted from bottled propane in the early 1990s to save tax dollars. Savings were realized and funding within the budget correspondingly reduced. They are now suddenly faced with a \$25,000 increase in fuel costs which has not been budgeted. Under the provincial funding formula for school districts no corresponding increase in funding could be obtained for up to two years. Therefore, the problem extends through two budget years. The school budget is largely made up of fixed costs, such as teacher salaries, so an adjustment of this magnitude represents a very difficult problem. Their budget year is from April 1 to March 31 and the district spent two months last April and May moving through a preliminary budget process. Had they then had some indication of the impending problem they might have been able to start an adjustment strategy.

Mr. Buchannon testified that they have initiated discussions with suppliers of bottled propane. On a volume of 1.5 million litres (three-year supply) they have been quoted a price of 21 to 22 cents per litre as a starting position. This is about 5 to 10% higher than the proposed BC Gas price. They are investigating what they might do by joining with others on a larger volume. In response to questioning from Commission staff regarding a possible arrangement which would collect a portion of the increase in future years, Mr. Buchannon stated that if they left the system, any funds in a deferral account which were their responsibility would be treated as a contingent liability by the district. He felt that a one-year supply contracting system is not working and the School District needs a longer time-frame to provide some stability.

In closing, the witness stated that the School District does not accept that this increase is warranted. The root issue is that BC Gas is a public utility and there should be equity within the province.

### **5.3 Revelstoke Hospital**

Queen Victoria Hospital was represented by Mr. Jim Vaillancourt, Hospital Administrator. Like the School District the fuel price increase presents a major budget problem for the Hospital. An additional \$20,000 must be found to cover the increase in propane prices. The budget year is also April 1 to March 31 and, with very limited funding, finding this amount this winter will be difficult. Eighty-five percent of the hospital costs relate to salaries and they feel having to absorb \$20,000 additional expense will have a negative effect on staffing.

In 1991, the Hospital spent over \$57,000 to convert from oil, an amount that has just been amortized in August of this year. In addition, the Hospital spent \$8,000 - \$10,000 removing underground oil tanks on the assumption that propane would remain a competitive fuel. He felt that BC Gas made promises to the community and it appears now that these promises are being broken. The Hospital believes that the situation can be rectified in a fair and equitable way and look to the Commission to find that way.

#### **5.4 Forest Industry**

Mr. Jack Heavenor, General Manager of Downie Timber Ltd., spoke on behalf of the forestry industry in Revelstoke. Forestry accounts for \$85 million in direct economic activity and provides about 600 jobs in Revelstoke. Downie Timber, the largest mill in town, employs about 350 persons. The major hydro developments flooded the best forest land forcing logging up steep hillsides with poorer quality timber and higher extraction costs. The mill buys about half of its wood on the open market, and about half of that from outside the Valley. Having lost their best timber, Mr. Heavenor stated that Revelstoke today has the highest cost wood relative to value in the province, the narrowest margins in the business, and are at a distinct competitive disadvantage to other areas of the province. The proposed increase in propane prices will add another \$50,000 per year to its operating costs.

To get the most social and economic benefits out of the forest in a very competitive market it is necessary to concentrate on value-added processes. One way to add value to the timber is through kiln-drying. Before the availability of piped propane Downie did not dry timber. However, when they found they could get propane at a price that was fairly close to the competition in other parts of the province they built a kiln in 1991 or 1992. Mr. Heavenor accused BC Gas of aggressively selling him on the product. What really annoyed him was that BC Gas knew he was building four more kilns in May and June of this year and nobody even suggested that there might be a major change in propane rates. Downie was left with the impression that the narrow differential between natural gas and propane would remain consistent. They are now examining the possibility of using shavings or sawdust as a heat source for drying lumber.

Mr. Heavenor went on to say that a major thrust for economic development within the community was the attempt to attract new investment, attract people from outside the area to come into Revelstoke and set up new value-added facilities. He rated the chance of this as being virtually impossible when energy costs are going to be 30 or 40% higher than for plants in the Okanagan, Cariboo or Lower Mainland. He felt the whole issue was not so much a problem for BC Gas as it was a political problem. The matter of community stability in a place like Revelstoke was a problem for the Utilities Commission and the

provincial government. He urged the Commission to take a strong message on the situation to the provincial government.

## **5.5 Revelstoke Civic Administration**

Mayor Shelby Harvey made a presentation on behalf of the City Council and residents of Revelstoke. Her major point was that, although the principle of postage-stamp pricing for electricity was laudable, the principle was particularly galling in the light of the treatment of Revelstoke citizens with respect to propane rates. She said there is no recognition that the dams providing universally low-cost electricity have cost Revelstoke its valleys and future prosperity with no reduction in electric rates and they are now asked to pay the full price of propane because of being in an isolated location.

Mayor Harvey held that Revelstoke is being penalized by the provincial regulatory regime. New environmental regulations have raised costs for the forestry industry and have caused new and expensive changes to long-time municipal practices like snow removal and waste management. New and proposed legislation is down-loading other costs on municipal taxpayers. The one regulator that they thought might help rather than hinder their sustainability, the Utilities Commission, is seen to decide to expedite a rate increase rather than thoughtfully consider alternatives to this latest assault on the local economy. She noted that government has frozen rates of British Columbia Hydro and Power Authority and the Insurance Corporation of British Columbia and wondered where the "hold the line" political direction is when it comes to this outrageous BC Gas rate increase.

Another sore point was the provincial government announcement, that they will be mandating through Bill 55, that the City reduce the property tax rates of BC Gas, CP Rail and other utility taxpayers by 23% over four years. They interpreted this to mean that they are told to subsidize BC Gas on taxes at the same time they are asked for a 24 to 32% rate increase. An increase that would cost Revelstoke taxpayers an additional \$17,000 in the City's annual propane bill.

The Mayor went on to discuss a number of potential means of addressing the proposed rate increase. A deferral account for part of the increase, as proposed by the Commission, is an option that reduces the immediate impact but customers would still have to absorb the full increase in the future. The City considers this a band-aid solution that fails to address the long-term problem. Another option is the use of a price cap or price escalator but this is not seen as applicable to the Revelstoke situation. She said the problem with BC Gas service in Revelstoke is not so much related to efficiency as it is to rate stability. The third option is to build a natural gas pipeline from Salmon Arm. She understood this would be expensive and require subsidization, but the City would support any endeavor in that direction.



The fourth option would be to roll Revelstoke propane costs in with natural gas costs. She stated that this is done with electricity which is seen as a public good for the benefit of the province as a whole. But when it comes to propane the marketplace seems to take precedent over the good of the province. The question seems to be "How will the customers pay the full cost?" rather than "What is a fair cost for the customers to pay?" She asked is this reasonable within the meaning of the Utilities Act? Whether or not it is reasonable it is not seen as fair. The Mayor said that the City finds it particularly disturbing that the rates paid by Revelstoke customers to BC Gas go in part for services for which Revelstoke customers receive no benefits, such as transportation and storage charges for natural gas.

The Mayor concluded her remarks by saying that the City believes that the fairest and most equitable way is for BC Gas to roll the price of propane into the costs of natural gas either on a system-wide or division basis. This would provide Revelstoke customers with more stable rates, eliminate the disparity in fuel costs compared with other areas and obviate the need for BC Gas to build a pipeline from Salmon Arm. She then presented a petition with over 1,700 signatures expressing the unhappiness of Revelstoke residents with the proposed rate increase and supporting the position of the City. A copy of the petition is attached as Appendix E.

## **5.6 BC Gas Response**

In reply to the brief from the City, BC Gas stated that any reduction in taxes flows directly through to the ratepayers and benefits all customers of the Utility. To clarify a point, Mr. Jespersen also said that, contrary to the opinion expressed that Revelstoke customers subsidize other customers of BC Gas, the reverse is true. Only about 75% of the non-commodity costs of the Revelstoke propane system is recovered directly from Revelstoke customers. The balance is recovered from other customers in the Inland Service Division. Mr. Jespersen asked rhetorically: "What is owed the residents of Revelstoke for the significant contribution that has been made towards provincial good?" He said that this is a very legitimate question but the answer lies in public policy. BC Gas can only attempt to influence it. The decisions would be made by powers other than BC Gas.

## **5.7 Other Customers**

Mr. Bruce Tillen, owner of a restaurant, motel, service station and convenience store, and employer of 50 persons, made a presentation. In 1993 he converted the motel from electric heat to propane at a cost of \$15,000. The proposed price increase would add about \$7,500 to his fuel bill. Based on a 15% yield, his business would have to gross an additional \$50,000 to cover his increased costs. He is still absorbing

last year's 17% increase in the minimum wage rates in a very labour-intensive business. He feels the combined increased costs puts the whole tourist industry in Revelstoke under a strain.

Other speakers included Mr. Fred Beruschi, a former city councilor and a hotel owner, who spoke at length of some of the events leading up to hydro-electric development in the area and the later coming of piped propane. His main theme was that Revelstoke has subsidized the province with its natural resources and in return should be entitled to equity in its energy costs.

Mr. Fred Olynyk spoke on behalf of the Revelstoke Senior Citizens' Association, a 400-member group. When oil prices were rising to unacceptable levels, the Senior Citizens along with other groups lobbied Cliff Michael, the then MLA, to try to get natural gas into the community. That proved to be not feasible but he promised a propane supply. When propane came in many seniors took out loans to pay for conversions and realize the savings that BC Gas said they would make. He felt that a 24% increase was unrealistic and would create real hardship, not only for seniors but also for other low-income groups. They wanted to let the Commission and the government know that only the 3% general increase would be considered an acceptable level.

Ms. Shannon Foster presented the concerns of the Revelstoke Chamber of Commerce. Over the last three years Revelstoke has seen a period of downsizing, shutdowns and restructuring within the major employers within the community. These changes have impacted virtually all of the businesses, particularly the small business sector. Propane price increases of 24% for residential and 32% for commercial customers would further add to the difficulty of operating a profitable business in Revelstoke. The Chamber strongly supported the position of Mayor Harvey and other speakers.

Ms. Maureen Weddell, a business owner, addressed the principle of marketing. She understood that the price of propane would rise as a result of the past cold winter but her information was that prices should fall next spring. She asked if Revelstoke customers would then be given a rebate. As a business person she understood about seasonal price changes as in her business the price of produce can double in the winter. That is the price you pay for being in business. She felt that BC Gas has to absorb some of the costs associated with being in business in Revelstoke. She stated that the propane customers in Revelstoke were told: "BC Gas is a regulated utility, customers are assured of more stability (less fluctuation of rates) i.e. shelter from propane price fluctuation." (BC Gas Letter dated October 19, 1990). She asked as consumers, are not the people of Revelstoke protected by consumer law, which is that if a salesperson sells you a product they must live up to the image the salesperson projects? She felt that BC Gas has to honour its sales pitch to the consumers of Revelstoke.

Mr. Doug Weir, Economic Development Commissioner for the City and Region felt that the problem comes down to two issues. How can Revelstoke as a community attract business and develop its industrial potential without competitive energy pricing? The other element is risk. Such volatile energy pricing exposes businesses in Revelstoke to a risk that many other communities in British Columbia do not face.

Several other speakers, representing themselves, spoke passionately and vehemently against the size of the proposed increase and the suddenness with which it had been announced. There was a general feeling of outrage and betrayal. A feeling exists that BC Gas and the provincial government had broken their promises. All speakers strongly supported the position of City Council in opposing the rate increase.

## **6.0 FINDINGS**

Evidence from the Inquiry indicates that BC Gas has acted responsibly and prudently in entering into a new contract for the supply of propane for Revelstoke. The bidding process was open and competitive and in accordance with directions issued by the Commission by Order No. G-26-91. Reacting to current high market prices for propane, BC Gas departed from its normal one-year fixed-price contract and elected to negotiate a 30% fixed price and a 70% variable price contract for one year in an effort to minimize the impact on their customers from prices on a highly volatile propane market. The bidding process and the contract were reviewed independently by Commission staff and approval was determined to be in the public interest. I see no grounds for varying or rescinding Commission Order No. E-9-96 which approved the contract and the Order should stand as issued.

On the other hand, a direct flow-through of the 37.5% increased cost of propane as an immediate increase in BC Gas rates would create significant hardship for many of the customers in Revelstoke. Increases of 24% in residential service and 32% in commercial rates at the beginning of the heating season are not readily absorbed. The difficulties were brought out in detail in the testimony filed with the Inquiry.

The Commission recognized this and withheld approval of the BC Gas Application for an increase in rates to be effective September 1, 1996. Accepting that BC Gas was already incurring the increased costs, the Commission issued Order G-89-96 authorizing BC Gas, on an interim basis subject to review, to begin billing customers effective October 1, 1996 at rates designed to recover 70% of the increased cost of propane and deferring the balance to be recovered in the 1997/98 billing period. This reduces the

immediate impact of the rate increases to 16% for residential service and 23% for large commercial service.

This approach does not find much favour with Revelstoke residents. First, they would still be paying the balance of the full flow-through costs and at a time when propane prices could conceivably be nearly as high or even higher than they are at present. Market forecasts do not indicate a significant decline in propane prices before late 1997 unless there is an unusually mild winter throughout North America. Second, Revelstoke customers are faced with other economic problems that exacerbate the situation. A number of these were indicated in evidence presented to the Inquiry:

- Mining and railway employment is sharply declining
- The forest industry is facing higher operating costs
- New environmental regulations are increasing municipal costs
- Government funding is either frozen or being reduced in a number of areas
- Local utility and railway tax payments are scheduled to be reduced
- Tourism is seeing increased competition from Alberta and nearby National Parks.

Third, Revelstoke residents feel strongly that in all fairness they are owed some relief from higher energy prices in compensation for the negative impact on their economy from nearby hydro-electric dams.

BC Gas can be faulted for failure to advise customers at a much earlier date of the potential increase in propane prices. BC Gas, through its knowledge of Edmonton rack prices and the information to be drawn from futures contracts, was in a well-informed position to advise customers of the impending problem. Its failure to provide any advance information led to major budgetary problems for a number of customers as testimony at the Inquiry revealed.

## **7.0 RECOMMENDATIONS**

There are several options open to the Commission:

1. Approve the BC Gas Application to recover the full amount of the propane price increase with an immediate increase in the amount of the Revelstoke propane rider.

2. Approve as permanent the interim increase granted BC Gas effective October 1, 1996, which recovers 70% of the increased propane costs in one year with the balance placed in a deferral account for recovery in the second year.
3. Reduce further the amount of the interim increase and leave recovery of the deferral account for later direction following further consultation and consideration of alternative recovery options.
4. Direct BC Gas to roll in the acquisition costs of propane with that of natural gas.

Increasing rates immediately to recover the full 37.5% increase in propane costs would have a severe impact on the economy of Revelstoke and the Region. The subject of "rate shock" has come up at a number of public hearings before the Commission. The Commission has generally accepted the definition of rate shock as an increase in rates that is more than double a general increase in cost of service sought by a utility. In this instance a 29% total increase in rates, relative to the Rate Design increases applied for by BC Gas, by any definition, is rate shock in the extreme.

Rolling in the cost of propane with the cost of natural gas introduces added complexity. At the Inquiry, Commission staff indicated some of the problems a rolled-in price would create. There are similar isolated areas dependent on piped propane such as Whistler and Port Alice in the Centra Gas service area. On Vancouver Island all natural gas customers pay even higher prices than in Revelstoke as rates are set at home heating oil equivalents until the high costs of extending the natural gas pipeline are recovered. Consideration may also have to be given to isolated areas paying higher prices for diesel generated electricity. It would require time to examine the impacts and alternatives and would require input from other customers affected.

After consideration of evidence from the Inquiry, my recommendation is to follow option three. The Commission could vary Order G-89-96 by reducing the amount to be recovered in rates this year from 70% to 60%, effective October 1, 1996. This would reduce the bill impact for residential service to 15%, that is \$86 per year for the average customer. The increase for large commercial service would be reduced to 19%. Added to these increases would be any increases from rate design changes if approved by the Commission. The balance of the propane supply costs should be placed in a deferral account for recovery at a time and under conditions yet to be determined.

I recognize that this option runs the risk that if future propane prices continue to rise the utility may become faced with non-competitive rates and substantial unrecovered liabilities. In such a situation customers may leave the utility in favour of other fuels, including bottled propane, and rising costs may

further undermine the viability of the utility. However, if history proves to be a good indicator, propane prices should fall back to a modest premium over natural gas once storage for the 1997 winter peak is completed.

BC Gas should be directed to work innovatively, diligently and cooperatively with the Utilities Commission and appropriate ministries of the government to seek methods of leveling out the impact on customer rates of volatile pricing in energy supply markets. Longer term contracts, rolled-in costs, or a broader customer base are all options to be examined. The public expects actions by utilities, regulation by the Commission and provincial government policy to ensure, wherever possible, access by the public to stable, long-term competitive and affordable energy resources.

DATED at the City of Vancouver, in the Province of British Columbia, this 7th day of October, 1996.

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Ken L. Hall, P.Eng.  
Inquiry Commissioner